

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of the City of Hollywood, Florida's (the "City") Significant Accounting Policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies are considered essential and should be read in conjunction with the accompanying financial statements.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units, although legally separate entities, are in substance part of the City's operations. These financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

The basic financial statements include both government-wide and fund financial statements. The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements focus on short-term result of operations and financing decisions at a specific fund level.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. The costs of these services are allocated to the appropriate functional activity.

The City's fiduciary funds are presented in the basic financial statements by type (i.e. pension). Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

- A. **FINANCIAL REPORTING ENTITY** – The City is a political subdivision of the State of Florida, located in Broward County along the lower southeast coast of the State. The City is governed by an elected mayor and six elected commissioners. The City operates under a commission-manager form of government. Hollywood, which was incorporated in 1925 under Section 25-11519, 1925 Laws of Florida, is approximately 30 square miles in area. In addition to the general government, public safety, public works, culture and recreation services provided to its residents, the City operates and provides water and sewer, stormwater, sanitation, golf, parking services and records preservation activities.

The Downtown Community Redevelopment Agency ("DCRA") and Beach Community Redevelopment Agency ("BCRA") are districts of the Hollywood Community Redevelopment Agency ("CRA"), which is legally separate from the City. The CRA was established in accordance with Florida Statutes Chapter 163 PART III COMMUNITY REDEVELOPMENT to finance and redevelop the City's designated redevelopment areas. The CRA, whose board members are the same as the members of the City Commission, provides services that exclusively benefit the City's downtown and beach areas. The DCRA and BCRA are blended as other governmental fund component units into the primary government.

The Hollywood Employees' Retirement Fund, Hollywood Firefighters' Pension System and City of Hollywood Police Officers' Retirement System account for separate pension plans for general employees, fire and police personnel, respectively. Each plan is administered by a board of trustees. The pension plans are reported as fiduciary funds in the basic financial statements of this report, but are not included in the government-wide statements.

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NOTES TO THE FINANCIAL STATEMENTS

- B. **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The City of Hollywood has no discretely presented component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

- C. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION** – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented, which briefly explains the adjustments necessary to reconcile funds based on financial statements with the governmental column of the government-wide presentation. Under this basis, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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The City reports the following major governmental funds:

The GENERAL FUND is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The GENERAL CAPITAL PROJECTS FUND accounts for general capital improvements financed from various governmental fund resources.

The BEACH COMMUNITY REDEVELOPMENT FUND accounts for overlapping governmental revenue and grants for financing redevelopment projects within the beach redevelopment district.

The City reports the following major proprietary funds:

The WATER AND SEWER UTILITY FUND accounts for the operations of the City's regional water and sewer utility system.

The SANITATION ENTERPRISE FUND accounts for solid waste fees, franchise and recycling revenues, as well as related collection and disposal costs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's proprietary fund function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, as well as fees, fines and forfeitures (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues, rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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NOTES TO THE FINANCIAL STATEMENTS

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. **POOLED CASH AND INVESTMENTS** – The City’s cash and cash equivalents are considered to be cash on hand and demand deposits. The City has established an investment policy in accordance with Section 218.415, State Statutes, that allows the City to invest in relatively low risk securities, such as the Florida Local Government Surplus Fund and U. S. Government Securities and Agencies. Investments are stated at fair value. Resources of all funds, with the exception of the pension funds, have been combined into investment pools for the purpose of maximizing investment yields. Investment revenue is comprised of interest and dividends and realized and unrealized gains and losses on investments. Investment revenue on pooled investments is allocated monthly based upon equity balances of the respective funds. Accrued interest on pooled investments is grouped with investments on the balance sheet at year-end.
2. **ACCOUNTS AND PROPERTY TAX RECEIVABLES** – All account and property tax receivables are shown net of an allowance for uncollectibles. Accounts receivable in excess of 90 days comprise the accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 100% of outstanding property taxes at September 30, 2004.

Real and personal property values are assessed on a county-wide basis by the Broward County Property Appraiser as of January 1, each year. Taxable value of property within the City is certified by the Property Appraiser on July 1. The City levies a property tax millage rate upon that taxable value to provide revenue required for the fiscal year beginning October 1. Taxes for the fiscal year beginning October 1 are billed in the month of November, subject to a 1% per month discount for the period November through February, and are due not later than March 31. On April 1, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1, tax certificates representing delinquent amounts are sold by Broward County, with remittance to the City for its share of those receipts.

3. **REINSURANCE RECEIVABLE** – The City uses reinsurance to reduce its exposure to large losses on certain lines of insurance as described in Note V.B. Amounts expected to be received from the reinsurers for claims due under these policies are recorded as such at fiscal year end.
4. **DUE TO/DUE FROM** – Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. **INVENTORIES** – Inventories are maintained on a perpetual system and are stated at cost (using the average cost method) which is not in excess of market. Inventories in all funds are recorded as expenditures or expenses when consumed.
6. **RESTRICTED ASSETS** – Certain revenue bond proceeds in various funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

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7. **CAPITAL ASSETS** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure is capitalized based on the accumulated amounts charged to specific capital projects on an annual basis. Capital assets are defined by the government as assets with an initial, individual cost of more than \$750 (amount not rounded) and an estimated useful life in excess of one (1) year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Water and Sewer Utility Fund during the current fiscal year was \$7,032,952. Of this amount, \$444,084 was included as part of the cost of capital assets under construction in connection with water and wastewater treatment facilities construction projects.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15 to 40
Building Improvements	5 to 40
Infrastructure	20 to 50
Vehicles	3 to 20
Office Equipment	2 to 15
Computer Equipment	2 to 6

8. **COMPENSATED ABSENCES** – It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A portion of accumulated sick pay benefits are paid upon separation, based on number of years of service. All vacation pay and applicable portion of sick pay balances are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
9. **LONG-TERM OBLIGATIONS** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

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NOTES TO THE FINANCIAL STATEMENTS

- 10. FUND EQUITY – In the financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
- 11. ESTIMATES – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from management’s estimates.

