

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

A PENSION TRUST FUND OF THE CITY OF HOLLYWOOD, FLORIDA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis (Required Supplementary Information)	3-7
Financial Statements	
Statement of Fiduciary Net Position	8
Statement of Changes in Fiduciary Net Position	9
Notes to Financial Statements.....	10-31
Required Supplementary Information	
Schedule of Changes in the City's Net Pension Liability and Related Ratios	32
Schedule of City Contributions.....	33
Schedule of Investment Returns	34
Compliance Report	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35-36

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Plan Administrator
City of Hollywood, Florida Employees' Retirement Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Hollywood, Florida Employees' Retirement Fund (the Plan) which comprise the statement of fiduciary net position as of September 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of September 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

The financial statements of the City of Hollywood, Florida Employees' Retirement Fund as of September 30, 2015 were audited by predecessor auditors, and their report dated September 23, 2016, expressed an unmodified opinion on those financial statements. The financial statements include partial prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2015, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the City's net pension liability and related ratios, schedule of city contributions, and schedule of investment returns on pages 3 to 7 and 32 to 34 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2017 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance

Marcum LLP

Fort Lauderdale, FL
June 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

CITY OF HOLLYWOOD, FLORIDA EMPLOYEES' RETIREMENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Hollywood, Florida Employees' Retirement Fund's (the Plan) financial performance provides an overview of the Plan's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- Plan net position held for benefits exceeded liabilities at the close of fiscal years ended September 30, 2016 and 2015 by \$289,727,276 and \$286,342,639 (reported as net position restricted for pension benefits), respectively. Net position is held in trust to meet future benefit payments. The Schedule of Changes in the City's Net Pension Liability of the Plan is disclosed in the required supplementary information in this report.
- As of September 30, 2016, liabilities decreased by \$426,170 (or 50%) primarily as a result of decrease in amounts due to brokers. As of September 30, 2015, liabilities increased by \$927,002 (or 52.1%) primarily as a result of amounts due to brokers.
- For the fiscal year ended September 30, 2016, employer contributions to the Plan amounted to \$9,767,849, a decrease of \$13,448,544 (or 57.9 %) over fiscal year 2015. This is due to the City having accumulated \$10.4 million in prepayment by the end of FY 2015. In fiscal year 2016, the City made contributions less than the actuarially determined amount of \$23,250,833, due to the prepayment amount that was mentioned above of \$10.4 million. Also, the City has a lawsuit with the Plan related to the 13th check component of the Plan's Actuarially Determined Contribution (ADC), and the City has not paid this component of the ADC. For the fiscal year ended September 30, 2015, employer contributions to the Plan amounted to \$23,216,393, an increase of \$155,810 (or 0.2%) over fiscal year 2014.
- For the fiscal year ended September 30, 2016, employee contributions were \$3,088,620, an increase of \$483,789 (or 18.6 %) over the prior year as a result of higher overall pensionable earnings of plan members, when compared to prior year. For the fiscal year ended September 30, 2015, employee contributions were \$2,604,831, a decrease of \$66,446 (or 2.5%) from the prior year as a result of a full year effect of the decrease of the member contribution rate from 9% to 8% (which took effect in March of 2014), when compared to prior year.
- For the fiscal year ended September 30, 2016, net investment income increased by \$24,092,376 (or 82%) to \$29,259,063 net of investment expenses of \$1,042,312 in comparison to fiscal year 2015. Gross return on plan assets in 2016 was 11.10% versus 1.83% in 2015, generating the increase noted. For fiscal year ended September 30, 2015, net investment income decreased by \$22,944,839 (or 81.6%) to \$5,166,687 net of investment expenses of \$859,356 in comparison to fiscal year 2014. Gross return on plan assets in 2015 was 1.83% versus 10.1% in 2014 generating the decrease noted.
- For the fiscal year ended September 30, 2016, benefit payments, administrative expenses and refund of contributions increased by \$6,312,579 (or 19.5 %) to \$38,741,328 over fiscal year 2015 primarily due to large number of DROP plan members leaving the City. For the fiscal year ended September 30, 2015, benefit payments, administrative expenses and refund of contributions increased by \$3,663,566 (or 12.7%) to \$32,428,749 over fiscal year 2014.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

PLAN HIGHLIGHTS

For the fiscal year ended September 30, 2016, the relative gross gain of the portfolio was 11.10% for the trailing year exceeding the policy index for a portfolio with a similar composition of 9.85%, with net investment gain of \$29,259,063 for the year. For the fiscal year ended September 30, 2015, the relative gross gain of the portfolio was 1.83% for the trailing year exceeding the policy index for a portfolio with a similar composition of 0.45%, with net investment gain of \$5,166,687 for the year.

USING THE AUDITED FINANCIAL STATEMENTS

The financial statements, which reflect the activities of the Plan, are reported in the statement of fiduciary net position and the statement of changes in fiduciary net position. These statements are presented on a full accrual basis and reflect all trust activities as incurred and account balances of investments for the fiscal period then ended.

