

**CITY OF HOLLYWOOD
FIREFIGHTERS' PENSION SYSTEM**

FINANCIAL STATEMENTS
September 30, 2016 and 2015

DAVIDSON, JAMIESON & CRISTINI, P.L.
Certified Public Accountants

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

September 30, 2016 and 2015

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Pension System
Hollywood, Florida

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of City of Hollywood Firefighters' Pensions System (Plan), which comprise the statements of fiduciary net position as of September 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Plan's Board of Trustees 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error, in making those risk assessments, the auditor considers internal control relevant to the Plan'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 Plan'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.

The Board of Trustees
City of Hollywood Firefighters'
Pension System
Hollywood, Florida

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Hollywood Firefighters' Pensions System as of September 30, 2016 and 2015, and the change in fiduciary net position for the years the ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplementary information on pages 38 through 43 of the City of Hollywood Firefighters' Pensions System is required by Governmental Accounting Standards Board Statement No. 67 and is not a required part of the basic financial statements. The additional information on page 44 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Davidson, Jamieson & Creative, P.L.

March 23, 2017

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

STATEMENTS OF FIDUCIARY NET POSITION

September 30, 2016 and 2015

Assets

	2016	2015
	<u> </u>	<u> </u>
Cash	\$ 48,476	\$ 34,545
 Receivables:		
Employer	-	1,679,344
DROP loans	546,905	762,045
Members	50,332	-
Interest	110,475	192,201
Dividends	67,688	98,010
Chapter 175 state excise tax rebate	-	-
Chapter 175 state excise tax rebate supplement	-	-
Broker-dealers	297,601	15,062
Other	15,763	7,722
	<u> </u>	<u> </u>
Total receivables	1,088,764	2,754,384
 Investments at fair value:		
U.S. Government securities	2,730,308	22,732,140
U.S. Government agency securities	21,380,750	9,810,464
Corporate bonds	7,673,562	2,284,716
International fixed income investment funds	4,992,781	4,833,739
Domestic fixed income investment funds	12,811,136	9,743,339
Domestic stocks	81,208,210	73,042,751
Domestic equity investment fund	12,250,479	10,081,184
International equity investment fund	16,252,364	12,813,867
International stock	17,162,167	14,861,727
Timber investment fund	7,518,190	7,426,598
Real estate investment funds	19,138,275	23,487,921
Temporary investments	6,087,500	8,086,500
	<u> </u>	<u> </u>
Total investments	209,205,722	199,204,946
 Prepaid expenses	<u>7,096</u>	<u>5,677</u>
 Total assets	210,350,058	201,999,552
	<u>Liabilities</u>	
Accounts payable	298,581	192,605
Accounts payable, broker-dealers	837,541	1,339,830
	<u> </u>	<u> </u>
Total liabilities	1,136,122	1,532,435
 Net position restricted for pensions	<u>\$ 209,213,936</u>	<u>\$ 200,467,117</u>

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Additions:		
Contributions:		
Employer	\$ 13,072,574	\$ 13,479,650
Plan members	1,304,662	1,170,620
DROP rollover	<u>102,854</u>	<u>-</u>
Total contributions	14,480,090	14,650,270
Intergovernmental revenue:		
Chapter 175 state excise tax rebate	-	-
Chapter 175 state excise tax rebate supplement	<u>-</u>	<u>-</u>
Total intergovernmental revenue	-	-
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	13,929,686	(701,978)
Interest	757,960	1,467,624
Dividends	3,642,987	3,826,959
Commission rebate	12,810	4,712
Class action revenue	<u>1,640</u>	<u>7,977</u>
Investment income	18,345,083	4,605,294
Less investment expenses	<u>1,247,872</u>	<u>1,210,427</u>
Net investment income	<u>17,097,211</u>	<u>3,394,867</u>
Total additions	31,577,301	18,045,137
Deductions:		
Benefits:		
Age and service	13,208,435	12,970,246
Disability	880,749	962,676
Planned retirement	149,833	326,762
DROP accounts	5,761,136	4,123,440
13 th check	2,167,704	1,775,819
Refunds of contributions	32,336	66,761
Administrative expenses	<u>630,289</u>	<u>491,494</u>
Total deductions	<u>22,830,482</u>	<u>20,717,198</u>
Net increase (decrease) in net position	8,746,819	(2,672,061)
Net position restricted for pensions:		
Beginning of year	<u>200,467,117</u>	<u>203,139,178</u>
End of year	<u>\$ 209,213,936</u>	<u>\$ 200,467,117</u>

See Notes to Financial Statements.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. Description of the Plan

The following brief description of the City of Hollywood Firefighters' Pension System (Plan) is provided for general information purposes only. Participants should refer to the Plan Agreement for more complete information.