NOTE II – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

- A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS – The Governmental Fund Balance Sheet includes a reconciliation between Fund Balances – Governmental Funds and Net Assets – Governmental Activities as reported in the Government-wide Statement of Net Assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds”. The details of this \$121,752,738 difference are as follows:

Bonds, Loans and Other Payables:	
First Florida Financing Commission Loans	\$ 46,175,984
Sunshine State Governmental Financing Commission Loan	16,110,000
HUD Section 108 Loans	4,600,000
Redevelopment Revenue Bonds	20,990,647
Redevelopment Loans	10,913,572
Accrued Interest Payable	705,618
Capital Leases Payable	190,709
Compensated Absences	20,479,170
Arbitrage Rebate Payable	670,239
Landfill Closure Obligation	<u>916,799</u>
Net Adjustment to Reduce Fund Balances - Governmental Funds to Arrive at Net Assets - Governmental Activities	\$ <u><u>121,752,738</u></u>

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B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – The Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between Changes in Fund Balances – Governmental Funds and Changes in Net Assets - Governmental Activities, as reported in the Government-wide Statement of Activities. One element of that reconciliation states that “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, Governmental Funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities”. The details of these differences are as follows:

Debt Issued or Incurred:	
First Florida Financing Commission Loan	\$ 11,365,000
Redevelopment Revenue Bond	20,010,000
Redevelopment Loans	<u>6,080,000</u>
Net Adjustment to Decrease Net Changes in Fund Balances - Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$ 37,455,000</u>
Principal Repayments:	
Public Improvement Certificates	\$ 500,000
First Florida Financing Commission Loans	2,072,429
Sunshine State Governmental Financing Commission Loan	655,000
HUD Section 108 Loan	985,000
Redevelopment Revenue Bonds	136,947
Redevelopment Loans	86,428
Capital Lease Obligations	<u>87,876</u>
Net Adjustment to Increase Net Changes in Fund Balances - Governmental Funds to Arrive at Changes in Net Assets of Governmental Activities	<u>\$ 4,523,680</u>

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. DEFICIT FUND EQUITY – The Insurance Fund had an accumulated deficit in fund net assets of \$4,276,905 at September 30, 2004. This fund achieved a total increase in net assets of \$1,016,850 for the fiscal year ended September 30, 2004. The increase in net assets was achieved through increased contributions from both the City and its employees during fiscal year 2004. The accumulated deficit is projected to be eliminated in subsequent years through a combination of increased insurance charges citywide, as well as, continuing to focus on additional programs to further control and/or reduce costs.

The Emergency and Disaster Fund accumulated a deficit fund balance of \$2,067,605 at September 30, 2004 as a result of expenses incurred from hurricanes Frances and Jeanne. This deficit is projected to be eliminated during fiscal year 2005 by payment from the Federal Emergency Management Agency and the State for pending disaster claims submitted for reimbursement.

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NOTE IV – DETAILED NOTES ON ALL FUNDS

A. POOLED CASH AND INVESTMENTS

The City’s bank balances as of September 30, 2004 were entirely insured either by federal depository insurance or via banks’ participation as qualified public depositories pursuant to Florida Statutes, Chapter 280, “Security for Public Deposits”.

In accordance with GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools”, all investments have been reported at fair value.

Open market securities and mutual fund fair values were determined using the quoted market values on the exchange in which the securities are traded. The value of the City investment in the Florida State Investment Pool, which is not Securities and Exchange Commission (“SEC”) registered, but which qualified as an SEC 2a7-like pool, is the same as the pool’s share price. This local government surplus investment pool is administered by the Florida State Board of Administration, an agency of the State of Florida, with regulatory oversight exercised by the State.

State statutes authorize the City to invest in obligations of the U.S. Treasury and its agencies. The Employees’ Retirement Fund, Fire Pension Fund and Police Retirement Fund are also authorized to invest in corporate bonds, corporate stock and other money market instruments. Investment carrying amounts by type of investment have been classified in the following three categories to give an indication of the level of credit risk: (1) Insured or registered, or securities held by the City or its agent in the City’s name; (2) Uninsured and unregistered, with securities held by the financial institution’s trust department or agent in the City’s name; (3) Uninsured and unregistered, with securities held by the financial institution, its trust department or agent, but not in the City’s name. Investments’ fair values at September 30, 2004 are categorized by credit risk as follows:

	Categories			Fair Value
	1	2	3	
U.S. Government Agency Securities	\$ 112,926,277	\$ 0	\$ 0	\$ 112,926,277
Corporate Bonds	62,510,038	0	0	62,510,038
Corporate Equities	276,215,707	0	0	276,215,707
	\$ 451,652,022	\$ 0	\$ 0	451,652,022

Investment in:

State Board of Administration Investment Pool	76,022,021
Pooled Investment Funds	5,773,061
Money Market Mutual Funds	31,175,224
Certificates of Deposit	32,194,660
Demand Deposits	10,634,178
	\$ 607,451,166

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B. RECEIVABLES – As of year-end, receivables for the City’s individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for collectible accounts are as follows:

	<u>General</u>	<u>General Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Activities</u>
Governmental Activities:				
Taxes	\$ 792,531	\$ 0	\$ 0	\$ 792,531
Accounts	4,057,977	9,975	41,069	4,109,021
Reinsurance	0	0	227,147	227,147
Intergovernmental	<u>3,364,434</u>	<u>48,797</u>	<u>3,621,954</u>	<u>7,035,185</u>
Gross Receivables	8,214,942	58,772	3,890,170	12,163,884
Less: Allowance for Uncollectibles	<u>(1,157,303)</u>	<u>0</u>	<u>(50,000)</u>	<u>(1,207,303)</u>
Net Total Accounts Receivable	<u>\$ 7,057,639</u>	<u>\$ 58,772</u>	<u>\$ 3,840,170</u>	<u>\$ 10,956,581</u>
	<u>Water & Sewer Utility</u>	<u>Sanitation Enterprise</u>	<u>Other Enterprise</u>	<u>Total Business-type Activities</u>
Business-type Activities:				
Accounts	\$ 7,827,843	\$ 1,785,670	\$ 382,750	\$ 9,996,263
Intergovernmental	0	205,000	0	205,000
Intergovernmental-Restricted	<u>2,464,422</u>	<u>0</u>	<u>0</u>	<u>2,464,422</u>
Gross Receivables	10,292,265	1,990,670	382,750	12,665,685
Less: Allowance for Uncollectibles	<u>(483,502)</u>	<u>(247,679)</u>	<u>(38,465)</u>	<u>(769,646)</u>
Net Total Accounts Receivable	<u>\$ 9,808,763</u>	<u>\$ 1,742,991</u>	<u>\$ 344,285</u>	<u>\$ 11,896,039</u>

