

City of Hollywood, Florida Employees' Retirement Fund

Financial Report
September 30, 2015

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of fiduciary net position of the City of Hollywood, Florida Employees' Retirement Fund (the Plan) as of September 30, 2015 and 2014, and the statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 fiduciary net position of the City of Hollywood, Florida Employees' Retirement Fund as of September 30, 2015 and 2014, and the respective changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *pension schedules* as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 reports dated September 23, 2016 and October 6, 2015 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, and grant agreements and other matters. The purpose of those reports 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. Those reports are 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.

RSM US LLP

Fort Lauderdale, Florida
September 23, 2016

**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 years ended September 30, 2015 and 2014. 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, 2015 and 2014 by \$286,342,639 and \$287,775,008 (reported as net position held in trust for pension benefits), respectively. Net position is held in trust to meet future benefit payments. The *Schedule of Employer's Net Pension Liability* of the Plan is disclosed in the required supplementary information in this report.
- As of September 30, 2015, liabilities decreased by \$927,002 (or 52.1%) primarily as a result of reduction in amounts due to brokers. As of September 30, 2014, liabilities increased by \$1,269,484 (or 249%) primarily as a result of amounts due to brokers.
- For the fiscal year ended September 30, 2015, employer contributions to the Plan amounted to \$23,216,393, an increase of \$55,810 (or 0.2%) over fiscal year 2014. In fiscal year 2015, the City made contributions in excess of the actuarially determined amount of \$22,367,687, in order to reduce interest accruing on the Plan's unfunded net pension liability. For the fiscal year ended September 30, 2014, employer contributions to the Plan amounted to \$23,160,583, an increase of \$6,480,768 (or 38.9%) over fiscal year 2013.
- 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, 2014, employee contributions were \$2,671,277, an increase of \$30,729 (or 1.2%) over the prior year as a result of higher overall pensionable earnings of plan members offset by a decrease of the member contribution rate from 9% to 8%.
- For the fiscal year ended September 30, 2015, net investment income decreased by \$22,944,839 (or 81.6%) to \$4,821,625 net of investment expenses of \$1,204,418 in comparison to fiscal year 2014. Gross return on plan assets in 2015 was 2.1% versus 10.5% in 2014, generating the decrease noted. For fiscal year ended September 30, 2014, net investment income decreased by \$3,903,996 (or 12.3%) to \$31,673,099 net of investment expenses of \$909,974 in comparison to fiscal year 2013. Gross return on plan assets in 2014 was 10.51% versus 13.03% in 2013, generating the decrease noted.
- 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. For the fiscal year ended September 30, 2014, benefit payments, administrative expenses and refund of contributions increased by \$3,607,458 (or 14.3%) to \$28,765,183 over fiscal year 2013.

Plan Highlights

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. For the fiscal year ended September 30, 2014, the relative gross gain of the portfolio was 11.19% for the trailing year exceeding the policy index for a portfolio with a similar composition of 9.80%, with net investment gain of \$28,111,526 for the year.

**City of Hollywood, Florida
Employees' Retirement Fund**

Management's Discussion and Analysis

Using the Audited Financial Statements

The financial statements, which reflect the activities of the Plan, are reported in the statements of plan net position and the statements of changes in plan 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.

Statements of Plan Net Position

The following condensed comparative statements of plan net position demonstrate the investment position of the Plan at September 30th (in thousands):

	2015	2014	2013
Cash and short-term investments	\$ 13,300	\$ 11,595	\$ 7,259
Investments	273,472	277,570	255,449
Receivables	424	390	400
Total assets	287,196	289,555	263,108
Liabilities	853	1,780	-
Net position held in trust for pension benefits	\$ 286,343	\$ 287,775	\$ 263,108

**City of Hollywood, Florida
Employees' Retirement Fund**

Management's Discussion and Analysis

Statements of Changes in Plan Net Position

The statement of changes in plan 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 year ended September 30th (in thousands):

	2015	2014	2013
Additions:			
Contributions:			
City	\$ 23,216	\$ 23,161	\$ 16,680
Participants	2,613	2,671	2,641
Total contributions	25,829	25,832	19,321
Net investment income	5,167	28,111	32,001
Total additions	30,996	53,943	51,322
Deductions:			
Pension benefits	31,649	28,191	24,588
Administrative expenses	345	342	328
Refund of contributions	434	232	242
Total deductions	32,428	28,765	25,158
Net increase (decrease)	(1,432)	25,178	26,164
Net position held in trust for pension benefits, beginning of year	287,775	262,597	236,433
Net position held in trust for pension benefits, end of year	\$ 286,343	\$ 287,775	\$ 262,597

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, net of deductions, for the fiscal year ended September 30, 2015 decreased from those of fiscal year ended September 30, 2014. Actual returns for the fiscal year ended September 30, 2014 decreased from those of fiscal year ended September 30, 2013.

