

**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, 2018

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

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Executive Director
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, 2018, 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 respective financial position of the Plan as of September 30, 2018, and the respective 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

We have previously audited the City of Hollywood, Florida Employee's Retirement Fund 2017 financial statements, and our report dated June 29, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been 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 33 to 35 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental 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 6, 2019 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 other matters. The purpose of that report is solely 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 the effectiveness of the Plan's 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 6, 2019

**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, 2018. 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, 2018 and 2017 by \$331,176,485 and \$316,264,220 (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 and Related Ratios of the Plan is disclosed in the Required Supplementary Information in this report.
- As of September 30, 2018, liabilities increased by \$55,192 (or 9%) as compared to September 30, 2017, primarily as a result of the timing of new retiree disbursements. The amount Due to City of Hollywood represents expenses related to the Plan which are paid by the City and subsequently reimbursed by the Plan.
- For the fiscal year ended September 30, 2018, employer contributions to the Plan amounted to \$22,101,019, an increase of \$1,538,150 (or 7.5%) over fiscal year 2017. This was primarily liability losses due to greater than expected salary increases, lower retiree mortality than expected, and the lowering of the assumed rate of investment return by 0.10%. The Actuarially Determined Contribution (ADC) was \$23,189,007. There is a \$7,426,299 shortfall in actual contributions due to the City making the required contributions excluding the prefunding of the Supplemental Pension Distribution for the fiscal years ending September 30, 2015, September 30, 2016 and September 30, 2017. The City has filed a lawsuit against the Plan including the pre-funding component of the Plan's ADC, and the City has not paid this component of the ADC.
- For the fiscal year ended September 30, 2018, employee contributions were \$3,277,081, an increase of \$91,279 (or 2.9%) over the prior year as a result of higher overall pensionable earnings of plan members, when compared to the prior year.
- For the fiscal year ended September 30, 2018, net investment income decreased by \$11,545,909 (or 34.7%) to \$21,720,516. Investment expenses were \$801,156 in comparison to \$969,642 in fiscal year 2017. Gross return on plan assets in 2018 was 6.95% versus 11.50% in 2017, caused by the decrease in investment income noted.
- For the fiscal year ended September 30, 2018, benefit payments, administrative expenses and refund of contributions increased by \$1,709,171 (or 5.6%) to \$32,199,044 over fiscal year 2017 primarily due to an increase in benefit payments.
- The Notes to the Financial Statements provides additional information key to the understanding the data provided in the financial statements. They provide information on the Plan's accounting, investments, and benefits, as well as the disclosure of operational events.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

PLAN HIGHLIGHTS

For the fiscal year ended September 30, 2018, the relative gross gain of the portfolio was 6.95% for the trailing year lagging the policy index for a portfolio with a similar composition of 7.46%, with net investment gain of \$21,720,516 for the year. For the fiscal year ended September 30, 2017, the relative gross gain of the portfolio was 11.50% for the trailing year lagging the policy index for a portfolio with a similar composition of 11.73%, with net investment gain of \$33,266,424 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 net position of the Plan at September 30, (in thousands):

	<u>2018</u>	<u>2017</u>
Investments	\$331,804	\$316,672
Receivables	<u>37</u>	<u>201</u>
Total Assets	331,841	316,873
Liabilities	<u>665</u>	<u>609</u>
Net Position Held in Trust for Pension Benefits	<u>\$331,176</u>	<u>\$316,264</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):

	2018	2017
Additions		
Employer contributions	\$ 22,101	\$ 20,562
Plan member contributions	3,289	3,198
Investment income	21,721	33,266
Total Additions	47,111	57,026
Deductions		
Pension benefits	31,168	29,804
Refund of member contributions	448	166
Administrative expenses	583	519
Total Deductions	32,199	30,489
Change in Net Position	14,912	26,537
Net Position Held in Trust for Pension Benefits		
Beginning of year	316,264	289,727
End of year	\$ 331,176	\$ 316,264

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, 2018 decreased from those of fiscal year ended September 30, 2017.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSET ALLOCATION

At September 30, 2018, the domestic equity portion comprised approximately 30.40% (\$100.9 million) of the total portfolio. The allocation to fixed income securities was 26.40% (\$87.6 million), while money market funds comprised 2.19% (\$7.3 million). Real estate partnerships comprised 10.01% (\$33.2 million), international equities comprised 18.28% (\$60.7 million) and private equity investment comprised 5.97% (\$19.8 million), private debt investment comprised 6.84% (\$22.7 million), and infrastructure investments comprised 3.69% (\$12.2 million).

At September 30, 2017 the domestic equity portion comprised approximately 34.14% (\$108.1 million) of the total portfolio. The allocation to fixed income securities was 23.98% (\$76.0 million), while money market funds comprised 0.75% (\$2.4 million). Real estate partnerships comprised 11.10% (\$35.2 million), international equities comprised 22.22% (\$70.3 million) and private equity investment comprised 3.09% (\$9.8 million), private debt investment comprised 1.48% (\$4.7 million), and infrastructure investments comprised 3.23% (\$10.2 million).