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Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Occupational Licenses and Other Charges (General Fund)	\$ 11,994	\$ 1,309,205
Miscellaneous Revenue (Beach Community Redevelopment Fund)	0	1,433,387
Deferred Grant and Contract Revenue (Nonmajor Funds)	3,015,644	2,033,063
 Total Deferred/Unearned Revenue for Governmental Funds	 \$ 3,027,638	 \$ 4,775,655

C. NOTES RECEIVABLE – The notes receivable balances are comprised of the following:

	September 30, 2004
GOVERNMENTAL ACTIVITIES:	
Nonmajor Governmental Funds:	
Current Loans	\$ 2,449,886
Deferred Loans	19,732,581
	22,182,467
Less: Allowance for Uncollectibles	(617,534)
Total Notes Receivable - Net	\$ 21,564,933

The notes receivable reported in the Housing Loan Trust Fund and Local Housing Assistance Trust Fund consist of collateralized home improvement loans. The deferred loans represent individual borrowings (limited to \$40,000) which are repayable without interest at time of sale or transfer of the property. The notes receivable in the Downtown Community Redevelopment Fund consist of loans to developers and others to assist in approved projects. Loans are secured by mortgages on real property and repayable over various time periods at various interest rates.

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D. CAPITAL ASSETS – Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 22,101,006	\$ 200,300	\$ 14,915	\$ 22,286,391
Construction in Progress	<u>2,902,937</u>	<u>7,158,077</u>	<u>364,653</u>	<u>9,696,361</u>
Total Capital Assets, Not Being Depreciated	<u>25,003,943</u>	<u>7,358,377</u>	<u>379,568</u>	<u>31,982,752</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	54,423,323	446,126	9,907	54,859,542
Machinery and Equipment	48,286,026	8,571,299	6,912,466	49,944,859
Infrastructure	<u>121,982,972</u>	<u>1,971,932</u>	<u>4,462,232</u>	<u>119,492,672</u>
Total Capital Assets, Being Depreciated	<u>224,692,321</u>	<u>10,989,357</u>	<u>11,384,605</u>	<u>224,297,073</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	17,549,575	3,989,453	1,981	21,537,047
Machinery and Equipment	32,367,868	4,838,362	6,478,055	30,728,175
Infrastructure	<u>90,031,032</u>	<u>4,502,598</u>	<u>3,823,835</u>	<u>90,709,795</u>
Total Accumulated Depreciation	<u>139,948,475</u>	<u>13,330,413</u> *	<u>10,303,871</u>	<u>142,975,017</u>
Total Capital Assets, Being Depreciated - Net	<u>84,743,846</u>	<u>(2,341,056)</u>	<u>1,080,734</u>	<u>81,322,056</u>
Governmental Activities Capital Assets - Net	<u>\$ 109,747,789</u>	<u>\$ 5,017,321</u>	<u>\$ 1,460,302</u>	<u>\$ 113,304,808</u>

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
General Government	\$ 521,984
Public Safety - Police	1,430,146
Public Safety - Fire	1,532,405
Other Public Safety	147,606
Public Works	5,895,479
Economic Environment	32,424
Culture and Recreation	2,139,713
Unallocated Internal Service Funds (a)	<u>1,550,846</u>
Total Governmental Activities Depreciation Expense	<u>\$ 13,250,603</u> (b)

(a) Represents depreciation expense on Internal Service Fund capital assets not assigned to any government function.

(b) Difference in depreciation expense and increases to accumulated depreciation shown above results from contributions of partially/fully depreciated assets from business-type activities.

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	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 6,080,520	\$ 0	\$ 0	\$ 6,080,520
Construction in Progress	<u>42,436,236</u>	<u>20,286,491</u>	<u>34,931,857</u>	<u>27,790,870</u>
Total Capital Assets, Not Being Depreciated	<u>48,516,756</u>	<u>20,286,491</u>	<u>34,931,857</u>	<u>33,871,390</u>
Capital Assets, Being Depreciated:				
Buildings and Systems	290,485,522	35,342,882	53,805	325,774,599
Machinery and Equipment	<u>5,859,986</u>	<u>363,161</u>	<u>457,211</u>	<u>5,765,936</u>
Total Capital Assets, Being Depreciated	<u>296,345,508</u>	<u>35,706,043</u>	<u>511,016</u>	<u>331,540,535</u>
Less Accumulated Depreciation For:				
Buildings and Systems	123,002,305	12,783,040	224	135,785,121
Machinery and Equipment	<u>4,539,490</u>	<u>354,023</u>	<u>355,034</u>	<u>4,538,479</u>
Total Accumulated Depreciation	<u>127,541,795</u>	<u>13,137,063</u> *	<u>355,258</u>	<u>140,323,600</u>
Total Capital Assets, Being Depreciated - Net	<u>168,803,713</u>	<u>22,568,980</u>	<u>155,758</u>	<u>191,216,935</u>
Business-Type Activities Capital Assets - Net	<u>\$ 217,320,469</u>	<u>\$ 42,855,471</u>	<u>\$ 35,087,615</u>	<u>\$ 225,088,325</u>

* Depreciation expense was charged to functions as follows:

Business-type Activities:	
Water	\$ 3,680,139
Sewer	8,518,743
Water and Sewer	44,448
Sanitation	7,908
Nonmajor Enterprise Funds	<u>873,310</u>
Total Business-type Activities Depreciation Expense	<u>\$ 13,124,548</u> (a)

(a) Difference in depreciation expense and increases to accumulated depreciation shown above results from contributions of partially/fully depreciated assets from governmental activities.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

E. CONSTRUCTION COMMITMENTS – The City has outstanding commitments for construction and acquisition of capital assets. Those commitments are approximated for the respective funds at September 30, 2004:

General Capital Projects (a)	\$ 521,830
Beach Community Redevelopment (a)	940,540
Water and Sewer Utility (a)	14,344,907
Nonmajor Enterprise Funds (b)	<u>320,220</u>
	\$ <u><u>16,127,497</u></u>

(a) These commitments were fully funded through bond proceeds and other reserves.

(b) These projects are being financed by current available revenues.

F. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS – The composition of interfund balances as of September 30, 2004, is as follows:

DUE TO/FROM OTHER FUNDS:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 223,023
General Fund	Internal Service Funds	438,186
General Fund	Fiduciary Funds	<u>19,118</u>
Total		\$ <u><u>680,327</u></u>

Represents cash loaned and outstanding between funds at September 30, 2004.