The changes in 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, 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 cash and cash equivalents comprised 4.6% (\$13,299,786). Real estate partnerships comprised 12.7% (\$36,454,048) and international equities comprised 19.2% (\$55,043,165).

At September 30, 2014 the domestic equity portion comprised 49.9% (\$144,174,903) of the total portfolio. The allocation to fixed income securities was 23.2% (\$67,024,845), while cash and cash equivalents comprised 4.0% (\$11,593,907). Real estate partnerships comprised 8.4% (\$24,193,184) and international equities comprised 14.6% (\$42,177,315).

The target asset allocation ranges as of September 30, 2015 and 2014, were as follows:

<u>Asset Class</u>	<u>Asset Allocation</u>
Domestic equities	27.5 – 57.5%
Fixed income	22.5 – 42.5%
International equities	10 – 20%
Real estate	5 – 15%

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.

**City of Hollywood, Florida
Employees' Retirement Fund**

**Statements of Plan Net Position
September 30, 2015 and 2014**

	2015	2014
Assets:		
Cash and short-term investments	\$ 13,299,786	\$ 11,594,829
Investments:		
U.S. government agencies	11,299,698	27,287,418
U.S. treasuries	29,093,411	10,511,648
Corporate bonds	36,673,437	29,225,779
Corporate stocks	17,639,277	19,534,097
Equity index fund – mutual funds	-	98,371,401
Partnership	26,659,300	26,269,405
Real estate investment trust	28,030,172	24,193,184
Collective funds trusts	124,076,428	42,177,315
Total investments	273,471,723	277,570,247
Receivables:		
Accrued interest and dividends	420,584	389,938
Accounts receivable	3,550	-
Total assets	287,195,643	289,555,014
Liabilities:		
Accrued expenses	233,966	178,564
Due to brokers	577,031	1,421,841
Due to City of Hollywood	42,007	179,601
Total liabilities	853,004	1,780,006
Net position held in trust for pension benefits	\$ 286,342,639	\$ 287,775,008

See notes to financial statements.

**City of Hollywood, Florida
Employees' Retirement Fund**

**Statements of Changes in Plan Net Position
Fiscal Years Ended September 30, 2015 and 2014**

	2015	2014
Additions:		
Contributions:		
City	\$ 23,216,393	\$ 23,160,583
Local	8,469	-
Participants	2,604,831	2,671,277
Total contributions	25,829,693	25,831,860
Investment income:		
Net appreciation in fair value of plan investments	645,342	24,657,322
Interest and dividends	5,380,701	4,255,627
	6,026,043	28,912,949
Less: investment expense	(859,356)	(801,423)
Net investment income	5,166,687	28,111,526
Total additions	30,996,380	53,943,386
Deductions:		
Pension benefits paid	31,649,219	28,191,052
Administrative expenses	345,062	342,423
Refunds of contributions to participants	434,468	231,708
Total deductions	32,428,749	28,765,183
Net increase in plan net position	(1,432,369)	25,178,203
Net position held in trust for pension benefits, beginning of year	287,775,008	262,596,805
Net position held in trust for pension benefits, end of year	\$ 286,342,639	\$ 287,775,008

See notes to financial statements.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 1. 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 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% of compensation until March 15, 2014, when it changed to a rate of 8%. 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 years 2015 and 2014 are 84% and 68% of annual covered payroll, respectively. 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.

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, 2015. For further information on the City, see the City's CAFR.