The authorized investment allocation ranges as of September 30, 2018 and 2017, were as follows:

Asset Class	Asset Allocation	
	2018	2017
Domestic equities	25 - 37.5%	25 - 42.5%
Fixed income	25 - 37.5%	25 - 37.5%
International equities	15 - 25%	15 - 25%
Real estate	7 - 14%	7 - 14%
Private Equity	0 - 15%	0 - 15%
Global Infrastructure	0 - 5%	0 - 5%
Cash	0 - 5%	0 - 5%

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, 2018 and 2017 was 64.08% and 66.79%, respectively. The implementation of GASB Statement No. 67 did not impact the fiduciary net position of the Plan. The Notes to Financial Statements and the Required Supplementary Information include certain changes to the disclosures to comply with the standards. The notes and supplementary information 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, 2018	October 1, 2017
Inactive plan members and beneficiaries currently receiving benefits	1,039	1,023
Inactive plan members entitled but not yet receiving benefits	80	94
Active plan members	654	624
Total Members	<u>1,773</u>	<u>1,741</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 Executive Director, City of Hollywood Employees' Retirement Fund, 2600 Hollywood Boulevard, City Hall Annex, Room 20, Hollywood, Florida 33020.

FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2018

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2017)

	2018	2017
Assets		
Investments		
Money market mutual funds	\$ 7,271,698	\$ 2,374,293
Bond mutual fund	41,857,505	50,142,868
U.S. government agencies	--	947,232
U.S. treasuries	--	14,592,185
Fixed income composite	45,742,938	--
Corporate bonds	--	10,269,099
Domestic stocks	14,608,041	18,136,312
Limited partnerships	--	18,776,354
Large Cap equity investment fund	69,110,108	71,184,830
Small Cap equity investment fund	17,143,847	--
International equity investment fund	60,661,146	70,379,750
Private equity investment funds	19,813,939	9,786,615
Private debt investment	10,139,327	4,694,382
Infrastructure investment fund	12,241,377	10,227,788
Real estate investment funds	33,214,005	35,160,176
Total Investments	331,803,931	316,671,884
Receivables		
Accrued interest and dividends	37,138	158,031
Due from Broker	--	43,697
Total Receivables	37,138	201,728
Total Assets	331,841,069	316,873,612
Liabilities		
Accrued expenses	486,079	235,706
Due to broker	4,239	--
Due to the City of Hollywood	174,266	373,686
Total Liabilities	664,584	609,392
Net Position Restricted for Pension Benefits	\$ 331,176,485	\$ 316,264,220

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, 2018

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2017)

	2018	2017
Additions		
Contributions		
City	\$ 22,101,019	\$ 20,562,869
Local	12,694	11,722
Participants	<u>3,277,080</u>	<u>3,185,801</u>
Total Contributions	<u>25,390,793</u>	<u>23,760,392</u>
Investment Income		
Net appreciation in fair value of investments	17,515,918	29,318,589
Interest and dividends	<u>5,005,754</u>	<u>4,917,478</u>
Total Investment Income	22,521,672	34,236,067
Less: investment expenses	<u>801,156</u>	<u>969,642</u>
Net Investment Income	<u>21,720,516</u>	<u>33,266,425</u>
Total Additions	<u>47,111,309</u>	<u>57,026,817</u>
Deductions		
Pension benefits	31,167,920	29,804,293
Refund of member contributions	448,377	166,465
Administrative expenses	<u>582,747</u>	<u>519,115</u>
Total Deductions	<u>32,199,044</u>	<u>30,489,873</u>
Change in Net Position	<u>14,912,265</u>	<u>26,536,944</u>
Net Position Held in Trust for Pension Benefits		
Beginning of year	<u>316,264,220</u>	<u>289,727,276</u>
End of year	<u>\$ 331,176,485</u>	<u>\$ 316,264,220</u>

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the City of Hollywood, Florida Employees' Retirement Fund (also known as the General Employees' Retirement Fund, or the Plan) are prepared using the accrual basis of accounting. Contributions from members are recorded in the period the City of Hollywood (the City or Employer) 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 2018, the City remitted the balance of the actuarially determined contribution in a lump sum during October 2017, 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.

RISKS AND UNCERTAINTIES

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, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments are reported at fair value, except for money market mutual funds, which are reported at amortized cost.

Realized and unrealized gains and losses are reported as net appreciation 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 detailed 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, 2018, 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 37.5% 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, 2018

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 except as noted above.

The Plan's target asset allocation and authorized ranges as of September 30, 2018, were as follows:

<u>Asset Class</u>	<u>Target (%)</u>	<u>Allowable Range (%)</u>
Domestic equities	30%	25 - 37.5%
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 operated in compliance with the Internal Revenue Code and is therefore exempt from Federal income taxes.

COMPARATIVE INFORMATION

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, 2017, from which the information was derived.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 – PLAN DESCRIPTION

The City of Hollywood, Florida Employee's Retirement Fund 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 or Employer) 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 contribution rate for fiscal year 2018, which was determined by the October 1, 2016 actuarial valuation, is 63.11 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.

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, 2018. For further information on the City, please see the CAFR.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

At October 1, 2017, the date of the latest available actuarial valuation, membership in the Plan consisted of:

Inactive plan members and beneficiaries currently receiving benefits	1,039
Inactive plan members entitled but not yet receiving benefits	80
Active plan members	<u>654</u>
Total Members	<u><u>1,773</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) cost of living adjustment (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, 2018

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 Employees Hired on or After July 15, 2009

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, 2018

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

NORMAL RETIREMENT (CONTINUED)

For Employees Hired on or After July 15, 2009 (continued)

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, 2018

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, 2018

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, 2018

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, 2018

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, 2018, there were 12 members in the DROP and the fair value of DROP investment was \$1,339,000 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, 2018

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

OTHER

Investment expenses incurred by the Plan for investment management services totaled approximately \$801,000 for the year ended September 30, 2018.