INTERFUND TRANSFERS:

	<u>Transfers In:</u>				
	<u>General</u>	<u>Water and Sewer</u>	<u>Nonmajor Governmental</u>	<u>Internal Service</u>	<u>Total</u>
Transfers Out:					
General Fund	\$ 0	\$ 0	\$ 4,258,229	\$ 1,000,000	\$ 5,258,229
Water and Sewer Utility	4,809,746	0	0	100,240	4,909,986
Sanitation Enterprise	985,013	0	0	47,431	1,032,444
Nonmajor Governmental Funds	2,289,845	0	1,910,345	413,500	4,613,690
Nonmajor Enterprise Funds	1,343,836	350,882	39,186	23,937	1,757,841
Internal Service Funds	<u>215,690</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>215,690</u>
Total Transfers Out	\$ <u><u>9,644,130</u></u>	\$ <u><u>350,882</u></u>	\$ <u><u>6,207,760</u></u>	\$ <u><u>1,585,108</u></u>	\$ <u><u>17,787,880</u></u>

Bond covenants and City financial policies require use of interfund transfers to move financial resources from funds designated to receive them to funds required to expend them. Business-type fund payments-in-lieu of taxes are also reported as interfund transfers to the General Fund. The transfer from General Fund to Internal Service Fund was authorized by the City Commission to reduce accumulated deficit from Design and Construction Management operations.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

G. CAPITAL LEASES – The City has entered into master lease purchase agreements and other lease agreements as lessee for financing the acquisition of fleet vehicles. Future minimum lease payments and the present value of net minimum lease payments as of September 30, 2004 are as follows:

Fiscal Year	<u>Minimum Lease Payments</u>
2005	\$ 3,060,300
2006	2,523,818
2007	2,138,888
2008	1,388,119
2009	1,364,687
2010-2014	<u>1,867,399</u>
Total Minimum Lease Payments	12,343,211
Less: Amount Representing Interest	<u>(1,321,743)</u>
Present Value of Net Minimum Lease Payments	\$ <u><u>11,021,468</u></u>

H. LONG-TERM DEBT – Summarized below are the City’s debt issued to finance the acquisition and construction of major capital facilities that were outstanding as of September 30, 2004:

1. GOVERNMENTAL ACTIVITIES DEBT:

- \$5,000,000 Public Improvement Revenue Certificates, Series 1989 – Issued to finance general capital improvements, the certificates are collateralized by a pledge of the utilities service tax revenue levied by the City. Interest is variable and based upon 63.0% of the prevailing prime rate. This borrowing was paid off at maturity during fiscal year 2004.
- \$58,300,000 First Florida Governmental Financing Commission Loans – The City has obtained loans from the First Florida Governmental Financing Commission (“First Florida”) to finance the construction of capital projects, the acquisition of certain public safety fire equipment, and the construction and purchase of various capital assets for the Central Services Fund. Loans have been borrowed from First Florida, a public body corporate and politic formed by several local governments in Florida to benefit participants from the economies of scale associated with large financings. Interest rates range from 2.50% to 5.625% annually.
- \$20,010,000 Community Redevelopment Agency Redevelopment Revenue Bonds (BCRA), Series 2004 – The Beach District of City of Hollywood, Florida Community Redevelopment Agency issued these bonds secured by an irrevocable lien on and pledge of the District’s tax increment revenues paid by the City of Hollywood, Broward County, the South Broward Hospital District and the Children’s Services Council of Broward County. By agreement with the South Broward Hospital District, annual tax increment payments from the District are capped at \$300,000. Interest rates range from 3.50% to 5.625% annually.
- \$2,000,000 Community Redevelopment Agency Redevelopment Revenue Bond, Series 1995 – The City’s Downtown Community Redevelopment Agency issued this bond collateralized by tax increment revenues of the Agency and a secondary pledge of the City’s public service tax revenues to finance street improvements in downtown Hollywood, at an annual interest rate of 5.013%.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

- \$11,000,000 Community Redevelopment Agency Loans – Loans committed to fund certain redevelopment projects and/or redevelopment incentives of the Downtown Community Redevelopment Agency as approved by its governing board. The DCRA has pledged its tax increment revenues for repayment of these loans. As of September 30, 2004 a total of \$11,000,000 of these funds were borrowed and outstanding. The interest rates on \$2,500,000 and \$4,000,000 of these loans are fixed at 5.44% and 5.61% respectively. The interest rate on the remaining \$4,500,000 outstanding is variable and equal to the one month London Interbank Offered Rate (“LIBOR”) as published periodically in the Wall Street Journal plus 1.47%. Interest rate on this portion of the borrowing was 3.59% at September 30, 2004.
- \$18,000,000 Sunshine State Governmental Financing Commission Loan – Funds borrowed to finance the construction of capital projects and numerous capital improvements throughout the City. Interest on this borrowing is variable rate based on the City’s pro-rata share of interest paid on bonds issued by the Sunshine State Governmental Financing Commission (“SSGFC”). Interest rates paid by the City are currently below 1.7%.

SSGFC was created in November 1985, initially by the City of Tallahassee, Florida and the City of Orlando, Florida. As of September 30, 2004, thirteen cities and three counties are members of the SSGFC. One city and one county participate as non-members. As a joint venture among the member governmental units, SSGFC enables a limited number of qualifying governments to participate in pooled debt financings with pricing and cost structures not normally available to governmental entities acting individually. Loan obligations from SSGFC are reflected as a debt by the participating governmental units.

The City of Hollywood has no obligations associated with SSGFC other than the repayment of its loan from SSGFC. Financial statements may be obtained from SSGFC.

- \$5,585,000 U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program (“HUD Section 108 Loans”) – Funds committed to finance several major housing rehabilitation programs anticipated and/or underway in the City. Funds may be used only for payment of approved HUD Section 108 activity costs. The initial variable interest rate on this borrowing is set on the first day of each month at twenty (20) basis points above the LIBOR – three months as published on that day in the Wall Street Journal or certain other recognized financial publications. Interest on the unpaid principal balance is due and payable quarterly on the first day of February, May, August and November. Annual principal payments commence on August 1, 2004 and continue through maturity on August 1, 2021.