SUMMARY OF FIDUCIARY NET POSITION

The following condensed comparative summary of fiduciary net position demonstrate the investment position of the Plan at September 30, (in thousands):

	<u>2016</u>	<u>2015</u>
Investments	\$ 289,689	\$ 286,771
Receivables	<u>465</u>	<u>424</u>
Total Assets	290,154	287,195
Liabilities	<u>427</u>	<u>853</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 289,727</u>	<u>\$ 286,342</u>

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF CHANGES IN FIDUCIARY NET POSITION

The summary of changes in fiduciary net position displays the effect of pension fund transactions that occurred during the fiscal year, where additions minus deductions equal net increase or (decrease) in plan net position. The table below reflects a condensed comparative summary of the changes in net position and reflects the activities of the plan for the fiscal years ended September 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Additions		
Employer contributions	\$ 9,768	\$ 23,216
Plan member contributions	3,099	2,613
Investment income	<u>29,259</u>	<u>5,167</u>
Total Additions	<u>42,126</u>	<u>30,996</u>
Deductions		
Pension benefits	38,121	31,649
Refund of member contributions	272	434
Administrative expenses	<u>349</u>	<u>345</u>
Total Deductions	<u>38,742</u>	<u>32,428</u>
Net Increase (Decrease)	3,384	(1,432)
Net Position Held in Trust for Pension Benefits		
Beginning of year	<u>286,343</u>	<u>287,775</u>
End of year	<u>\$ 289,727</u>	<u>\$ 286,343</u>

The Plan's investment activities, measured as of the end of any month, quarter, or year, are a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for the fiscal year ended September 30, 2016 increased from those of fiscal year ended September 30, 2015.

The benefit payments are a function of changing payments to retirees or their beneficiary (i.e., retiree deceased, new retirements during the period, etc.).

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSET ALLOCATION

At September 30, 2016 the domestic equity portion comprised 37.30 % (\$108.041 million) of the total portfolio. The allocation to fixed income securities was 26.69% (\$77.317 million), while money market funds comprised 1.62% (\$4.680 million). Real estate partnerships comprised 12.24% (\$35.471 million) international equities comprised 20.74% (\$60.092 million) and private equity investment comprised 1.41% (\$4.088 million).

At September 30, 2015 the domestic equity portion comprised 36.6% (\$104,907,964) of the total portfolio. The allocation to fixed income securities was 26.9% (\$77,066,546), while money market funds comprised 4.6% (\$13,299,786). Real estate partnerships comprised 12.7% (\$36,454,048) and international equities comprised 19.2% (\$55,043,165).

The authorized investment allocation ranges as of September 30, 2016 and 2015, were as follows:

<u>Asset Class</u>	<u>Asset Allocation</u>
Domestic equities	25 - 42.5%
Fixed income	25 - 37.5%
International equities	15 - 25%
Real estate	7 - 14%
Private Equity	0 - 15%
Global Infrastructure	0 - 5%
Cash	0 - 5%

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

Of primary concern to most pension plan participants is the amount of money available to pay benefits. A pension plan can become underfunded when the employer fails to make annual actuarially required contributions to that plan. The City has traditionally contributed the annual required contribution to the Retirement Fund determined by the Plans' actuary. See page 33 for a summary of City contributions to the Plan.

CITY'S NET PENSION LIABILITY

The fiduciary net position as a percentage of the total pension liability in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, as of September 30, 2016 and 2015 was 65.34% and 65.50%, respectively. The notes to the financial statements provide a summary of significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, and inputs to the discount rate, as well as certain information about mortality assumptions.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

PLAN MEMBERSHIP

The following table reflects the Plan membership as of the below actuarial valuation dates:

	October 1, 2015	October 1, 2014
Inactive plan members and beneficiaries currently receiving benefits	1,027	1,015
Inactive plan members entitled but not yet receiving benefits	92	97
Active plan members	<u>593</u>	<u>557</u>
Total Members	<u><u>1,712</u></u>	<u><u>1,669</u></u>

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide the board of trustees, our membership, taxpayers, investors and creditors with a general overview of the Plan finances and to demonstrate accountability for the money they receive. If you have any questions about this report or need additional financial information, contact the City of Hollywood Employees' Retirement Fund, 2600 Hollywood Boulevard, City Hall Annex, Room 20, Hollywood, Florida 33020, Phone: (954) 921-3333.

FINANCIAL STATEMENTS

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

STATEMENT OF FIDUCIARY NET POSITION

**SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)**

	2016	2015
Assets		
Investments, at Fair Value		
Money market mutual funds	\$ 4,680,053	\$ 13,299,786
U.S. government agencies	13,371,145	11,299,698
U.S. treasuries	23,318,960	29,093,411
Corporate bonds	40,627,130	36,673,437
Domestic stocks	17,957,790	17,639,277
Limited partnerships	20,220,732	18,235,424
Private equity investment funds	4,087,590	8,423,876
Real estate investment funds	35,471,400	28,030,172
Equity investment funds	129,954,590	124,076,428
Total Investments	289,689,390	286,771,509
Receivables		
Accrued interest and dividends	464,720	420,584
Accounts receivable	--	3,550
Total Receivables	464,720	424,134
Total Assets	290,154,110	287,195,643
Liabilities		
Accrued expenses	277,828	233,966
Due to broker	62,785	577,031
Due to the City of Hollywood	86,221	42,007
Total Liabilities	426,834	853,004
Net Position Restricted for Pension Benefits	\$ 289,727,276	\$ 286,342,639

The accompanying notes are an integral part of these financial statements.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

**FOR THE YEAR ENDED SEPTEMBER 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)**

	2016	2015
Additions		
Contributions		
City	9,767,849	23,216,393
Local	10,433	8,469
Participants	3,088,620	2,604,831
Total Contributions	12,866,902	25,829,693
Investment Income		
Net appreciation in fair value of investments	24,810,294	645,342
Interest and dividends	5,491,081	5,380,701
Total Investment Income	30,301,375	6,026,043
Less: investment expenses	1,042,312	859,356
Net Investment Income	29,259,063	5,166,687
Total Additions	42,125,965	30,996,380
Deductions		
Pension benefits	38,120,911	31,649,219
Refund of member contributions	271,849	434,468
Administrative expenses	348,567	345,062
Total Deductions	38,741,327	32,428,749
Net Increase (Decrease)	3,384,637	(1,432,369)
Net Position Held in Trust for Pension Benefits		
Beginning of year	286,342,639	287,775,008
End of year	\$ 289,727,276	\$ 286,342,639

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the City of Hollywood, Florida Employees' Retirement Fund (the Plan) are prepared using the accrual basis of accounting. Contributions from members are recorded in the period the City of Hollywood (the City) makes payroll deductions from participants (members). City contribution requirements are actuarially determined and are normally remitted on a biweekly basis with the members contributions. Benefit payments and refunds to members are recognized when due and payable in accordance with the terms of the Plan. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

During fiscal year 2016, the City remitted the balance of the required contribution in a lump sum during December 2015, in order to reduce interest accruing on the Plan's unfunded liability.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. 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 additions and deductions in net position available for Plan benefits. Actual results could differ from those estimates.