At October 1, 2014 and 2013, membership in the Plan consisted of:

	October 1	
	2014	2013
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	1,112	1,091
Current employees:		
Vested	393	436
Nonvested	144	80
Total current employees	537	516
Total all plan participants	1,649	1,607

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 1. Plan Description (Continued)

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% 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% 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% (2%) 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% (2%) 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.
- Contributions for these employees will increase to eight% (8%) of compensation on October 1, 2009 and then to nine% (9%) 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% 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% for creditable years of service prior to the date the member started contributions, and currently a benefit accrual rate of 3% for creditable years of service after the date the member started contributions.
- Employees who retire after September 30, 1998 will receive a benefit of 3% of average monthly salary with a maximum benefit equal to 81% of average monthly salary. Any former noncontributory member who does not "buy-back" previous service is subject to a 1% 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% benefit rate for service prior to July 1, 1999.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 1. Plan Description (Continued)

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% (2.5%) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81%) 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.

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% (2.5%) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81%) 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% (9%) 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.

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.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 1. Plan Description (Continued)

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% 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% the product of 3% 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:

- (1) 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.
- (2) Vesting period is seven (7) years of credited service
- (3) Upon reaching normal retirement date, a General Fund member is entitled to a normal retirement benefit of 2% of average final compensation for each year of credited service, up to a maximum of 81% of average final compensation.
- (4) 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
- (5) Eligibility for non-duty disability benefits shall commence after completing seven (7) years of credited service
- (6) General Fund member is not eligible to participate in the DROP
- (7) General Fund members will not be eligible for a COLA.
- (8) 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% 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% 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

Note 1. 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 fund, plus simple interest at the rate of four% (4%) 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.

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 held in trust for pension benefit.

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

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 1. Plan Description (Continued)

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. At October 1, 2014 and 2013, there were 108 and 134 DROP participants, respectively.

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% 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.

Other: Operating expenses incurred by the Plan for investment management services totaled \$859,356 and \$801,423 for the fiscal years ended September 30, 2015 and 2014, respectively.

Administrative expenses incurred by the Plan for the Pension Coordinator's Office, legal fees and custodian fees totaled \$345,062 and \$342,423 for fiscal years September 30, 2015 and 2014, respectively. Administrative costs of the Plan incurred by the City were approximately \$97,632 and \$65,409 for the years ended September 30, 2015 and 2014, respectively, and are not reflected in the accompanying financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The financial statements are prepared using the accrual basis of accounting. Contributions from members are recorded in the period 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 years 2015 and 2014, the City remitted the balance of the required contribution in a lump sum during October 2014 and December 2013, respectively, 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

Note 2. Summary of Significant Accounting Policies (Continued)

The actuarial present value of accumulated Plan benefits are prepared based on certain assumptions pertaining to discount rates, investment returns, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is reasonably possible that changes in this estimate and assumptions in the near term could be material to the financial statements.

Cash and cash equivalents: The Plan considers all highly liquid investments, with original maturities of three (3) months or less when purchased, to be cash equivalents.

Investments: 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 investment pools are valued at amortized cost, which approximates fair value.

The Pooled Investment Funds of the Plan are valued as follows:

- Alternative investments are investments in the real estate investment trusts (REIT) where no readily ascertainable market value exists, management, in consultation with the REIT manager and investment advisors have determined the fair value of the REIT based upon the REIT's most recent available information. The REIT is valued based on the values of real estate properties and real estate properties held in underlying partnerships, giving consideration to the income, cost and sales comparison approaches of estimating property value. The values for operating companies in the partnership have been prepared giving consideration to market capitalization rates and projected income streams.
- Partnerships are valued based on the fair value of investments held by the Partnership which are measured using inputs which represents unadjusted quoted prices in active markets that the General Partner has the ability to access at the Plan's net position date.
- All other pooled investment funds (Collective Fund Trust, Equity Index Fund – Mutual Funds, and Equity Securities) are valued based on the underlying fair value of the investments (mutual funds, stocks, debt obligations, etc.) held in the pool.

The Plan's pooled investments are valued based on the net asset value of the respective pooled investment fund.