2. BUSINESS-TYPE ACTIVITIES DEBT:

- \$114,705,000 Water and Sewer Refunding and Improvement Revenue Bonds, Series 2003 – The bonds were issued for the purpose of providing funds to refund, on a current basis, the outstanding Series 1993 Water and Sewer Revenue Bonds; to fully prepay a loan from the Sunshine State Governmental Financing Commission originally borrowed to construct water and sewer improvements; to finance the cost of additional sewer projects and to pay the costs of a credit facility, a reserve account insurance policy and issuance costs. The bonds are collateralized by a pledge of utility system revenues and carry interest rates from 2.0% to 4.625%. The refunding resulted in a deferred accounting loss of \$10,261,868 for fiscal year ended September 30, 2004. As a result of this transaction, the City decreased its aggregate debt service payments by \$12,694,286 over the next twenty (20) years and resulted in an economic gain of \$8,686,341.
- \$137,125,000 Series 1993 Water and Sewer Revenue Bonds - This borrowing was refunded during fiscal year 2004 by the Water and Sewer Refunding and Improvement Bonds, Series 2003 described above. Issued to defease, until maturity or optional call dates, the Series 1991 bonds, which were outstanding in the aggregate principal amount of \$130,779,873. Interest rates range from 4.5% to 5.6% annually.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

- \$53,283,893 State of Florida Revolving Fund Loans – Funds borrowed and outstanding to finance the construction of a reuse wastewater system and new water supply wellfields. Currently, the State has committed to loan the City a total of approximately \$76.5 million for qualifying projects under this loan program. The loans are collateralized by a pledge of the reuse system and utility system revenues. Interest accrues at rates of 2.36% and 3.34% annually.
- \$14,730,000 Sunshine State Governmental Financing Commission Loan – Funds borrowed (\$5,675,000 in FY01) to finance the acquisition and construction costs of two new public parking garages in the City’s downtown area. Funds borrowed (\$9,055,000 in FY03) to finance certain water and wastewater construction projects throughout the City. The water/wastewater portion of these borrowings was prepaid by the Water and Sewer Refunding and Improvement Bonds, Series 2003 described above. Interest on these borrowings is variable rate based on the City’s pro-rata share of interest paid on bonds issued by SSGFC. Interest rates paid by the City are currently below 1.7%.

In management’s opinion, all reserve requirements specified by ordinances pertaining to debt service requirements have been met.

3. **DEFEASANCE OF LONG-TERM DEBT** – In fiscal year 1993, the City issued \$137,125,000 Water and Sewer Revenue Bonds – Series 1993 (“Series 1993 Bonds”) to defease Series 1991 Bonds outstanding in an aggregate principal amount of \$130,779,873. The Series 1993 Bonds were refunded, on a current basis, in November, 2003. As a result, the Series 1991 Bonds are considered to be defeased and the liability for the debt has been removed from the Water and Sewer Utility Fund’s financial statements. At September 30, 2004, outstanding Water and Sewer Revenue Bonds (including prior year’s refundings) of \$100,589,873 are considered to be defeased.
4. **CHANGES IN LONG-TERM LIABILITIES** – The following is a summary of changes in the long-term liabilities for the year ended September 30, 2004:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds and Loans Payable:					
Public Improvement					
Certificates	\$ 500,000	\$ 0	\$ 500,000	\$ 0	\$ 0
First Florida Loan	38,735,000	11,365,000	2,285,000	47,815,000	2,410,000
Sunshine State					
Governmental Financing					
Commission Loan	16,765,000	0	655,000	16,110,000	680,000
HUD Section 108 Loans	5,585,000	0	985,000	4,600,000	240,000
Redevelopment Revenue					
Bonds	1,117,594	20,010,000	136,947	20,990,647	613,897
Redevelopment Loans	<u>4,920,000</u>	<u>6,080,000</u>	<u>86,428</u>	<u>10,913,572</u>	<u>387,642</u>
Total Bonds and Loans Payable	<u>67,622,594</u>	<u>37,455,000</u>	<u>4,648,375</u>	<u>100,429,219</u>	<u>4,331,539</u>
Other Liabilities:					
Compensated Absences	24,656,090	8,094,794	7,023,264	25,727,620	11,552,229
Landfill Closure Costs	1,042,214	0	54,892	987,322	70,523
Claims and Judgments	11,259,336	29,518,751	28,089,659	12,688,428	9,133,978
Capital Lease Obligations	6,467,711	6,681,498	2,846,423	10,302,786	2,621,152
Arbitrage Rebate Payable	<u>596,244</u>	<u>73,995</u>	<u>0</u>	<u>670,239</u>	<u>603,215</u>
Total Other Liabilities	<u>44,021,595</u>	<u>44,369,038</u>	<u>38,014,238</u>	<u>50,376,395</u>	<u>23,981,097</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 111,644,189</u>	<u>\$ 81,824,038</u>	<u>\$ 42,662,613</u>	<u>\$ 150,805,614</u>	<u>\$ 28,312,636</u>

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

Payments on the bonds and loans payable that pertain to the City’s governmental activities are made by the Debt Service Fund, except for the capital lease obligations, which are being repaid directly from an Internal Service Fund and other funds. The compensated absences liability attributable to governmental activities will be liquidated primarily by the General Fund. In the past, approximately 80 to 85% has been paid by the General Fund, and the remainder by various other governmental and internal service funds.

The claims and judgments liability will generally be liquidated through the City’s Insurance Internal Service Fund. (See Note V.B.) That fund will finance the payment of claims by charging other funds based on management’s assessment of the relative insurance risk that should be assumed by individual funds. Currently, the General Fund and Water and Sewer Utility bear approximately 70% and 15% respectively of all insurance costs; no other individual fund is charged more than 7% of the total amount.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Bonds and Loans Payable:					
Water and Sewer					
Revenue Bonds (a)	\$ 100,755,000	\$ 114,705,000	\$ 104,655,000	\$ 110,805,000	\$ 5,010,000
State Revolving Loans	41,236,536	13,503,615	1,456,258	53,283,893	1,984,169
Sunshine State					
Governmental Financing					
Commission Loan	14,425,000	0	9,230,000	5,195,000	190,000
Less: Bond Premium/Discount					
and Deferred Amount					
on Refunding	<u>(7,904,159)</u>	<u>(5,909,620)</u>	<u>(8,723,940)</u>	<u>(5,089,839)</u>	<u>(895,745)</u>
Total Bonds and					
Loans Payable	<u>148,512,377</u>	<u>122,298,995</u>	<u>106,617,318</u>	<u>164,194,054</u>	<u>6,288,424</u>
Other Liabilities:					
Compensated Absences	3,579,349	1,448,152	1,175,625	3,851,876	1,912,096
Capital Lease Obligations	<u>356,492</u>	<u>491,000</u>	<u>128,810</u>	<u>718,682</u>	<u>215,210</u>
Total Other Liabilities	<u>3,935,841</u>	<u>1,939,152</u>	<u>1,304,435</u>	<u>4,570,558</u>	<u>2,127,306</u>
Total Business-Type					
Activities Long-Term					
Liabilities	<u>\$ 152,448,218</u>	<u>\$ 124,238,147</u>	<u>\$ 107,921,753</u>	<u>\$ 168,764,612</u>	<u>\$ 8,415,730</u>