CERTAIN SIGNIFICANT ESTIMATES

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect balances and the amounts reported in the statements of net position available for benefits.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Realized and unrealized gains and losses are reported as net appreciation (depreciation) in fair value of investments on the statement of changes in fiduciary net position along with realized gains and losses on sale of investments. Purchases and sales of securities are reflected on a trade-date basis. Gains or losses on sales of securities are based on average cost. Dividends and interest income are recorded as earned. Refer to Note 3 for more detail information regarding the methods used to measure the fair value of investments.

The investment policy is determined by the board of trustees and is implemented by investment advisors. At September 30, 2016, guidelines permit the following investments:

Bonds, notes or other obligations of the U.S. government and its agencies;

- Common and preferred stock issued by a corporation created or existing under the laws of the United States or any state, district or territory thereof, provided that such securities shall be listed at the date of the purchase on a major stock exchange with an aggregate limitation of 42.5% of the total plan assets;
- Fixed income investments, provided that no one issue of these obligations is more than 5 percent of the investment manager's portfolio;
- Time deposits or time certificates in any banking institution organized under the laws of the United States, provided that such investments are not more than 5 percent of the short-term investment account;
- International equity investments made through the purchase of units of commingled funds or group trusts are limited to a maximum of 25% of plan investments; and
- Real estate investments in pooled real estate vehicles, limited partnerships or other types of real estate investments, limited to a maximum of 14% of plan investments, as determined by the board of trustees in consultation with the investment consultant.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

- The Board, after consulting with the Investment Consultant, may authorize the use of any other investment for an account provided that such investment is considered prudent for a retirement fund. Assets that provide appropriate diversification (specifically low correlation with existing assets) will be considered.

Prohibited assets and/or transactions under the Plan's investment policy include selling short, letter stock, options other than covered call writing, and any investments not listed in the investment policy.

The Plan's target asset allocation and authorized ranges as of September 30, 2016, were as follows:

<u>Asset Class</u>	<u>Target (%)</u>	<u>Allowable Range (%)</u>
Domestic equities	30%	25 - 42.5%
Fixed income	30%	25 - 37.5%
International equities	20%	15 - 25%
Real estate	10%	7 - 14%
Private Equity	7.5%	0 - 15%
Global Infrastructure	2.5%	0 - 5%
Cash	0%	0 - 5%

INCOME TAX STATUS

The Plan is exempt from Federal income taxes under the Internal Revenue Code and, therefore, records no such income tax liability or expense.

COMPARATIVE INFORMATION / RECLASSIFICATION

The financial statements include certain prior-period comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2015, from which the information was derived. Certain amounts presented in the 2015 column have been reclassified to conform with the 2016 presentation.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

GASB Statement No. 72, Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. The Statement also provides guidance for applying fair value to certain investments and disclosures related to fair value measurements. The adoption of GASB 72 results in increased disclosures related to the fair value measurement of investments.

NOTE 2 – PLAN DESCRIPTION

The City of Hollywood, Florida Employee's Retirement Fund (also known as the General Employees' Retirement Fund) (the Plan) is a single-employer defined-benefit plan. The Plan was established on October 1, 1958, as set forth in Article X, Section 10.01 of the City of Hollywood, Florida (the City) charter and is governed by various state and federal laws. The Plan is managed by a seven (7) member board of trustees (the Board). The Board is comprised of two (2) persons designated as citizen members who are residents of the City appointed by the City Commission; the City Manager or his/her designee; two (2) members representing the employees, who shall be employee members (including Deferred Retirement Option Plan (DROP) participants) with at least six (6) years of credited service and elected by vote of all employee members (including DROP participants); one (1) member representing the retirees, who shall be a retiree (but not a DROP participant) elected by vote of all retired members (excluding DROP participants); and one (1) member appointed by the City Manager, representing the employees whose positions are not included in a collective bargaining unit and has accounting or investment experience. The Board can recommend to the City changes to the provisions of the Plan.

The City requires that substantially all full-time general employees of the City contribute to the Plan. Contributions required from Plan members were at the rate of 9 percent of compensation until March 15, 2014, when it changed to a rate of 8 percent. These contributions have been on a tax-deferred basis since 1994. The City is required to contribute the remaining amounts necessary to fund the Plan using an actuarial basis as required by state statute. The City's actuarially determined required contribution rate for fiscal year 2014 is 67.51 percent of annual covered payroll. The vesting period for Plan members hired prior to July 15, 2009 is five (5) years of creditable service. For Plan members hired on or after July 15, 2009 and General Fund members hired on or after October 1, 2011, the vesting period is seven (7) years of creditable service.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

Since the Plan is a single-employer public employee retirement system sponsored by the City, the Plan is included as a pension trust fund in the City's Comprehensive Annual Financial Report (CAFR) as part of the City's financial reporting entity for the year ended September 30, 2016. For further information on the City, please see the CAFR.