Administrative expenses incurred by the Plan for expenses with the Pension Coordinator's Office, employee wages, legal fees and custodian fees totaled \$583,000 for the year September 30, 2018. Administrative costs of the Plan incurred by the City were approximately \$1,384,000 for the year ended September 30, 2018, 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, 2018, the Plan had the following fixed income investments and maturities, with the exception of the fixed income composite which have no maturity dates (\$ in thousands):

Investment	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1-5 Years	6-10 Years	More Than 10 Years
Bond Mutual Fund	\$ 41,857,505	\$ --	\$ --	\$ 41,857,505	\$ --
Total Plan Fixed Income Investments	<u>\$ 41,857,505</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 41,857,505</u>	<u>\$ --</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

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, 2018 as applicable (\$ in thousands):

Investment	2018	
	Fair Value	Percentage of Portfolio
Not Rated	\$ 41,857,505	100.00%
Total Plan Fixed Income Investments	\$ 41,857,505	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. As of September 30, 2018, the Plan's investments are held by third-party safekeeping custodians selected by their board of trustees and registered in the Plan's name.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK (CONTINUED)

At September 30, 2018, the Plan held certain investments that represent 5 percent or more of the Plan's net position. The investments included:

Investment	% of Plan Net Position
S&P 500 Index Fund – Non Lending	20.9%
Wellington Trust Company – CTF International	13.9%
Baird Core Plus Bond Fund	12.6%
Morgan Stanley – Prime Property Fund, LLC	6.8%
Neuberger Berman - Short Duration	6.1%
Extended Equity Market Index – Non Lending	5.2%

FAIR VALUE HIERARCHY

Fair value is defined as 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. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

The Plan has established a framework to consistently measure the fair value of the plan's 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.

Bond Mutual Funds – Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

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.

Fixed Income Composite – Valued by using one or more of the following methods: securities exchange quotations/listed market prices, by using pricing services, by obtaining broker-dealer quotations, using independent review of good-faith estimates of fair value through third party appraisers, and lastly by utilizing a pricing method approved by the pricing committee.

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

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 investments are measured at net asset value (NAV) based on their 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, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (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, 2018:

Investment by Fair Value	September 30, 2018	Quoted Price in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bond Mutual Funds	\$ 41,857,505	\$ 41,857,505	\$ --	\$ --
Fixed income composite	45,742,938	13,148,468	32,594,470	--
Domestic stocks	14,608,041	13,258,032	1,350,009	--
Large Cap Equity Investment Fund	69,110,108	--	69,110,108	--
Small Cap equity investment fund	17,143,847	--	17,143,847	--
International Equity Investment Fund	<u>60,661,146</u>	<u>--</u>	<u>60,661,146</u>	<u>--</u>
Total Investments by Fair Value				
Level	249,123,585	<u>\$ 68,264,005</u>	<u>\$ 180,859,580</u>	<u>\$ --</u>
Investments Measured at the				
Net Asset Value (NAV)				
Private Equity Investment Funds	19,813,939			
Private Debt Investment Fund	10,139,327			
Infrastructure Investment Fund	12,241,377			
Real Estate Investment Funds	<u>33,214,005</u>			
Total Investments Measured				
at NAV	<u>75,408,648</u>			
Money market funds (exempt)	<u>7,271,698</u>			
Total Investments	<u>\$ 331,803,931</u>			

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Investments Measured at NAV	September 30, 2018	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Private Equity Investment Funds				
NB Crossroads Fund XXI - Asset Allocation, LP	\$ 12,435,405	\$ 9,400,000	Not eligible	N/A
HarbourVest Dover Fund IX, LP	4,602,854	5,800,000	Not eligible	N/A
GoldPoint Co-Investment VI, LP	<u>2,775,680</u>	<u>7,048,373</u>	Not eligible	N/A
Total Private Equity Funds	<u>19,813,939</u>	<u>22,248,373</u>		
Private Debt Investment Funds				
AG Direct Lending Fund II LP	<u>10,139,327</u>	<u>5,160,000</u>	Not eligible	N/A
Real Estate Investment Funds				
Morgan Stanley - Prime Property Fund, LLC	22,363,991	--	Quarterly	90 Days
Principal Enhanced Property Fund, LP	<u>10,850,014</u>	--	Quarterly	90 Days
Total Real Estate Funds	<u>33,214,005</u>	<u>--</u>		
Infrastructure Investment Fund				
IFM Global Infrastructure Investment Fund	12,241,377	--	Quarterly	90 Days
Total Investments Measured at NAV	<u>\$ 75,408,648</u>	<u>\$ 27,408,373</u>		

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION

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. This fund is not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

HarbourVest Dover Fund IX, 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). This fund is not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

AG Direct Lending Fund II, L.P. is a Delaware limited partnership which commenced operations on November 14, 2016. The Partnership has been established to capitalize on investment opportunities available in middle market direct lending. The Partnership intends to provide corporate financing support to North American middle-market companies, focusing on senior secured debt and other debt instruments, including unitranche facilities, second lien debt, mezzanine loans and equity co-investments. 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. This fund is not eligible for redemption. Distributions are received as underlying investments within the funds are liquidated, which on average can occur over the span of five to ten years.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

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, 2018 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.