Realized and unrealized gains and losses are reported as net appreciation (depreciation) in fair value of investments on the statements of changes in plan net position along with 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.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The investment policy is determined by the board of trustees and is implemented by investment advisors. At September 30, 2015, 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 57.5% of the total plan assets;
- Fixed income investments, provides that no one issuer of these obligations is more than 5% 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% 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 20.0% 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 15.0% of plan investments, as determined by the Board of Trustees in consultation with the investment consultant.
- 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 ranges as of September 30, 2015 and 2014, were as follows:

<u>Asset Class</u>	<u>Asset Allocation</u>
Domestic equities	27.5 – 57.5%
Fixed income	22.5 – 42.5%
International equities	10 – 20%
Real estate	5 – 15%

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

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to 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, 2015, the Plan had the following fixed income investments and maturities:

	Fair Value	Investment Maturities (in thousands)			
		1 Year	1 – 5 Years	6 – 10 Years	More Than 10 Years
U.S. government securities:					
U.S. government agencies	\$ 11,300	\$ 431	\$ 622	\$ 348	\$ 9,899
U.S. treasuries	29,093	6,783	14,442	4,088	3,780
Total U.S. government securities	40,393	7,214	15,064	4,436	13,679
Corporate bonds	36,673	1,672	17,862	11,344	5,795
Total plan fixed income investments	\$ 77,066	\$ 8,886	\$ 32,926	\$ 15,780	\$ 19,474

At September 30, 2014, the Plan had the following fixed income investments and maturities:

	Fair Value	Investment Maturities (in thousands)			
		1 Year	1 – 5 Years	6 – 10 Years	More Than 10 Years
U.S. government securities:					
U.S. government agencies	\$ 10,512	\$ -	\$ 1,433	\$ 819	\$ 8,260
U.S. treasuries	27,287	7,061	11,021	5,706	3,499
Total U.S. government securities	37,799	7,061	12,454	6,525	11,759
Corporate bonds	29,226	919	13,122	9,971	5,214
Total plan fixed income investments	\$ 67,025	\$ 7,980	\$ 25,576	\$ 16,496	\$ 16,973

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

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 30th as applicable (in thousands):

	2015		2014	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. government guaranteed	\$ 40,393	52.41%	\$ 37,799	56.40%
Quality rating of credit risk debt securities:				
AAA	3,657	4.75%	-	0.00%
AA	5,105	6.62%	6,513	9.72%
A	13,213	17.15%	11,524	17.19%
BBB	12,266	15.91%	10,860	16.20%
BB	808	1.04%	329	0.49%
B	1,222	1.59%	-	0.00%
CCC	402	0.53%	-	0.00%
Total credit risk of debt securities	36,673	47.59%	29,226	43.60%
Total plan fixed income securities	\$ 77,066	100.00%	\$ 67,025	100.00%

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.

The Plan's policy requires that time deposits made at banks must be made with Qualified Public Depositories in accordance with Chapter 280, Florida Statutes. The Plan deposits funds only in Qualified Public Depositories which have deposit insurance under the provision of the FDIC. As of September 30, 2015 and 2014, the Plan's bank deposits were in Qualified Public Depositories and as such the deposits were not exposed to custodial credit risk.

As of September 30, 2015 and 2014, 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

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, 2015 and 2014 the Plan had 9.8% and 8.4%, respectively, of plan assets invested in Morgan Stanley – Prime Property Fund, LLC. At September 30, 2015 and 2014, the plan had 14.2% and 14.6% of plan assets invested in Wellington Trust Company's WTC – CTF International Opportunities Portfolio. At September 30, 2015 and 2014, the plan had 6.4% and 6.6% of plan assets invested Frontier Capital – Frontier Capital Appreciation Fund. At September 30, 2015, the Plan had 5.0% of plan assets invested in Brandes Non US 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's pro rata share in commingled equity investment funds exposes it to foreign currency risk as follows (in thousands):

	2015		2014
	Fair		Fair
	Value		Value
Currency:			
Euro	\$ 14,436	\$	12,273
British pound	7,491		6,314
Japanese yen	9,572		8,760
Swiss franc	3,539		4,230
Canadian dollar	2,773		2,109
Brazilian real	967		4
Australian dollar	27		-
Hong Kong dollar	2,206		1,295
Korean won	1,109		806
Indian rupee	2,782		734
Taiwan dollar	587		342
Norwegian krone	-		38
Singapore dollar	6		-
Swedish Krona	925		721
Mexican Peso	325		55
Danish Krone	305		105
Egyptian Dollar	1		-
Israeli Shekel	129		-
Hungarian Forint	253		-
Turkish Lira	84		-
Total	\$ 47,517	\$	37,786

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 3. Deposits and Investments (Continued)

Pooled investment funds were comprised of the following types of investments as of September 30, 2015 and 2014:

Description	Balance	
	2015	2014
Equity Index Fund – Mutual Funds	\$ -	\$ 98,371,401
Partnership	26,659,300	26,269,405
Real Estate Investment Trust	28,030,172	24,193,184
Collective Funds Trusts	124,076,428	42,177,315
	<u>\$ 178,765,900</u>	<u>\$ 191,011,305</u>

The Equity Index Fund seeks to provide investment results approximating the aggregate price and dividend performance of the securities included in the S&P 500 Index. The Equity Index Fund invests substantially all of its net assets in the equity securities included in the S&P 500 Index, in weightings that approximate the relative composition of the securities contained in the S&P 500 Index and in S&P 500 Index futures.