At October 1, 2015, the date of the latest available actuarial valuation, membership in the Plan consisted of:

Inactive plan members and beneficiaries currently receiving benefits	1,027
Inactive plan members entitled but not yet receiving benefits	92
Active plan members	<u>593</u>
Total Members	<u><u>1,712</u></u>

NORMAL RETIREMENT

A Plan member hired prior to July 15, 2009 must attain the age of 55 with 5 years of creditable service, or complete 25 years of creditable service, regardless of age, in order to be eligible for normal retirement. For Plan members hired on or after July 15, 2009, normal retirement date shall be age fifty-seven (57) or older with twenty-five (25) years of credited service; age sixty (60) or older with seven (7) years of credited service; or thirty (30) years of credited service, regardless of age.

For a Plan member hired prior to July 15, 2009 and who is currently employed by the City, who has been contributing to the Plan during their full period of employment, and who exercises normal retirement is entitled to receive a retirement benefit equal to 3 percent of their member's average monthly compensation (based on the three highest consecutive years of employment) multiplied by years of creditable service, up to a maximum of 27 years, with a maximum benefit equal to 81 percent of the member's average monthly compensation.

For Employees Hired Prior to July 15, 2009

For Plan members hired prior to July 15, 2009 who retire on or after August 17, 2009 without entering the DROP, a two percent (2 percent) COLA shall be payable annually three (3) years after retirement benefits begin. Members hired prior to July 15, 2009 who enter the DROP on or after August 17, 2009, a two percent (2 percent) COLA shall be payable annually commencing the later of three (3) years after retirement benefits begin or one (1) year after separation employment following participation in the DROP.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

NORMAL RETIREMENT (CONTINUED)

For Employees Hired Prior to July 15, 2009 (continued)

Contributions for these employees increased to eight percent (8 percent) of compensation on October 1, 2009 and then to nine percent (9 percent) of compensation on October 1, 2010.

For Plan members hired prior to July 15, 2009 who retire or enter the DROP on or after August 17, 2009 compensation shall exclude all earnings and payouts for blood time and compensatory time. Payouts for accumulated annual leave that may be counted as compensation for such members shall not exceed 125 hours per year for employees covered by the general employees' bargaining unit; and shall not exceed 60 hours per year for employees who retire from a position not covered by the general employees' bargaining unit.

Members who were hired from October 1, 1976 to September 30, 1989 and elected to participate on a contributory basis in early 1991 had the option of keeping their benefit accrual rate of 1 percent for creditable years of service prior to the date the member started contributions, or paying additional contributions to obtain an increased benefit accrual rate for creditable years of service prior to the date the member started contributions. Upon exercising normal retirement, the monthly retirement benefit for such members who elected not to pay the additional contribution would be computed using a combination of a rate of 1 percent for creditable years of service prior to the date the member started contributions, and currently a benefit accrual rate of 3 percent for creditable years of service after the date the member started contributions.

Employees who retire after September 30, 1998 received a benefit of 3 percent of average monthly salary with a maximum benefit equal to 81 percent of average monthly salary. Any former noncontributory member who does not "buy-back" previous service is subject to a 1 percent benefit rate for service prior to their election to enter the Plan. Further, members who were in the noncontributory group on July 1, 1999 receive a 1 percent benefit rate for service prior to July 1, 1999.

For Plan members hired on or after July 15, 2009, upon reaching normal retirement date, a member is entitled to a normal retirement benefit of two and one-half percent (2.5 percent) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81 percent) of average final compensation. Average final compensation shall be based on the member's highest one hundred and four (104) consecutive bi-weekly pay periods of credited service.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

NORMAL RETIREMENT (CONTINUED)

For Employees Hired on or After July 15, 2009

Vesting period will be 7 years of credited service.

Normal retirement date shall be age fifty-seven (57) or older with twenty-five (25) years of credited service; age sixty (60) or older with seven (7) years of credited service; or thirty (30) years of credited service, regardless of age.

Upon reaching normal retirement date, a member is entitled to a normal retirement benefit of two and one-half percent (2.5 percent) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81 percent) of average final compensation.

Average final compensation shall be based on the member's highest one hundred four (104) consecutive bi-weekly pay periods of credited service.

Compensation shall include only the member's base pay, which includes longevity pay, but no other payments shall be included.

Eligibility for non-duty disability benefits shall commence upon the member completing seven (7) years of credited service.

A vested member who separates from City employment prior to his or her normal retirement date and does not receive a refund of contributions shall have a right to receive a retirement benefit beginning at age sixty (60) based on the benefit formula in effect on the date of separation from City employment, years of credited service and average final compensation on that date.

Members shall contribute nine percent (9 percent) of their compensation to the Plan.

Members shall not be eligible to participate in the DROP.

Members shall not be eligible for a COLA after their retirement benefits commence.

For Employees Hired on or After October 1, 2011

As of September 30, 2011, benefits under the previously existing plan were frozen. The plan had numerous changes that were effective October 1, 2011 impacting mainly General Fund Plan members and employees. The pension plan changes were designed to help reduce the City's future pension costs.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

NORMAL RETIREMENT (CONTINUED)

For Employees Hired on or After October 1, 2011 (continued)

Effective October 1, 2011, General Fund members are subject to a new benefit structure applicable to future credited service. Any General Fund member who was eligible to retire with normal retirement benefits on or before September 30, 2011 and is so eligible on September 30, 2011, the benefit structure in effect on September 30, 2011 shall remain in effect beyond September 30, 2011 and shall not be frozen; provided, however that any such General Fund member who did not enter the DROP on or before September 30, 2011 shall not be eligible to participate in the DROP. There are no changes in pension benefits to employees paid in the City's Enterprise Funds. Under the benefit structure effective October 1, 2011, the normal retirement date for a General Fund member with less than ten (10) years of credited service as of September 30, 2011 shall be age 65 or older with seven (7) years of credited service; age 62 or older with 25 years of credited service ; or age 60 or older with 30 years of credited service, provided, however, that the normal retirement date of a General Fund member hired prior to July 15, 2009 shall remain as it was as on September 30, 2011.