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, 2018 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.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT VALUATION (CONTINUED)

GoldPoint Partners Co-Investment VI, LP was formed in July 1, 2017 as a Delaware limited partnership. The Fund will seek a highly diversified portfolio of middle market transactions by primarily targeting Co-investments alongside Core Partners with fund sizes less than \$5 billion. The Fund will typically invest \$10 million to \$40 million in any given transaction, although smaller or larger investments may be made where appropriate. The Fund targets opportunities where the sponsor has relevant expertise, a quantifiable history of successful investing, and a proven ability to add tangible value to the target company. The Fund seeks to invest in companies that have proven management teams, strong and sustainable cash flows, and competitive advantages in industries with barriers to entry. A high priority will be placed on companies that have minimal exposure to cyclical downturns, a low threat of obsolescence or rapid technological change, and limited customer and geographic concentrations. The fund's limited partners include public and private pension funds, financial institutions, insurance companies, endowments, family offices and high-net worth individuals. The partners of the fund uses the best information it has reasonably available to determine or estimate fair value. Valuation methods employed are comparable public company valuation, comparable transaction valuation analysis and other methodologies, as appropriate. Redemptions are generally not permitted for this Fund.

RATE OF RETURN

For the year ended September 30, 2018, the annual-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.69%. 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 4 – CITY'S NET PENSION LIABILITY

The components of the net pension liability for the City (employer) at September 30, 2018 are as follows:

Total Pension Liability	\$ 517,242,485
Less: Plan fiduciary net position *	<u>(331,447,626)</u>
Net Pension Liability	<u>\$ 185,794,859</u>
Plan Fiduciary Net Position as a % of the Total Pension Liability	64.08%

* Amount does not agree to the Plan's fiduciary net position reflected on the statement of fiduciary net position and statement of changes in fiduciary net position as a result of a late accrual of \$271,141 made by the Plan relating to benefit payments.

The total pension liability was determined by an actuarial valuation as of October 1, 2017 with updated asset information as of September 30, 2018, using the following actuarial assumptions in the measurement:

Actuarial Assumptions

Assumed rate of return on investments	7.60% 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 Tables (MT's)	Mortality tables RP-2000 Combined Health Participant and RP-2000 Mortality Table for Annuitants, with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 50% blue collar adjustment and a 50% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates used for Regular Class members of the Florida Retirement System (FRS) in their July 1, 2016 actuarial valuation report, as mandated by Florida House Bill 1309.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 4 – CITY'S NET PENSION LIABILITY (CONTINUED)

Actuarial Assumptions (continued)

Other

The net pension liability does not reflect the 5.7% liability load to prefund the Supplemental Pension Distribution assumed to be paid, which is reflected in the October 1, 2017 actuarial valuation report.

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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rates of Return</u>
Fixed Income	1.68%
Domestic Equity	6.15%
International Equity	7.11%
Real Estate	4.90%
Private Equity	10.28%
Infrastructure	6.25%

DISCOUNT RATE

A single discount rate of 7.60% 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 7.60%. 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 (7.60%) was applied to all periods of projected benefit payments to determine the City's total pension liability.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2018

NOTE 4 – CITY'S NET PENSION LIABILITY (CONTINUED)

DISCOUNT RATE (CONTINUED)

The following table illustrates the impact of discount rate sensitivity on the net pension liability as of September 30, 2018:

	1% Decrease (6.60%)	Current Rate (7.60%)	1% Increase (8.60%)
City's Net Pension Liability	<u>\$ 241,897,529</u>	<u>\$ 185,794,859</u>	<u>\$ 138,626,154</u>

NOTE 5 – LEGAL MATTERS

The Plan is a party to legal proceedings, investigations, and claims in the ordinary course of operations. The Plan is party to a lawsuit filed by the City against the three defined benefit plans sponsored by the City. The suit seeks a declaratory judgment alleging that the Plans did not have the authority to authorize paying a supplemental pension distribution to its members. The Plan and parties to the lawsuit have filed a motion to dismiss the suit, which is currently pending. The Plan is vigorously defending the lawsuit.

The Plan records an accrual for outstanding legal matters when it believes it is probable that a loss will be incurred and the amount can be reasonably estimated. The Plan evaluates along with legal counsel, developments in legal matters that could affect the amount of any accrual and developments that would make a loss contingency both probable and reasonably estimable. If a loss contingency is not both probable and estimable the Plan does not establish an accrued liability. In the opinion of management the ultimate outcome of the claim and litigation, if any, will not have a material effect on the Plan's financial position.