General - The Plan was established October 1, 1989, upon passage of a referendum which merged the City of Hollywood Firefighters' Supplemental Retirement System ("Supplemental Plan") into the City of Hollywood Firefighters' Pension System ("Prior Plan"). The provisions of the merger provided certain changes in retirement eligibility, modifications of some benefits and implementation of a deferred retirement option plan.

The Plan is a defined benefit pension plan covering all full-time firefighters of the City of Hollywood, Florida (City). Participation in the Plan is required as a condition of employment. The Plan provides for pension, death and disability benefits. In addition, the Plan is a local law plan subject to provisions of Chapter 175 of the State of Florida Statutes.

The Plan, in accordance with the above statutes, is governed by a five member pension board. Three firefighters are elected by a majority of the regularly employed firefighters, the fire chief and a citizen appointed by the City Commission constitute the pension board. The City and the Plan participants are obligated to fund all Plan costs based upon actuarial valuations. The City and the Hollywood Firefighters' Union Local No. 1375 negotiate to establish benefit levels.

During the fiscal year ended September 30, 2016, the Plan's membership consisted of:

Retirees and beneficiaries:	
Currently receiving benefits	240
DROP participants	155
Terminated employees entitled to benefits but not yet receiving them	<u>11</u>
Total	<u><u>406</u></u>
Current employees:	
Vested	105
Nonvested	<u>104</u>
Total	<u><u>209</u></u>

At September 30, 2015 the date of the most recent actuarial valuation, there were 230 retirees and beneficiaries receiving benefits.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. Description of Plan (Continued)

Pension Benefits - The pension plan provides retirement, death and disability benefits for its participants. A participant hired prior to October 1, 2011 with less than ten years of credited service as of September 30, 2011 and a member hired on or after October 1, 2011 may retire on the day he or she attains age 55 and completes ten years of creditable service or on the day he or she attains age 55 and completes 25 years of creditable service. A member with 10 or more years of creditable service as of September 30, 2011 shall attain his or her current normal retirement date. A participant has vested benefits after 10 years of creditable service.

The monthly retirement benefit shall equal 3.0% of average monthly earnings times years of service earned on or after September, 2011.

For members who retire after October 1, 2011, average final compensation means the arithmetic average of earnings for the 60 highest consecutive months of the last 120 months of credited service prior to retirement, termination or death.

As of October 1, 2011 earnings shall mean fixed monthly remuneration for services rendered to the City as a Firefighter, including only wages and education incentive payment from the Insurance Commissioner's Trust Fund and excluding overtime, workers compensation/supplemental compensation, expense allowances, cash conversion of holiday benefits, accrued leave payouts and cash conversion of blood time and compensatory time.

Disability Retirement- Any participant who becomes totally and permanently disabled as certified by medical examination may retire on a non-service incurred disability retirement benefit after five years of credited service. Such a member may retire on a service incurred disability retirement benefit if disabled as a result of the performance of duty, without regard to the credited service at the time of disability.

The monthly non-service incurred disability retirement benefit is equal to 25% of salary at the time of determination of disability. The monthly service incurred disability retirement benefit is equal to 75% of salary at the time of determination of disability. The benefit is reduced by any workmen's compensation, pension or benefits under similar law payable to the firefighter or his dependents.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. Description of Plan (Continued)

Death Benefits- If a participant dies in the performance of service, a monthly death benefit of 50% of the deceased firefighter's monthly salary at the time of death is payable to the participant's beneficiary until the earlier of death or remarriage of the beneficiary. For members having completed at least five years of service who die while not on active duty, the plan provides a monthly benefit of 25% of the deceased participant's salary at the time of death. In no event shall these benefits be less than the participant's Vested Accrued Benefit payable at Normal Retirement Date.

Upon the death of a participant receiving retirement payouts, a benefit equal to 50% of the retirement benefit of the deceased participant is payable to their surviving spouse so long as they remain unmarried, provided such spouse had been married to the deceased participant not less than two years' immediately preceding their death.