The vesting period for General Fund members not vested in the Plan as of September 30, 2011 becomes 7 years of credited service. A General Fund member is entitled to a normal retirement benefit of 2 percent of average final credited compensation earned on or after October 1, 2011 up to the benefit equal to the net result of subtracting from 81 percent the product of 3 percent times the number of years of credited service earned up to September 30, 2011. Average final compensation for General Fund members effective October 1, 2011 shall include only the member's base pay which includes longevity but no other payments shall be included. A General Fund member's entitlement to a benefit in the form of a COLA shall be frozen as of September 30, 2011. Under the benefit structure effective October 1, 2011, a General Fund member shall not be eligible for a COLA.

Members hired on or after October 1, 2011 shall receive the same retirement benefits as members hired on or after July 15, 2009 but prior to October 1, 2011 subject to the following:

- Normal retirement date shall be age 65 or older with seven (7) years credited service; age 62 or older with 25 years of credited service; or age 60 with 30 years of credited service.
- Vesting period is seven (7) years of credited service

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

NORMAL RETIREMENT (CONTINUED)

For Employees Hired on or After October 1, 2011 (continued)

- Upon reaching normal retirement date, a General Fund member is entitled to a normal retirement benefit of 2 percent of average final compensation for each year of credited service, up to a maximum of 81 percent of average final compensation.
- Average final compensation for a General Fund member is based on the highest 130 consecutive bi-weekly pay periods of the last 260 bi-weekly pay periods of credited service
- Eligibility for non-duty disability benefits shall commence after completing seven (7) years of credited service
- General Fund member is not eligible to participate in the DROP
- General Fund members will not be eligible for a COLA.
- General Fund member who separate from the City prior to his or her normal retirement date having completed seven (7) years of credited service, does not receive a refund of contributions shall have the right to receive a service retirement benefit beginning at age 65 based on the benefit formula in effect on the date of separation from City, years of credited service and average final compensation on that date.

DISABILITY RETIREMENT

After five years of creditable service, a Plan member hired prior to July 15, 2009 who becomes totally and permanently disabled, as defined by the Plan, may retire on a nonservice incurred disability retirement benefit. For Plan members hired on or after July 15, 2009, and General Fund Plan members hired on or after October 1, 2011, eligibility for non-duty disability benefits shall commence upon the member completing seven (7) years of creditable service.

A Plan member under a disability retirement shall be entitled to receive a retirement benefit equal to 75 percent of the member's compensation if the disability occurred in service. Such benefit is payable from the first day of disability. For a nonservice incurred disability retirement, the member hired prior to July 15, 2009 must have completed 5 years of credited service and shall be entitled to receive a retirement benefit equal to the member's accrued benefits, but not less than 20 percent of the member's average monthly compensation, which is payable until the member's death or recovery. For Plan members hired on or after July 15, 2009, eligibility for non-duty disability benefits shall commence upon the member completing seven (7) years of credited service.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

PRERETIREMENT DEATH BENEFITS

Effective April 5, 2006 for members included in the American Federation of State, County and Municipal Employees (AFSCME) general bargaining unit, March 7, 2007 for members included in the AFSCME Professional and Supervisory bargaining units, and July 18, 2007 for members not included in any bargaining unit, when an employed member of the employees' retirement fund of the City, who is vested, dies before retirement, his or her designated beneficiary (or beneficiaries) shall have the option of receiving the members' contribution to the Plan, plus simple interest at the rate of four percent (4 percent) per year, or benefit payments until his or her own death equal to the benefit payments the deceased member would have received had he or she retired on the day of his or her death having selected to receive his or her annuity as joint and last survivor, whereby the retired member shall receive a reduced monthly benefit for life, and following the retired member's death, the same monthly benefit is paid to the member's designated beneficiary for life.

DEFERRED RETIREMENT OPTION PLAN (DROP)

This option is available to all Plan members hired before July 15, 2009 and it must be elected on or after the member attains the age of 55, with at least 10 years of creditable service, or 25 years of creditable service, regardless of age, but prior to the completion of 30 years of creditable service. The maximum participation in the DROP is 60 full months or until the member's creditable service plus DROP participation period equals 32 years. Members of the AFSCME General Bargaining unit entering the DROP on or after May 1, 2006 are required to sign an irrevocable election to separate from City employment at the conclusion of their DROP participation period. This same requirement applies to the AFSCME Professional and Supervisory Bargaining unit members entering the DROP on or after July 1, 2007. Members hired on or after July 15, 2009 and General Fund plan members hired on or after October 1, 2011 shall not be eligible to participate in the DROP. Any General Fund member of the Plan who did not enter the DROP on or before September 30, 2011 shall not be eligible to participate in the DROP.

A Plan member's creditable service, accrued benefits and compensation calculation are frozen upon participation in the DROP. The monthly benefit amount is calculated based on creditable service, average monthly compensation, and retirement option selected. Average monthly compensation is based on the three highest consecutive years of employment preceding participation in the DROP.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

DEFERRED RETIREMENT OPTION PLAN (DROP) (CONTINUED)

Upon commencement of participation in the DROP, the member's contribution and the City's contribution to the Plan for the member cease as the member will not earn further creditable service for pension purposes. For each member electing participation in the DROP, an individual DROP account shall be created. Payment shall be made by the Plan into the member's DROP account in an amount equal to the normal monthly retirement benefit, which the member would have received had the member separated from service and commenced receipt of pension benefits. Payments received by the member in the DROP account are tax deferred. Effective July 1, 2006 for Plan members included in the AFSCME General bargaining unit, May 1, 2007 for Plan members included in the AFSCME professional and supervisory units, and July 1, 2007 for Plan members not included in any bargaining unit, DROP payments shall earn interest at the same rate as the net rate of investment returns on Plan assets. These amounts are included in the Plan's net position restricted for pension benefits.