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,	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 5,738,426	\$ 5,017,634	\$ 4,493,709	\$ 4,587,285	\$ 4,152,898
Interest	35,698,698	33,809,853	33,373,524	33,065,052	32,492,291
Benefit changes	--	--	665,893	--	--
Differences between expected and actual experience	2,221,979	(2,204,530)	1,986,958	1,839,725	333,165
Changes of assumptions	31,374,925	23,474,009	4,147,745	4,976,256	--
Benefit payments	(30,896,779)	(29,804,293)	(38,120,911)	(31,649,219)	(28,191,052)
Refunds	(448,377)	(166,465)	(271,849)	(434,468)	(231,708)
Net Change in Total Pension Liability	43,688,872	30,126,208	6,275,069	12,384,631	8,555,594
Total Pension Liability - Beginning	473,553,613	443,427,405	437,152,336	424,767,705	416,212,111
Total Pension Liability - Ending	<u>\$ 517,242,485</u>	<u>\$ 473,553,613</u>	<u>\$ 443,427,405</u>	<u>\$ 437,152,336</u>	<u>\$ 424,767,705</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 22,101,019	\$ 20,562,868	\$ 9,767,849	\$ 23,216,393	\$ 23,160,583
Contributions - non-employer contributing entity	12,694	11,723	10,433	8,469	--
Contributions - member	3,277,081	3,185,801	3,088,620	2,604,831	2,671,277
Net investment income	21,635,666	33,218,838	29,224,225	5,108,678	28,051,900
Benefit payments	(30,896,779)	(29,804,293)	(38,120,911)	(31,649,219)	(28,191,052)
Refunds	(448,377)	(166,465)	(271,849)	(434,468)	(231,708)
Administrative expense	(497,898)	(486,528)	(298,730)	(287,053)	(282,797)
Net Change in Plan Fiduciary Net Position	15,183,406	26,521,944	3,399,637	(1,432,369)	25,178,203
Plan Fiduciary Net Position - Beginning	316,264,220	289,742,276	286,342,639	287,775,008	262,596,805
Plan Fiduciary Net Position - Ending	* <u>\$ 331,447,626</u>	<u>\$ 316,264,220</u>	<u>\$ 289,742,276</u>	<u>\$ 286,342,639</u>	<u>\$ 287,775,008</u>
Net Pension Liability - Ending	<u>\$ 185,794,859</u>	<u>\$ 157,289,393</u>	<u>\$ 153,685,129</u>	<u>\$ 150,809,697</u>	<u>\$ 136,992,697</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.08%	66.79%	65.34%	65.50%	67.75%
Covered Payroll	\$ 40,963,513	\$ 39,822,513	\$ 38,607,750	\$ 32,560,388	\$ 33,390,963
Net Pension Liability as a Percentage of Covered Payroll	453.56%	394.98%	398.07%	463.17%	410.27%

*Amount does not agree to the Plan's fiduciary net position reflected on the statement of fiduciary net position and statement of changes in fiduciary net position as a result of a late accrual of \$271,141 made by the Plan relating to benefit payments.

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 CITY CONTRIBUTIONS

	2018	2017	2016	2015	2014
Actuarially Determined Contribution*	\$ 24,702,602	\$ 23,189,007	\$ 22,716,242	\$ 22,547,585	19,834,090
Actual Contributions**	<u>22,113,713</u>	<u>20,574,591</u>	<u>9,778,282</u> ***	<u>23,224,862</u>	<u>23,160,583</u>
Contribution Deficiency (Excess)**	<u>\$ 2,588,889</u>	<u>\$ 2,614,416</u>	<u>\$ 12,937,960</u>	<u>\$ (677,277)</u>	<u>\$ (3,326,493)</u>
Covered Payroll	\$ 40,963,513	\$ 39,822,513	\$ 38,607,750	\$ 32,560,388	\$ 33,390,963
Contributions as a Percentage of Covered Payroll	53.98%	51.67%	25.33%	71.33%	69.36%

Notes to Schedule of Contributions

* Reflects the 5.7% liability load to prefund the supplemental pension distributions starting in the fiscal year ending September 30, 2015.

** Contribution deficiency is due to the actual contributions excluding the supplemental pension distributions as a result of the litigation between the City and Plan.

*** The City accumulated prepaid employer contributions of approximately \$10.4 million as of September 2015.

Valuation Date

October 1, 2016

Actuarially determined contributions are calculated as of October 1, which is two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

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	7.70%
Assumed annual salary increase	3.0% to 8.0%, depending on service, including inflation
Inflation	2.50%
Cost-of-living adjustment	2% per year for those members hired on or before July 15, 2009
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Participant Mortality Table (for pre-retirement mortality) and the RP 2000 Mortality Table for Annuitants (for post-retirement mortality)

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

September 30,	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	6.69%	10.93%	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.

**REPORTING UNDER *GOVERNMENT*
*AUDITING STANDARDS***

**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 Executive Director
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, 2018, and related notes to the financial statements, and have issued our report thereon dated June 6, 2019.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2018-001, as well as an other matters item relating to an incorrect benefit calculation which is reflected as a management letter comment as MLC Item 2018-002.

Plan's Response to Finding

The Plan's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we expressed no opinion on it.

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 6, 2019

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

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

2018-001- NON-COMPLIANCE WITH 112.63(4), FLORIDA STATUTES

Criteria

This matter was presented in the prior year as Item 2017-001 and is repeated in FY 2018. As required by section 112.63(4), Florida Statutes, the Department of Management Services (the Department) reviews and comments on each plan's actuarial valuations at least triennially. If the Department finds that the actuarial reports are not complete, accurate, or based on reasonable assumptions, or otherwise materially fail to satisfy the statutory requirements, or if the department requires additional material information to complete its review, then the Department requests that the material error or reporting deficiency be corrected. If the plan does not provide the requested materials or correction within a reasonable period of time, the Department may take agency action to encourage compliance. For purposes of this review, the Department considers a "reasonable period of time" to be within 60 days. The Plan has been identified to be "not state accepted" for compliance with applicable statute and rules as of September 30, 2018.