(a) These amounts are reflected in the financial statements net of unamortized premium of \$4,134,636 and unamortized loss on refunding of \$9,224,475 at September 30, 2004.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

5. SUMMARY OF ANNUAL DEBT SERVICE REQUIREMENTS – The annual debt service requirements to maturity for debt outstanding as of September 30, 2004 are as follows:

Governmental Activities Debt						
Fiscal Year Ending:	Sunshine State Governmental Financing Commission (b)		First Florida Loans		HUD Section 108 Loan (a)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 680,000	\$ 210,002	\$ 2,410,000	\$ 2,143,258	\$ 240,000
2006	710,000	200,339	2,930,000	2,033,534	260,000	125,158
2007	735,000	190,336	2,705,000	1,917,824	280,000	128,913
2008	765,000	179,924	2,275,000	1,809,771	300,000	132,780
2009	795,000	169,104	2,355,000	1,721,511	310,000	136,764
2010-2014	4,485,000	667,162	12,925,000	7,034,433	1,810,000	747,881
2015-2019	5,445,000	323,782	14,290,000	3,899,073	1,400,000	503,942
2020-2024	2,495,000	17,285	7,925,000	1,001,406	0	0
	<u>\$ 16,110,000</u>	<u>\$ 1,957,934</u>	<u>\$ 47,815,000</u>	<u>\$ 21,560,810</u>	<u>\$ 4,600,000</u>	<u>\$ 1,896,951</u>

Governmental Activities Debt						
Fiscal Year Ending:	BCRA Redevelopment Revenue Bonds		DCRA Redevelopment Revenue Loans (a)		DCRA Redevelopment Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 470,000	\$ 1,060,669	\$ 387,642	\$ 571,735	\$ 143,897
2006	635,000	1,039,744	619,454	635,229	151,201	40,075
2007	660,000	1,012,194	701,649	596,283	158,876	32,400
2008	690,000	980,094	708,949	553,536	166,940	24,336
2009	720,000	944,394	717,261	509,470	175,414	15,862
2010-2014	4,205,000	4,111,966	3,723,232	1,868,820	184,319	6,959
2015-2019	5,460,000	2,818,125	3,680,415	697,760	0	0
2020-2024	7,170,000	1,052,438	374,970	19,487	0	0
	<u>\$ 20,010,000</u>	<u>\$ 13,019,624</u>	<u>\$ 10,913,572</u>	<u>\$ 5,452,320</u>	<u>\$ 980,647</u>	<u>\$ 167,011</u>

Business-type Activities Debt						
Fiscal Year Ending:	Water & Sewer Revenue Bonds		State Revolving Loans (c)		Sunshine State Governmental Financing Commission (b)	
	Principal	Interest	Principal	Interest	Principal	Interest
	2005	\$ 5,010,000	\$ 4,630,340	\$ 1,984,169	\$ 1,565,543	\$ 190,000
2006	5,115,000	4,530,140	1,856,964	1,511,720	200,000	143,996
2007	5,265,000	4,376,690	1,912,394	1,456,291	210,000	137,703
2008	5,380,000	4,266,125	1,969,478	1,399,207	220,000	131,110
2009	5,510,000	4,138,350	2,028,265	1,340,419	235,000	124,068
2010-2014	29,615,000	17,531,325	11,086,430	5,756,993	1,400,000	498,967
2015-2019	28,825,000	10,428,025	12,842,823	4,000,600	1,845,000	250,832
2020-2024	26,085,000	3,086,450	14,877,476	1,965,947	895,000	13,785
2025-2028	0	0	4,725,894	146,105	0	0
	<u>\$ 110,805,000</u>	<u>\$ 52,987,445</u>	<u>\$ 53,283,893</u>	<u>\$ 19,142,825</u>	<u>\$ 5,195,000</u>	<u>\$ 1,450,451</u>

- (a) Interest is variable, based upon the prevailing prime, LIBOR or other rates and was calculated using the rate in effect at the financial statement date.
- (b) Interest is variable, rate based on City's pro-rata share of interest paid on bonds issued by the Sunshine State Financing Commission immediately preceding loan payment period and was calculated using the rate in effect at the financial statement date.
- (c) Debt service is calculated on total principal outstanding at fiscal year end using a weighted average interest rate.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

6. **CUMULATIVE ARBITRAGE REBATE LIABILITY** – The City has recorded an arbitrage rebate liability of \$670,239 in the Government-Wide Statement of Net Assets as of September 30, 2004 associated with its borrowing from the Sunshine State Financing Governmental Commission. Ninety percent (90%) of the cumulative rebate liability (reduced by any future credits calculated) is required to be rebated to the federal government no later than sixty days (60) after June 13, 2005 (the borrowing’s maturity date). This cumulative arbitrage rebate liability is subject to change, however, pursuant to subsequent computations performed through and including June 13, 2005.
7. **UNAMORTIZED DISCOUNTS AND ISSUANCE COSTS** – Original issue discounts and issuance costs on long-term debt are amortized over the life of the respective liability in the enterprise funds. Such amounts are amortized by the straight-line method for bonds and other debt, which is not materially different than the interest method.

NOTE V – OTHER INFORMATION

- A. **RESTRICTED ASSETS** – The amounts shown below are those assets restricted by sources external to the City.