Upon termination of employment, members shall receive normal monthly retirement benefits as well as their funds from the DROP account in one of the following manners:

- Lump-sum distribution, or
- Rollover of the balance to another qualified retirement Plan

DROP participation does not affect any other death or disability benefits provided to general employees under federal law, state law, City ordinance or any rights or benefits under any applicable collective bargaining agreement. As of September 30, 2016, there were 22 members in the DROP and the fair value of DROP investment was \$3,383,855 which is included in the Plan's net position.

COST-OF-LIVING ADJUSTMENT (COLA)

On an annual basis, members hired before July 15, 2009 shall receive an increase in the monthly retirement benefit of 2 percent for cost-of-living adjustment starting three years after the member retires or enters into the DROP after October 1, 1989. Plan members hired on or after July 15, 2009 and General Fund members hired on or after October 1, 2011 shall not be eligible for a COLA after the member retires.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

OTHER

Operating expenses incurred by the Plan for investment management services totaled \$1,042,312 for the year ended September 30, 2016.

Administrative expenses incurred by the Plan for expenses with the Pension Coordinator's Office, legal fees and custodian fees totaled \$348,567 for the year September 30, 2016. Administrative costs of the Plan incurred by the City were approximately \$1,390,880 for the year ended September 30, 2016, and are not reflected in the accompanying financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

INTEREST RATE RISK

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of investments. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Plan's investment policy limits interest rate risk, as a result of changes in interest rates on its investments, by attempting to match investment maturities with known cash needs and anticipated cash flow requirements.

As a means of limiting its exposure to interest rate risk, the Plan limits the majority of its debt type investments to a maximum of 10 years.

At September 30, 2016, the Plan had the following fixed income investments and maturities (\$ in thousands):

Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	6-10 Years	More Than 10 Years
U.S. Government Securities					
U.S. government agencies	\$ 13,371	\$ 309	\$ 1,886	\$ 312	\$ 10,864
U.S. treasuries	<u>23,319</u>	<u>3,909</u>	<u>9,804</u>	<u>5,970</u>	<u>3,636</u>
Total U.S. Government Securities	36,690	4,218	11,690	6,282	14,500
Corporate Bonds	<u>40,627</u>	<u>1,651</u>	<u>19,052</u>	<u>12,172</u>	<u>7,752</u>
Total Plan Fixed Income Investments	<u>\$ 77,317</u>	<u>\$ 5,869</u>	<u>\$ 30,742</u>	<u>\$ 18,454</u>	<u>\$ 22,252</u>

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

CREDIT RISK

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. U.S. government and U.S. government guaranteed securities are not considered to have credit risk.

The following table discloses credit ratings by fixed income investment type for the Plan at September 30, 2016 as applicable (\$ in thousands):

Investment	2016	
	Fair Value	Percentage of Portfolio
U.S. Government Securities	<u>\$ 36,690</u>	<u>47.24%</u>
Quality Rating of Credit Risk Debt Securities		
AAA	3,454	4.49%
AA	4,546	5.90%
A	12,357	16.05%
BBB	17,183	22.31%
BB	1,657	2.15%
B	959	1.25%
CCC	471	0.61%
Total Credit Risk of Debt Securities	<u>40,627</u>	<u>52.76%</u>
Total Plan Fixed Income Investments	<u>\$ 77,317</u>	<u>100.00%</u>

CUSTODIAL CREDIT RISK

For investments, this is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For deposits, this is the risk that in the event of the failure of the bank the Plan will not be able to recover its deposits.

As of September 30, 2016, the Plan's investments are held by third-party safekeeping custodians selected by their board of trustees and registered in the Plan's name.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK

The investment policy of the Plan contains a limitation on the amount that can be invested in any one issuer, as well as portfolio allocation ranges and maximum percentages by types of investments. At September 30, 2016, the Plan had 8.8 % and 9.8%, respectively, of Plan assets invested in Morgan Stanley – Prime Property Fund, LLC. At September 30, 2016, the Plan had 15.1% and 14.2% of Plan assets invested in Wellington Trust Company's WTC – CTF International Opportunities Portfolio. At September 30, 2016, the Plan had 7.0% and 6.4% of Plan assets invested in Frontier Capital – Frontier Capital Appreciation Fund. In addition, at September 30, 2016, the Plan had 5.6% of Plan assets invested in Brandes Non U.S. Small Cap Portfolio.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit in foreign currency. The Plan holds approximately \$60,000,000 in international investments representing foreign currency risk. This amount represents approximately twenty-one percent (21%) of total pension investments.

INVESTMENT VALUATION

GASB 72 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the specific characteristics of the investment.

Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1

Investments traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2

Investments not traded on an active market but for which observable market inputs are available for an asset, either directly or indirectly, as of the reporting date.

Level 3

Investments not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The Plan has established a framework to consistently measure the fair value of the funds' assets and liabilities in accordance with applicable accounting, legal and regulatory guidance. This framework has been provided by establishing a valuation policy and procedures that will provide reasonable assurance that assets and liabilities are carried at fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

Money Market Mutual Fund – Valued at the net asset value of \$1.00 per share and considered to be long-term. The mutual fund held by the Plan is open-ended and is registered with the Securities and Exchange Commission.

Government Securities – U.S government agencies and U.S treasuries are valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate Bonds – Valued using pricing models maximizing the use of observable inputs for similar bonds. This includes basing the value on yields currently available on comparable bonds of issues with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yield of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.

Domestic Stocks – Valued at the closing price reported for similar assets in active markets.