Deferred Retirement Option Plan (DROP) - A participant who does not enter DROP prior to October 1, 2011 shall not be eligible to enter the DROP, unless the member was eligible to retire as of September 30, 2011. Once a participant enters the DROP, their monthly retirement benefit is frozen, based on their average final monthly compensation and credited service at that time, and their monthly benefit is paid into their DROP account.

On an annual basis, participants will have the option of directing some or all of their deferred benefits into an interest bearing account with an eight percent (8%) fixed rate of return for employees in the DROP prior to July 16, 2009. For members hired prior to July 16, 2009, DROP balance interest rate decreases from 8% to 6%. For members hired on or after July 16, 2009, the interest rate credited to the DROP balance is 4%. Any deferred benefits not directed into the fixed-rate account shall remain in a variable-rate account and shall earn interest at a rate set annually by the Board of Trustees. Such interest shall be weighted and credited on a pro-rata basis by the Board of Trustees to each individual account balance in the account on an annual basis. Upon termination of employment, not more than eight years after entry into the DROP, the balance in the members' DROP account, including interest, will be made available to them and they also begin to receive their (frozen) monthly retirement benefit.

Participant who have completed at least twelve months of participation in the DROP may borrow from their DROP accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their DROP account balance. The loans are secured by the balance in the participants' DROP account and bear interest at the rate set by the Board. If the loan is used to acquire a participant's principal residence, the loan must be repaid within fifteen years. The participant may elect to repay the loan from payments being made into their DROP account.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. Description of Plan (Continued)

Supplemental Pension Check (13th Check) - If the actual asset return of the trust exceeds the assumed actuarial return for any fiscal year, the excess return (up to 2%) will be allocated equally to eligible participants. For members who retire or who were eligible to retire on or after July 16, 2009 and before October 1, 2011, the Supplemental pension check cannot exceed \$12,000 per year and shall only be paid if there are no aggregate actuarial experience losses beginning with the actuarial experience on or after October 1, 2008.

Members not eligible to retire as of September 30, 2011 are not eligible for Supplemental Pension distributions.

Planned Retirement (Lump Sum) Benefit - In order to participate in the Planned Retirement Benefit a member must submit in writing declaring their intent to participate in the Planned Retirement Benefit at any time on or after reaching the member's normal retirement date.

Members who elect to participate in the Planned Retirement Benefit shall not exceed 33 years of service, including service while participating in the Planned Retirement Benefit.

A member who elects to participate in the Planned Retirement Benefit will receive the normal retirement benefit they would have been eligible to receive during the Planned Retirement Period had the member actually retired at a point during the look-back period that begins on the entry date into the Planned Retirement Benefit and ends on the date of termination. The maximum look-back period is 8 years from the date of termination. If the member chooses a normal retirement benefit based on age and service during the look-back period, they will receive a lump sum with interest based on the normal retirement benefit payable during the look-back period.

The crediting rate applicable to any lump sum payment shall be calculated in arrears equal to 100% of the first 4% of plan earnings plus 100% of plan earnings in excess of 6%. If the Plan is 80% to 90% funded, the crediting rate will be based on the 100% of the 4% of plan earnings plus 100% of plan earnings in excess of 5%. If the Plan is at least 90% funded, the crediting rate will be based on 100% of actual plan earnings. The member will share in asset losses in those years where the plan returns are negative.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. **Description of Plan (Continued)**

Share Plan - Effective July 16, 2009, the City of Hollywood Firefighters' Pension System created The City of Hollywood Chapter 175 Share Plan ("Share Plan") in accordance with Chapter 175 Florida Statutes. The Share Plan is managed and administered by the Board of Trustees of the City of Hollywood Firefighters' Pension System. The Share Plan is funded exclusively through excess, undedicated Chapter 175 insurance premium rebate taxes. The membership of the Share Plan consists of all firefighters in active service as of July 16, 2009, excluding retired members and persons who have entered the DROP prior to July 16, 2009. The Share Plan assets are invested by the Board in government insured certificates of deposit or bonds or mutual funds or money market funds or commingled funds thereof, as determined by the Board. The Share Plan is at no actuarial or other cost to the City of Hollywood. All administrative expenses of the Share Plan are deducted from each year's available premium tax money before it is credited to the share accounts to pay for plan administration by the Board. At September 30, 2016 and 2015, the Share Plan balance remained unfunded.

Refund of Participant Contributions - A participant who terminates employment and is ineligible for pensions benefits is refunded his or her contribution without interest.