WATER AND SEWER UTILITY FUND - Ordinances pertaining to long-term debt and other agreements require segregation and restriction of certain assets represented by the following amounts within the system at September 30, 2004:

Construction Contract Retainage		\$ 1,642,272
Customer Deposits		2,029,706
Rate Stabilization Funds		10,000,000
Notes Payable - State Revolving Loan		1,781,188
Construction Loan Proceeds		3,418,530
Renewal, Replacement and Improvement Funds:		
Construction Projects	\$ 15,371,580	
Sewer Plant Replacement	<u>1,284,668</u>	16,656,248
Impact Fee Funds:		
Water System	7,751,501	
Sewer System	<u>5,127,071</u>	<u>12,878,572</u>
		\$ <u><u>48,406,516</u></u>

Borrowing agreements for other funds require restriction of certain assets. Amounts required to be restricted totaled \$4,075,321 at September 30, 2004. The composition of this amount is shown by fund below:

General Capital Projects	\$ 1,279,717
Beach Community Redevelopment	2,695,604
Downtown Community Redevelopment	<u>100,000</u>
	\$ <u><u>4,075,321</u></u>

- B. **CLAIMS PAYABLE – INSURANCE FUND** – The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City’s Insurance Fund (an internal service fund) accounts for and finances its uninsured risks of loss. Under this program, the Insurance Fund provides coverage for up to a maximum of \$400,000 for each workers’ compensation claim, \$400,000 for each general liability claim, \$200,000 for each health insurance claim, \$25,000 for each property damage claim, except for \$250,000 for wind/hail damage. The City purchases commercial insurance for workers’ compensation, general liability, property damage and health claims in excess of coverage provided by the Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

All funds of the City participate in the program and make payments to the Insurance Fund based on actuarial estimates of the amounts to pay prior and current-year claims. The claims liability of \$12,688,428 reported in the Insurance Fund at September 30, 2004, is based on GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The liability for unpaid amounts of public liability, workers' compensation and employee health claims is reported in the Insurance Fund with a summary of changes in those amounts as follows:

Fiscal Year	Claims Payable October 1	Incurred Claims and Changes in Estimates	Claims and Adjustment Expenses Paid	Liability September 30
2003	\$ 10,552,823	\$ 25,800,697	\$ (25,094,184)	\$ 11,259,336
2004	11,259,336	29,518,751	(28,089,659)	12,688,428

- C. **CONTINGENT LIABILITIES** – The City is a defendant in various lawsuits. Although the outcome of such litigation is not presently determinable, management does not believe the settlement of these matters will have a material effect upon the financial condition or results of operations of the affected funds.

The City participates in a number of federal, state and local grant assistance programs. The grants are subject to audit by the granting agencies to determine if activities undertaken by the City comply with conditions of the grant. Management believes that no material liability will arise from any such audits.

- D. **LANDFILL CLOSURE COSTS** – The City owns a piece of property that was used in prior years as a landfill. This site has been closed for several years and no additional refuse has been deposited there. This landfill was formally declared closed during fiscal year 1998 after current closure care work was completed. Formal public notice, as required by Chapter 61-701 of the Florida Administrative Code, regarding this property was recorded in the Broward County property records wherein the City is located. As a result, this property remains in the postclosure care phase.

The necessary major components of postclosure care consist of land surface care, groundwater monitoring and methane gas monitoring. The City has accrued, based on consulting engineers' estimate, \$70,523 payable from General Fund restricted assets for anticipated current postclosure costs and \$916,799 (includes an assumed inflation rate) for estimated future postclosure costs as of September 30, 2004. There were no deposits or withdrawals in these accounts during fiscal year 2004. Funding for future postclosure costs which are subject to the potential for changes due to inflation or deflation, technology, or applicable laws and regulations, and other costs unforeseen at this time, if any will be included in subsequent General Fund budgets.

- E. **OTHER POSTEMPLOYMENT BENEFITS** – In addition to the pension benefits described in section F below, the City provides postretirement care benefits on a pay as you go basis to all retired employees and their eligible dependents. Such benefits are provided pursuant to State Statute and employee collective bargaining agreements. In order to qualify, employees must satisfy retirement eligibility criteria of their respective pension plan. The City contributes the costs of benefits for retired employees and except for a limited number of dependents, participating retirees pay the costs of coverage for their dependents. Expenditures and expenses for postretirement health care benefits (net of participant contributions) are recognized based upon retiree enrollment and include a provision for estimated claims incurred but not reported. The number of eligible retiree and dependent participants covered at September 30, 2004 was approximately 950 individuals. The cost of benefits recognized for the fiscal year ended September 30, 2004 net of participants contributions was approximately \$4,400,000.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

F. PENSION PLAN INFORMATION – The following information is provided in accordance with GASB Statement No. 27, “Accounting for Pensions by State and Local Governmental Employers”. This statement prescribes standards for the measurement, recognition and display of pension expenditures/expense and related liabilities, assets and note disclosures in the financial reports of state and local governmental employers.

1. PLAN DESCRIPTIONS – The City, as a single employer, maintains three defined benefit pension plans covering substantially all full-time employees. As described in Note I.A., the Employees Retirement Fund, Fire Pension Fund and Police Retirement Fund are included in the City’s financial reporting entity. Articles X, XI and XII of the Hollywood City Charter contain the specific provisions of each plan. The Board of Trustees of each plan can recommend to the City changes to the benefit provisions of their plan. Changes to the City Charter, however, can only be accomplished if approved in a public referendum or through a special act approved by the State legislature.

Each retirement fund provides retirement, disability, and death benefits, and certain cost-of-living adjustments to plan members and beneficiaries. Each retirement fund issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Those reports may be obtained by writing or calling the retirement fund.

Employees Retirement Fund Hollywood City Hall 2600 Hollywood Boulevard Hollywood, Florida 33020 (954) 921-3230	Fire Pension Fund 2741 Stirling Road Hollywood, Florida 33312 (954) 967-4331	Police Retirement Fund Hollywood Police Department 3250 Hollywood Boulevard Hollywood, Florida 33021 (954) 967-4395
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The financial statements of the Employees Retirement Fund, Fire Pension Fund, and Police Retirement Fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Dividend and interest income, as well as gain or loss on investment sales is recognized when earned. Purchases and sales of investments are recorded on the date the trade is executed. Benefit payments and refunds to plan members are recognized when due and payable in accordance with the terms of the appropriate plan.

Investments are carried at fair value, which is determined as follows: securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year, securities traded in the over-the-counter market, and listed securities for which no sale was reported on that date are valued at the last reported bid price; commercial paper, time deposits and short-term investments are valued at cost, which approximates market value.