When a plan is found to be "not state accepted," the Department communicates the issues to be resolved and follows up with the plan at regular intervals to ensure that the responsible parties are aware of the review status. The Department works with the plan and sponsor to facilitate appropriate responses or corrections to the actuarial reports. Consequently, the list of noncompliant plans often changes.

Condition, Cause, and Effect

The Plan is a party to lawsuit filed by the City. The suit seeks a declaratory judgment alleging that the City defined benefit plans, including the City of Hollywood, Florida Employees Retirement Fund, did not have the authority to authorize paying a supplemental pension distribution to its members. The Plan and parties to the lawsuit have filed a motion to dismiss the suit, which is currently pending. Because of the ongoing lawsuit, this condition has caused the Plan to not be in a compliance with 112.63(4), Florida Statutes by the Department due to pending results which would affect the determination if previous, current, and future actuarial valuations are accurate.

Recommendation

Marcum recommends the Plan adhere to 112.63(4), Florida Statutes.

Views of Responsible Officials and Planned Corrective Actions

See accompanying response letter.

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

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED SEPTEMBER 30, 2018

2018-002- INCORRECT BENEFIT PAYMENT CALCULATION

Criteria

All benefit payment calculations should be properly reviewed by the Executive Director of the Plan to ensure correct amounts are paid to plan members in accordance with the Plan's provisions.

When a plan is found to be "not state accepted," the Department communicates the issues to be resolved and follows up with the plan at regular intervals to ensure that the responsible parties are aware of the review status. The Department works with the plan and sponsor to facilitate appropriate responses or corrections to the actuarial reports. Consequently, the list of noncompliant plans often changes.

Condition, Cause, and Effect

As part of our audit procedures performed over the benefit payments for the Plan, Marcum selected four (4) new retirees to recalculate their benefit payments. Marcum noted that the service years for one of our selections was incorrectly calculated as the original calculation performed understated the years of service for the retiree by one (1) full year. The error in the calculation resulted in the monthly benefit payment amount being understated by approximately \$146 per month. The total underpayments made to this retiree as of the May 2019 was approximately \$2,600. As a result of this error, Marcum selected two (2) additional retirees to test and did not note any discrepancies in their benefit calculations resulting in an overall error rate of 17% (1 error out of 6 new retirees tested). This resulted from an inadequate review of the benefit calculations.

The incorrect calculation of retiree benefit payments can result in the overpayment or underpayment of lump sum and monthly benefit payments to retirees. These errors may cause unnecessary outflows of resources from the Plan or potential future claims to the Plan for recourse from retirees.

Recommendation

Marcum recommends that all new pension benefit payments established in 2018 be recalculated to ensure no other errors are evident and review internal controls to ensure that all new retiree applications are reviewed by the Plan Executive Director.

Management's Response

See accompanying response letter.



CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND

2600 Hollywood Blvd. • City Hall Annex Building, 2ND Floor, Room 20 • Hollywood, FL 33020
(954) 921-3333 • (954) 921-3332 Fax • www.hollywoodpension.com

To: Marcum Accountants and Advisors
VIA EMAIL

From: Christine Bailey
Executive Director

Date: May 14, 2019

Subject: Update - Report On The City Of Hollywood, Florida Employees' Retirement Fund
Financial Statements For The Year Ended September 30, 2017

In the abovementioned report, you cited the City of Hollywood Employees' Retirement Fund's (the "Plan") non-compliance with Section 112.63(4), of the Florida Statutes and recommended that the Plan adhere to Section 112.63(4). Our response dated June 27, 2018 was incorporated in your report and is attached hereto. The Plan concurred with your finding.

In their letter dated September 13, 2016, the Department of Management Services, Bureau of Local Retirement Systems ("DMS") advised that the non-compliance was based on the Plan's unfavorable net actuarial experience and the fact that the actuarially accrued liability created by the payment of a supplemental distribution in 2015 was not funded through additional contributions. The Plan and the Plan actuary continue to include the cost of pre-funding future distributions in the Annual Employer Contribution Calculation and the Required Employer Contribution Request.

While we remain non-compliant, we have been working with the City to bring the Plan into compliance with this section of the Florida Statutes. The City has filed a complaint against the Board of Trustees of the Plan in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida regarding the payment of the Supplemental Distributions. We are proceeding with our defense. Any judgement in this case is expected to impact the need for pre-funding and, by extension, compliance.

If you have any questions or require any additional information, please contact me at the above address or by telephone at (954) 921-3333.



CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND

2600 Hollywood Blvd. • City Hall Annex Building, 2ND Floor, Room 20 • Hollywood, FL 33020
(954) 921-3333 • (954) 921-3332 Fax • www.hollywoodpension.com

To: Marcum Accountants and Advisors
VIA EMAIL

From: Christine Bailey
Executive Director 

Date: June 27, 2018

Subject: Auditors' Report On The City Of Hollywood, Florida Employees' Retirement Fund
Financial Statements For The Year Ended September 30, 2017

We are in receipt of the recently issued draft Auditors' Report on the City of Hollywood, Florida Employees' Retirement Fund Financial Statements for the year ended September 30, 2017. In your report, you cited the City of Hollywood Employees' Retirement Fund's (the "Plan") non-compliance with Section 112.63(4), of the Florida Statutes and recommended that the Plan adhere to Section 112.63(4). The Plan concurs and endeavors to adhere to Section 112.63(4) of the Florida Statutes. We will be working with the City to ensure future compliance with this section of the Florida Statutes.