Limited Partnerships and Equity Investment Funds – Valued at market prices for similar assets in active markets.

The Plan invests in private equity investments and real estate investment funds which hold a variety of investment vehicles that do not have readily available market quotations. These investment are measured at net asset value based on its proportionate share of the value of the investments as determined by the fund manager and are valued according to methodologies which include pricing models, property valuations (appraisals), discounted cash flow models, and similar techniques. Investments measured at NAV as a practical expedient would be excluded from the fair value hierarchy because the valuation is not based on actual market inputs but rather is quantified using the investments' reported NAV as a matter of convenience.

At present the Plan does not value any of its investments using Level 3 inputs.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

The following table summarize the valuation of the Plan's investments in accordance with the above mentioned fair value hierarchy levels as of September 30, 2016:

Investment by Fair Value	September 30, 2016	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Mutual Funds	\$ 4,680,053	\$ 4,680,053	\$ --	\$ --
U.S. Government Treasuries	23,318,960	23,627,975	--	--
U.S. Government Agencies	13,371,145	--	13,062,130	--
Corporate Bonds	40,627,130	--	40,627,130	--
Domestic Stocks	17,957,790	16,660,799	1,296,991	--
Large Cap Equity Investment Fund	69,862,363	--	69,862,363	--
International Equity Investment Fund	60,092,227	--	60,092,227	--
Limited Partnerships	<u>20,220,732</u>	<u>--</u>	<u>20,220,732</u>	<u>--</u>
Total Investments by Fair Value Level	250,130,400	<u>\$ 44,968,827</u>	<u>\$ 205,161,573</u>	<u>\$ --</u>
Investments Measured at the Net Asset Value (NAV)				
Private Equity Investment Funds	4,087,590			
Real Estate Investment Funds	<u>35,471,400</u>			
Total Investments Measured at NAV	<u>39,558,990</u>			
Total Investments	<u>\$ 289,689,390</u>			

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

Investments Measured at NAV	September 30, 2016	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Investment Funds				
NB Crossroads Fund XXI - Asset Allocation, LP	\$ 4,087,590	\$ 15,800,000	Indefinite	N/A
HarbourVest Dover Fund IX, LP	--	10,000,000	Indefinite	N/A
Total Investments in Private Equity Funds	<u>4,087,590</u>	<u>25,800,000</u>		
Real Estate Investment Funds				
Morgan Stanley - Prime Property Fund, LLC	25,648,203	--	Quarterly	90 Days
Principal Enhanced Property Fund, LP	9,823,197	--	Quarterly	90 Days
Total Investments in Real Estate Funds	<u>35,471,400</u>	<u>--</u>		
Infrastructure Investment Fund				
IFM Global Infrastructure Investment Fund	--	10,000,000	Anytime	Up to 3 month redemption period
Total Investments Measured at NAV	<u>\$ 39,558,990</u>	<u>\$ 35,800,000</u>		

NB Crossroads Fund XXI - Assets Allocation, LP was formed in January 15, 2015 as a Delaware limited partnership for the purpose of acquiring, holding, selling and exchanging, either directly or indirectly, interest in limited partnerships or other pooled investment vehicles that are organized to make investments in large-cap buyout, mid-cap buyout, special situations and venture/growth capital investment funds, as well as securities, including co-investments. The general partner of the fund uses the best information it has reasonably available to determine or estimate fair value. Valuations of the investments are reviewed and approved quarterly by the general partner. Valuation methods employed are comparable public company valuation, comparable transaction valuation analysis and other methodologies, as appropriate. At September 30, 2016 the Plan had a remaining unfunded commitment balance of \$15.8 million.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

HarbourVest Dover Fund TX, LP is a closed-end fund. The goal is to provide investors with attractive risk adjusted returns by leveraging the firm's proven strategy of constructing a well diversified portfolio of secondary investments with a focus on the less efficient segments of the secondary market. HarbourVest's investment and accounting teams measure fair value on a quarterly basis. The following methods are used for partnership investments fair value principles and are applied by managers in their financial reports in accordance with U.S. GAAP; publicly traded and quoted securities shall be valued at the closing price at the end of the valuation period; for non-marketable securities and direct investments the value is most likely to be an existing price in an orderly arm's length transaction between market participants as of the valuation date, using one of the acceptable valuation methods under U.S. GAAP (Guideline Company Method, Similar Transaction Method or Discounted Cash Flow). At September 30, 2016, the Plan has not invested in the fund but has committed to fund \$10 million.

Principal Enhanced Property Fund, LP is an open-end fund that will seek to make investments in stabilized, income producing assets, plus value-added and development projects in accordance with the investment guidelines. All properties invested in at September 30, 2016 were located throughout the United States. Principal will use a third-party appraisal firm, with approximately 25% of the portfolio appraised each quarter. Principal will use the appraised value and updated quarterly valuations for purpose of determining the fund's gross asset value and net asset value. The fair value of the investment in this fund has been determined using the NAV per unit of the ownership interest in the partners' capital.

Morgan Stanley Prime Property Fund, LLC (The Fund) is an open-end fund established for the purpose to acquire, own, hold for investment and ultimately dispose of investments in real estate and real estate related assets with the intention of achieving current income, capital appreciation or both. All properties invested in as September 30, 2016 were located throughout the United States. An independent appraiser will perform quarterly appraisals of the Funds underlying properties and is reviewed by asset managers. The Fund determines individual investment values based on such appraisals. These processes are designed to assure that valuation is prepared using reasonable inputs and assumptions which are consistent with market data or with assumptions that would be used by a third party participant and assume highest and best use of the real estate investment. The fair value of the investment in this Fund has been determined using the NAV per unit of the ownership interest in the fund.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

IFM Global Infrastructure Investment Fund seeks to acquire and maintain a well-diversified portfolio of infrastructure investments. The strategy is to subject investment decisions to rigorous fundamental analysis and a disciplined investment process. The goal is to construct and maintain portfolios which consist of long-term, core infrastructure assets. Infrastructure investments are valued at the end of each quarter by independent valuation firms. The valuation method is employed for each asset at the discretion of the appointed independent valuer but must fall within the standards prescribed under AASB 139, U.S. GAAP ASC 820 and ASC 825 as appropriate. IFM Investors' infrastructure investments are typically valued on a discounted cash flow approach by the independent valuers. Discount rates are also determined by the valuer. Valuations are cross-checked with public market information and recent transactions. At September 30, 2016, the Plan had not invested in the Fund, but was committed to fund \$10 million.