The Partnership invest in common stock of both domestic and foreign companies in the following industries – technology, healthcare, consumer discretionary, energy and related, material and processing, producer durables, financial services, and durables.

The Real Estate Investment Trust (REIT) acquires, owns, holds for investment and ultimately disposes of investments in real estate and real estate related assets with the intention of achieving current income and capital appreciation.

The Collective Funds Trusts are comprised of fund of funds that invest in both domestic and international funds, each with its own investment objective. The following funds comprise the Collective Funds Trusts – Brandes Non US Small Cap Portfolio, Collective Daily S&P 500 Equity and Wellington Trust Company. Northern Trust Investments, Inc., a wholly-owned subsidiary of The Northern Trust Company serves as trustee for the Collective Daily S&P 500 Equity.

Note 4. Due to / from Brokers

The “Due to brokers” balances of \$577,031 and \$1,421,841 represent investments purchased, for which the sale has not reached the settlement date at September 30, 2015 and 2014, respectively.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 5. Net Pension Liability

The components of the net pension liability for the City (employer) at September 30, 2015 and 2014, were as follows:

	<u>2015</u>	<u>2014</u>
Total Pension Liability	\$437,152,336	\$424,767,705
Less: Plan Fiduciary Net Position	<u>(286,342,639)</u>	<u>(287,775,008)</u>
Net Pension Liability	<u>\$150,809,697</u>	<u>\$136,992,697</u>
 Plan Fiduciary Net Position as a % of the Total Pension Liability	 65.50%	 67.75%

The total pension liability for 2015 was determined by an actuarial valuation as of October 1, 2014 with updated asset information as of September 30, 2015, using the following actuarial assumptions applied to all prior periods included in the measurement:

Actuarial Assumptions:

Assumed Rate of Return on Investments	7.9% 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

The total pension liability for 2014 was determined by an actuarial valuation as of October 1, 2013 with updated asset information as of September 30, 2014, using the following actuarial assumptions applied to all prior periods included in the measurement:

Actuarial Assumptions:

Assumed Rate of Return on Investments	8.0% per annum
Annual Salary Increases	4.0% to 9.0% depending on service, including inflation
Inflation Rate	3.50%
Cost-of-Living Adjustments	2% per year for those members hired on or before July 15, 2009

Mortality rates for 2014 and 2015 were based on the RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected to 2016 using Scale AA.

**City of Hollywood, Florida
Employees' Retirement Fund**

Notes to Financial Statements

Note 5. Net Pension Liability (Continued)

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, 2015 and 2014, are summarized in the following table:

Asset Class	Real Rates of Return	
	2015	2014
Fixed Income	1.72%	1.56%
Domestic Equity	6.62%	6.55%
International Equity	7.30%	7.23%
Real Estate	4.46%	4.40%

The discount rate used to measure the total pension liability was 7.9% and 8.0% for 2015 and 2014, respectively. The projection of cash flows used to determine the discount rate assumes plan members will contribute at the current contribution rate and the City will continue to make future contributions at the actuarially determined contribution rate. Based on those 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 was applied to all periods of projected benefit payments to determine the total pension liability.

The following table illustrates the impact of discount rate sensitivity on the net pension liability as of September 30, 2015:

	1% Decrease (6.90%)	Current Rate (7.9%)	1% Increase (8.9%)
Net Pension Liability	\$ 193,921,722	\$ 150,809,697	\$ 112,436,034

For the year ended September 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 1.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6. Deferred Retirement Option Program (DROP) Balances

The Plan includes terms that permit Plan members to be credited for benefit payments into an individual member account within the Plan while continuing to provide services to the employer and to be paid a salary. The balance of the amounts held by the pension plan pursuant to the DROP as of September 30, 2015 and 2014 was \$13,639,383 and \$15,295,545, respectively.