The Plan provisions are outlined in the City's Code of Ordinances. Section §33.025(K) of the Code requires the payment of a supplemental distribution to certain retirees. The non-compliance has arisen from the funding associated with these benefits. In a letter dated July 3, 2014 from the Department of Management Services, Bureau of Local Retirement Systems (the "DMS") to the City of Hollywood (copy attached), DMS opined: "If the City wishes to limit exposure to the costs associated with this provision, the City may wish to consider amending or rescinding the Plan Provision. However, if the benefit provision remains unchanged in the City Code, the Plan actuary must begin estimating the frequency and amounts of future additional distributions and begin including a cost factor to pre-fund it." The Plan and the Plan actuary have complied. Since the Actuarial Valuation Report as of October 1, 2013, the Plan actuary has included the cost of pre-funding future distributions in the Annual Employer Contribution Calculation.

DMS again informed the City of Hollywood (the "City") that the Plan was not state accepted pursuant to Part VII of Chapter 112, Florida Statutes in its letter dated September 13, 2016 (copy attached). DMS advised that the non-compliance was based on the Plan's unfavorable net actuarial experience and the fact that the actuarially accrued liability created by the payment of a supplemental distribution in 2015 was not funded through additional contributions. As stated previously, the Plan was required to pay the 2015 supplemental distribution and is required to pay any such future distributions to certain retirees of the Plan by the City's Code of Ordinances, Section §33.025(K).

In its letter, DMS outlined the requirements for the Plan to gain state acceptance, which include pre-funding future supplemental distributions for compliance with Section 112.61, Florida Statutes. The Plan has included the funding and pre-funding necessary to pay these supplemental benefits in the Required Employer Contribution requested of the City each year.

If you have any questions or require any additional information, please contact me at the above address or by telephone at (954) 921-3333.



FLORIDA DEPARTMENT OF MANAGEMENT SERVICES

retirement

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Bureau of Local Retirement Systems
Municipal Police Officers' & Firefighters'
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P.O. Box 3010

Tallahassee, Florida 32315-3010

Tel: 850.922.0667 | Fax: 850.921.2161 | Toll-Free: 877.738.6737

Rick Scott, Governor

Craig J. Nichols, Agency Secretary

July 3, 2014

Mr. Alan Fallik
Deputy City Attorney
City of Hollywood
2800 Hollywood Blvd.
Hollywood, Florida 33022-9045

Re: City of Hollywood General Employees' Retirement Plan – additional "13th check"

Dear Mr. Fallik:

This letter responds to your correspondence of May 6, 2014, and Jim Linn's correspondence of May 1, 2014, related to the pending additional "13th check" provided to retirees of the City of Hollywood's (the City) General Employees' Retirement Plan (the Plan) for the year ending September 30, 2012. The Plan is a local government pension plan that is required to comply with the provisions of Part VII of Chapter 112, F.S., to ensure actuarial soundness. I understand that the payment of these moneys has been withheld, awaiting notification from the Division of Retirement (the Division) as to whether payment of these additional moneys violate s. 112.61, F.S., or any other applicable statutes. Pursuant to section 112.665(1)(c), F.S., the Division has the authority to respond to local government requests involving the applicability of laws over which the Division has substantive jurisdiction. All facts as presented in your letters and the relevant authority have been considered in preparation of this response.

Section 33.025(K) of the City Code relates to payment of an additional pension distribution, establishes eligibility for participation and states that for Plan years beginning October 1, 2007, and thereafter, such distribution shall be paid to eligible employees, "... If the net market rate of return on fund assets exceeds the assumed rate of investment return plus 4.5%." The Code then sets forth the method of calculating and allocating the amounts in question.

Section 112.61, F.S., provides that an additional benefit of a local government retirement system or plan may only be funded by actuarial experience if "the present value of such benefits does not exceed the net actuarial experience accumulated from all sources of gains and losses...". Since the City and Plan's Board of Trustees have acknowledged that the Plan does not meet this requirement, any additional Plan benefits, including the cost of the pending additional pension distribution may not be funded from investment gains.

For the payment of the pending additional distribution to be permissible under s. 112.61, F.S., the Plan's shortfall brought on by payment of this additional benefit must be paid for through additional contributions. The consequences of violating applicable statutes and rules would be withholding by the State of any funds not pledged for the satisfaction of bond debt service that are payable to the City, until satisfactory adjustment is made to correct the non-compliance.

Mr. Alan Fallik
Page 2
July 3, 2014

Since the inception of the additional benefit distribution provision to the City's Code in 2002, the Division is aware of at least one such prior distribution in 2004 that was awarded to Plan retirees. Because this additional benefit provision has once again been triggered, the continued practice of post-funding this additional benefit does not comply with the requirement in s. 112.61, F.S., which prohibits the transfer of costs to future taxpayers that may reasonably have been expected to be paid by current taxpayers.