RATE OF RETURN

For the fiscal year ended September 30, 2016, the annual-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.53%. The money-weighted rate of return expresses investment performance, net of investment manager and consultant expenses adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculation are determined on a monthly basis.

NOTE 4 – DUE TO / FROM BROKER

The "Due to broker" balances of \$62,785 represents investments purchased, for which the sale has not reached the settlement date at September 30, 2016.

NOTE 5 – CITY'S NET PENSION LIABILITY

The components of the net pension liability for the City (employer) at September 30, 2016 are as follows:

Total Pension Liability	\$ 443,427,406
Less: Plan fiduciary net position	<u>(289,742,276)</u>
Net Pension Liability	<u>\$ 153,685,130</u>
Plan Fiduciary Net Position as a % of the Total Pension Liability	65.34%

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 5 – CITY’S NET PENSION LIABILITY (CONTINUED)

The total pension liability was determined by an actuarial valuation as of October 1, 2015 with updated asset information as of September 30, 2016, using the following actuarial assumptions in the measurement:

Actuarial Assumptions

Assumed rate of return on investments	7.8% per annum
Annual salary increases	3.0% to 8.0% depending on service, including inflation
Inflation rate	2.50%
Cost-of-living adjustments	2% per year for those members hired on or before July 15, 2009

Mortality rates for 2016 were based on the RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected to 2016 using Scale AA.

LONG-TERM EXPECTED RATE OF RETURN

The long-term expected rate of return on pension plan investments are developed for each major asset class by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of September 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rates of Return</u>
Fixed Income	1.72%
Domestic Equity	6.62%
International Equity	7.30%
Real Estate	4.46%
Private Equity	11.27%
Infrastructure	6.32%

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

NOTE 5 – CITY'S NET PENSION LIABILITY (CONTINUED)

DISCOUNT RATE

A single discount rate of 7.80% was used to measure the City's total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the total actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.80%) was applied to all periods of projected benefit payments to determine the City's total pension liability.

The following table illustrates the impact of discount rate sensitivity on the net pension liability as of September 30, 2016:

	1% Decrease (6.80%)	Current Rate (7.80%)	1% Increase (8.80%)
City's Net Pension Liability	<u>\$ 199,298,524</u>	<u>\$ 153,685,130</u>	<u>\$ 114,992,502</u>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS**

September 30,	2016	2015	2014
Total Pension Liability			
Service cost	\$ 4,493,709	\$ 4,587,285	\$ 4,152,898
Interest	33,373,524	33,065,052	32,492,291
Benefit payments	665,893	--	--
Differences between expected and actual experience	1,986,958	1,839,725	333,165
Changes of assumptions	4,147,745	4,976,256	--
Benefit payments	(38,120,910)	(31,649,219)	(28,191,052)
Refunds	(271,849)	(434,468)	(231,708)
Net Change in Total Pension Liability	<u>6,275,070</u>	<u>12,384,631</u>	<u>8,555,594</u>
Total Pension Liability - Beginning	<u>437,152,336</u>	<u>424,767,705</u>	<u>416,212,111</u>
Total Pension Liability - Ending	<u>\$ 443,427,406</u>	<u>\$ 437,152,336</u>	<u>\$ 424,767,705</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 9,767,849	\$ 23,216,393	\$ 23,160,583
Contributions - Non-employer Contributing Entity	10,433	8,469	--
Contributions - member	3,088,620	2,604,831	2,671,277
Net investment income	29,224,225	5,108,678	28,051,900
Benefit payments	(38,120,911)	(31,649,219)	(28,191,052)
Refunds	(271,849)	(434,468)	(231,708)
Administrative expense	(298,730)	(287,053)	(282,797)
Net Change in Plan Fiduciary Net Position	<u>3,399,637</u>	<u>(1,432,369)</u>	<u>25,178,203</u>
Plan Fiduciary Net Position - Beginning	<u>286,342,639</u>	<u>287,775,008</u>	<u>262,596,805</u>
Plan Fiduciary Net Position - Ending	<u>\$ 289,742,276</u>	<u>\$ 286,342,639</u>	<u>\$ 287,775,008</u>
Net Pension Liability - Ending	<u>\$ 153,685,130</u>	<u>\$ 150,809,697</u>	<u>\$ 136,992,697</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.34%	65.50%	67.75%
Covered Employee Payroll	\$ 38,607,750	\$ 32,560,388	\$ 33,390,963
Net Pension Liability as a Percentage of Covered-Employee Payroll	398.07%	463.17%	410.27%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

**CITY OF HOLLYWOOD, FLORIDA
EMPLOYEES' RETIREMENT FUND**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	10.53%	1.60%	10.95%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

COMPLIANCE REPORT

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees and Plan Administrator
City of Hollywood, Florida Employees' Retirement Fund

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Hollywood, Florida Employees' Retirement Fund (the Plan), as of and for the year ended September 30, 2016, and related notes to the financial statements, and have issued our report thereon dated June 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Fort Lauderdale, FL
June 19, 2017