Required Supplementary Information

**City of Hollywood, Florida
Employees' Retirement Fund**

Required Supplementary Information (unaudited)

Schedule of changes in the employer's net pension liability and related ratios

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service Cost	\$ 4,587,285	\$ 4,152,898
Interest	33,065,052	32,492,291
Difference Between Actual and Expected Experience	1,839,725	333,165
Assumption Changes	4,976,256	-
Benefit Payments	(31,649,219)	(28,191,052)
Refunds of Contributions	(434,468)	(231,708)
Net Change in Total Pension Liability	12,384,631	8,555,594
Total Pension Liability – Beginning	424,767,705	416,212,111
Total Pension Liability – Ending	437,152,336	424,767,705
 Plan Fiduciary Net Position		
Contributions – City	23,216,393	23,160,583
Contributions – Member	2,604,831	2,671,277
Net Investment Income	5,108,678	28,111,526
Benefit Payments	(31,649,219)	(28,191,052)
Refunds of Contributions	(434,468)	(231,708)
Administrative Expense	(287,053)	(342,423)
Other Charges	8,469	-
Net change in Plan Fiduciary Net Position	(1,432,369)	25,178,203
Plan Fiduciary Net Position – Beginning	287,775,008	262,596,805
Plan Fiduciary Net Position – Ending	286,342,639	287,775,008
 Net Pension Liability – Ending	\$ 150,809,697	\$ 136,992,697
 Plan Fiduciary Net Position as a Percentage of Total Pension Liability	65.50%	67.75%
Covered Employee Payroll	41,288,525	41,160,929
Net Pension Liability as a Percentage of Covered Employee Payroll	365.26%	332.82%

Notes to Schedule:

This Schedule is presented to illustrate the requirements of GASB 67. Currently, only data for fiscal years ending September 30, 2015 and 2014 are available.

City of Hollywood, Florida

**Employee's Retirement Fund
Required Supplementary Information (unaudited)**

Schedule of Investment Return

The annual money-weighted rate of return, net of investment expense for the pension plan is shown below:

<u>Fiscal Year</u>	<u>Employees Retirement Fund</u>
2015	1.60%
2014	10.95%

Note to schedule: The schedule is presented to illustrate the requirements of GASB 67. Currently, only data for fiscal years ending September 30, 2015 and 2014 are available.

City of Hollywood, Florida

**Employee's Retirement Fund
Required Supplementary Information (unaudited)**

Schedule of Employer Contributions:

Year	2015	2014
Actuarially Determined Contribution	\$ 20,230,240	\$ 19,834,090
Contribution Made**	<u>(23,224,862)</u>	<u>(23,160,583)</u>
Contribution Deficiency (Excess)	<u>\$ (2,994,622)</u>	<u>\$ (3,326,493)</u>
 Covered Payroll	 \$ 41,288,525	 \$ 41,160,929
 Contribution as a Percentage of Covered Employee Payroll	 56.25%	 56.27%

** Includes local contributions of \$8,469.

The following actuarial methods and assumptions were used to determine contribution rates reported in this schedule for fiscal year 2015:

Valuation Date	10/01/13
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Smoothed Market

Actuarial Assumptions:

Investment Rate of Return	8%
Assumed Annual Salary Increase	4.0% to 9.0%, Depending on service, including inflation
Inflation	2.50%
Cost-of-Living Adjustment	Not applicable
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality Rates	RP-2000 Combined Health Participant Mortality Table

Note to schedules:

- (1) The schedules are presented to illustrate the requirements of GASB 67. Currently, only data for fiscal years ending September 30, 2015 and 2014 are available.
- (2) Actuarially determined contributions are calculated as of October 1st, which is two years prior to the end of the fiscal year in which contributions are reported.

Other Reports

**Independent Auditor's 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**

The Board of Trustees
City of Hollywood, Florida Employees' Retirement Fund
Hollywood, Florida

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 statement of fiduciary net position of the City of Hollywood, Florida Employees' Retirement Fund (the Plan) as of September 30, 2015, and the statement of changes in fiduciary net position for the year then ended, and related notes to the financial statements, and have issued our report thereon dated September 23, 2016, which contained an unmodified opinion on those financial statements.

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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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.

RSM US LLP

Fort Lauderdale, Florida
September 23, 2016