If the City wishes to limit exposure to the costs associated with this provision, the City may wish to consider amending or rescinding the Plan provision. However, if the benefit provision remains unchanged in the City Code, the Plan actuary must begin estimating the frequency and amounts of future additional distributions and begin including a cost factor to pre-fund it. The basis for this estimation and the calculation of the cost factor should be clearly identified in the actuarial valuations. Future additional benefit distributions will not be state accepted under Part VII of Chapter 112, F.S., if steps are not taken to attribute these costs to current taxpayers, instead of transferring all costs to future taxpayers.

If provisions are not made to satisfy the unfunded liability that will be generated by the payment of the additional pension benefit for the year ending September 30, 2012, the distribution is not allowable under s. 112.61, F.S. If the benefit payment is made and the unfunded liability is to be funded through additional contributions, please provide verification of the city's commitment to fulfilling these funding requirements in full until the liability is satisfied.

Please let me know if you have any questions or if the Division can be of further assistance.

Sincerely,



Keith E. Brinkman, Chief
Bureau of Local Retirement Systems

cc: Jim Linn, Esq.
Jeff Amrose, Actuary



FLORIDA DEPARTMENT OF MANAGEMENT SERVICES

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Bureau Local Retirement Systems

P.O. Box 9000

Tallahassee, FL 32315-9000

Tel: 850-488-2784 | Fax: 850-921-2181 | Toll-Free: 877-738-5622

Rick Scott, Governor

Chad Poppel, Secretary

September 13, 2016

Mr. Alan Fallik
Deputy City Attorney
City of Hollywood
2600 Hollywood Blvd.
Hollywood, Florida 33022-9045

Re: City of Hollywood General Employees' Retirement Plan (Plan)

Dear Mr. Fallik:

This letter follows up on my attached letters of July 3, 2014, and June 18, 2015, outlining the issues of noncompliance with Part VII of Chapter 112, Florida Statutes, for the above referenced Plan regarding the payment of a Supplemental Pension Distribution. These letters provided guidance on the additional information and/or corrections that are required to determine that the Plan is in compliance with section 112.61, F.S. To date, the additional information and/or corrections have not been received. Therefore, the plan has been determined to be **not state accepted** pursuant to Part VII of Chapter 112, F.S.

It appears that a supplemental distribution was paid out to retirees in 2015, based on results for the fiscal year ending September 30, 2013. Based on the Plan's unfavorable net actuarial experience accumulated from all sources of gains and losses, if the actuarial accrued liability created by this benefit is not funded through additional contributions, this distribution would not comply with Part VII of Chapter 112, F.S.

Based on our discussions with the Plan actuary, the pre-funding for future supplemental distributions is now being included in the actuarially determined contributions. In order to approve the payment of the 2015 supplemental benefit for compliance with Part VII of Chapter 112, F.S., please provide verification of the City of Hollywood's (City) commitment to fulfilling the pre-funding requirements in full for the supplemental benefit paid in 2015, and thereafter. The pre-funding component of the actuarially determined contribution will be reviewed periodically for adequacy as part of the actuarial review process in s. 112.63, F.S.

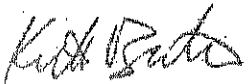
NOTE: Section 112.63(4), F.S., provides that if a satisfactory response to this request is not received within a reasonable period of time, the Department of

Mr. Alan Fallik
Page 2
September 13, 2016.

Management Services may notify the Departments of Revenue and Financial Services to withhold any funds payable to the plan sponsor (not pledged for the satisfaction of bond debt service), until the additional material information or corrections have been received by this office.

Please let me know if you have any questions or if the Division can be of further assistance.

Sincerely,



Keith E. Brinkman, Chief
Bureau of Local Retirement Systems

cc: Jim Linn, Esq.
Jeff Amrose, Actuary
Tammie Hechler, Administrator

attachments



CITY OF HOLLYWOOD EMPLOYEES' RETIREMENT FUND

2600 Hollywood Blvd. • City Hall Annex Building, 2ND Floor, Room 20 • Hollywood, FL 33020
(954) 921-3333 • (954) 921-3332 Fax • www.hollywoodpension.com

To: Marcum Accountants and Advisors
VIA EMAIL

From: Christine Bailey
Executive Director 

Date: May 23, 2019

Subject: Auditors' Report On The City Of Hollywood, Florida Employees' Retirement Fund
Financial Statements For The Year Ended September 30, 2018

We are in receipt of the recently issued draft Auditors' Report on the City of Hollywood, Florida Employees' Retirement Fund Financial Statements for the year ended September 30, 2018. In your report, you cited the City of Hollywood Employees' Retirement Fund's (the "Plan") incorrect benefit payment calculation. The Plan concurs with your finding and recommendation.

The Board of Trustees transitioned the administrative operations of the Plan from the City of Hollywood and an Independent Contractor during the Fiscal Year to an internal Executive Director and staff. The Board of Trustees, as part of that transition, requested a review of all retirement benefit calculations. This is currently being conducted. This will identify any errors made in the calculations before or during the transition. Additionally, since the transition, all retirements calculated by the Plan will be certified by the Actuary. This will eliminate incorrect benefit payment calculations.

If you have any questions or require any additional information, please contact me at the above address or by telephone at (954) 921-3333.

C: Board of Trustees