During fiscal year 2002, the City and the Hollywood Professional Firefighters union negotiated a collective bargaining agreement that included certain enhancements to pension benefits. These pension enhancements are subject to the adoption of an ordinance by the City Commission amending the Hollywood City Charter article providing for firefighter’s pension benefits. An actuarial impact study prepared subsequent to the approval of the bargaining agreement has disclosed that the cost of such pension enhancements is substantially higher than the cost discussed in union negotiations. This issue was resolved during fiscal year 2004 and an ordinance amending firefighter’s pension benefits was approved by the City Commission.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

2. PENSION INFORMATION – City contributions are determined by actuarial valuations adopted by the respective Board of Trustees for those retirement benefits provided by the City Charter. The City’s annual pension cost for the current year and related information for each plan is as follows:

	Employees Retirement Fund	Fire Pension Fund	Police Retirement Fund
Contribution Rates:			
City	20.57%	34.02%	34.78%
State of Florida	0.00%	5.84%	0.00%
Employees	7.00%	7.00%	8.00%
Annual Pension Cost	\$7,826,110	\$4,671,351	\$5,598,309
Contributions Made	\$7,805,841	\$4,653,916	\$5,587,558
Actuarial Valuation Date	10/01/03	10/01/02	10/01/02
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	29 Years	29 Years	29 Years
Asset Valuation Method	5 Year Smoothed Market	(a)	5 Year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return *	8.30%	8.00%	8.00%
Projected Salary Increases *	4.00% to 9.00%	4.50% to 8.00%	5.03% to 10.67%
* Includes Inflation at	3.50%	4.00%	3.50%
Cost-of-Living Adjustments	2.00%	(b)	2.00%

(a) Actuarial value of assets is equal to the market value of assets adjusted to reflect a five-year phase-in of the net investment gain or loss. However, the actuarial value of assets may not be less than 90% of market value of assets or more than 110% of market value of assets.

(b) For those firefighters previously covered by the Supplemental Plan or hired after October 1, 1989, and having received benefit payments for three (3) years, there shall be an annual two percent (2%) cost-of-living adjustment. This benefit is furnished only to the firefighter (not his beneficiary). For those firefighters receiving benefit payments as of October 1, 1988, there shall be an annual one percent (1%) cost-of-living adjustment beginning the later of the third year after retirement or October 1, 1989. No other firefighters or beneficiaries are eligible to receive a cost-of-living adjustment.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

3. ANNUAL PENSION COST AND NET PENSION OBLIGATION – Annual pension cost and net pension obligation (asset) for each retirement fund for fiscal year ended September 30, 2004 are presented as follows:

	Employees Retirement Fund	Fire Pension Fund	Police Retirement Fund
Annual Required Contribution ("ARC")	\$ 7,805,841	\$ 4,653,916	\$ 5,587,558
Interest on Net Pension Obligation ("NPO")	(27,820)	(28,159)	(20,944)
Adjustments to ARC	48,089	45,594	31,695
Annual Pension Cost ("APC")	<u>7,826,110</u>	<u>4,671,351</u>	<u>5,598,309</u>
Contributions Made	<u>(7,805,841)</u>	<u>(4,653,916)</u>	<u>(5,587,558)</u>
Increase (Decrease) in NPO	20,269	17,435	10,751
NPO - Beginning of Year	(336,764)	(351,985)	(261,801)
NPO - End of Year	<u><u>\$ (316,495)</u></u>	<u><u>\$ (334,550)</u></u>	<u><u>\$ (251,050)</u></u>

Annual required contributions shown above were determined using the respective plan's October 1, 2002 actuarial valuation and actuarial assumptions for that plan as shown in (2) above.

4. TREND INFORMATION – Annual pension costs for each retirement fund for the three fiscal years ended September 30, 2002 through 2004 are presented below:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (c)
Employees Retirement Fund	9/30/02	\$ 5,897,117	99.7 %	\$ (354,260)
	9/30/03	6,182,449	99.7	(336,764)
	9/30/04	7,826,110	99.7	(316,495)
Fire Pension Fund	9/30/02	2,493,471	99.3	(370,329)
	9/30/03	2,466,550	99.3	(351,985)
	9/30/04	4,671,351	99.6	(334,550)
Police Retirement Fund	9/30/02	2,924,843	99.6	(273,012)
	9/30/03	3,048,073	99.6	(261,801)
	9/30/04	5,598,309	99.8	(251,050)

- (c) These amounts reflect cumulative net overcontributions from October 1, 1987 to date of the required APC at fiscal year end.

CITY OF HOLLYWOOD, FLORIDA

NOTES TO THE FINANCIAL STATEMENTS

5. **DEFINED CONTRIBUTION PENSION PLANS** – The City has contracts with the ICMA-RC for two defined contribution pension plans. One plan covers executive employees with employment agreements with the City and the other plan covers the City Manager and the City Attorney. Both plans are established under the provisions of Section 401 (a) of the Internal Revenue Code as Money Purchase Plans and Trusts. In addition, there is a third 401(a) plan between the Hollywood Community Redevelopment Agency and ICMA-RC covering the executive directors of the agency. The assets of the plans are self-directed, and investment results are reported to employees quarterly. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment return. The plans do not require nor permit employee contributions. Plan participants become fully vested in the plans upon entry. The plans were established by City Commission resolutions. The City does not have fiduciary accountability for the defined contribution pension plans and, accordingly, the plans are not reported in the accompanying financial statements.

Previously, the City contributed 16.3% of salaries to the executive employees pension plan on a biweekly basis. On June 3, 2003 the City Commission approved Ordinance O-2003-07 which amended the Employees Retirement Fund to allow current employees with employment agreements to elect to become members of this retirement plan and provided for repurchase of all eligible prior service time under an existing buy-back formula. Employees with employment agreements hired after the ordinance date are required to be members of the Employees Retirement Fund. Eligible employees, including the City Manager and City Attorney, were required to submit a written, irrevocable election to participate in this retirement plan within one year from the effective date of the ordinance noted above. Upon entry into the Employees Retirement Fund, the City's contribution to the executive employees pension plan noted above would cease. Seventeen (17) of the nineteen (19) eligible employees with employment agreements elected to become members of the Employees Retirement Fund within the appropriate timeframe. As such, City contributions to the executive pension plan ceased for these individuals during fiscal year 2004 and the appropriate required City contributions are now directed to the Employees Retirement Fund.

6. **DEFERRED COMPENSATION PLANS** – The City offers certain employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, managed by independent plan administrators, permit employees to defer a portion of their salary until future years. At the employee's election, such amounts may be invested in mutual funds which represent varying levels of risk and return. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plans, all property and rights purchased with those amounts, and all income attributable to those amounts, are held in trust, for the exclusive benefit of the plans' participants and their beneficiaries. Since the City has no control over these assets, they are not reflected in the City's statements.