Cost of Living Adjustment - There shall be no annual increase (COLA) in retirement benefits under the benefit structure effective October 1, 2011. For descriptions of COLA benefits for prior retirees (before October 1, 2011), it will be necessary to refer to the prior Plan documents.

2. **Summary of Significant Accounting Policies**

Basis of Accounting - Basis of accounting is the method by which revenues and expenses are recognized in the accounts and are reported in the financial statements. The accrual basis of accounting is used for the Plan. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Plan participant contributions are recognized in the period in which the contributions are due. City contributions to the plan as calculated by the Plan's actuary, are recognized as revenue when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

2. **Summary of Significant Accounting Policies (Continued)**

Basis of Presentation - The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement 67, *Financial Reporting for Defined Benefit Pension Plans* and the Codification of Governmental Accounting and Financial Reporting Standards which covers the reporting requirements for defined benefit pensions established by a governmental employer. The accompanying financial statements include solely the accounts of the Plan which include all programs, activities and functions relating to the accumulation and investment of the assets and related income necessary to provide the service, disability and death benefits required under the terms of the Plan and the amendments thereto.

Valuation of Investments - Investments in common stock and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the past reported bid and asked prices; investments in securities not having an established market value are valued at fair value as determined by the Board of Trustees. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available; for others it might not be available. However, the objective of a fair value measurement in both cases is the same—that is, to determine the price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under current market conditions. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. Purchases and sales of investments are recorded on a trade date basis.

Investment income is recognized on the accrual basis as earned. Unrealized appreciation in fair value of investments includes the difference between cost and fair value of investments held. The net realized and unrealized investment appreciation or depreciation for the year is reflected in the Statement of Changes in Plan Net Position.

Custody of Assets - Custodial and investment services are provided to the Plan under contracts with national trust companies having trust powers. The Plan's investment policies are governed by Florida State Statutes and ordinances of the City of Hollywood, Florida.

Authorized Plan Investments - The Board recognizes that the obligations of the Plan are long-term and that its investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return defined as interest and dividend income plus realized and unrealized capital gains or losses commensurate with the prudent investor rule and Chapter 175 of the Florida Statutes.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, high capitalization common or preferred stocks, pooled equity funds, high quality bonds or notes and fixed income funds, real estate and derivative investments. In addition, the Board requires that Plan assets be invested with no more than 70% in stocks and convertible securities measured at market value at the end of each reporting period. Further information regarding the permissible investments from the Plan can be found in the Investment Policy Statement. Allocations to foreign securities shall not exceed ten percent at cost of the Plan's assets.

Asset Allocation - The Plan's adopted asset allocation as of September 30, 2016 is as follows:

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The investment manager(s) are responsible for the assets and allocation of their mandate only and may be provided an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total fund:

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>	<u>Benchmark Index</u>
Domestic Equity	42.50%	37.5% - 47.5%	Russell 3000
International Equity	15.0%	10% - 20%	MSCI-ACWI ex. U.S.
Core Fixed Income	15.0%	10% - 20%	Barclays Capital Inter. Agg.
Non Core Fixed Income	10.0%	0% - 10%	Barclays Global Aggregate
Real Estate*	10.0%	0% - 15%	NCREIF Property Index
Timber*	2.5%	0% - 10%	NCREIF Timber Index
Alternative*	5.0%	0% - 15%	Asset Specific

*Benchmark will default to "broad market fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

The investment consultant will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market values available. The Board does not intend to exercise short-term changes to the target allocations.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

Rate of Return - For the year ended September 30, 2016, the annual money-weighted rate of return on Pension Plan investments, net of pension plan expense, was 8.57 percent adjusted for the changing amounts actually invested.

Actuarial Cost Method - The Plan has elected the Entry Age Normal for funding purposes. This method allocates the actuarial present value of each participant's projected benefit on a level basis over the participant's earnings from the date of entry into the Plan through the date of retirement.

Reporting Entity - The financial statements presented are only for the Plan and are not intended to present the basic financial statements of the City of Hollywood, Florida.

The Plan is included in the City's Comprehensive Annual Financial Report (CAFR) for the years ended September 30, 2016 and 2015, which are separately issued documents. Anyone wishing further information about the City is referred to the City's CAFR.

The Plan is a pension trust fund (fiduciary fund type) of the City which accounts for the single employer defined benefit pension plan for all City Firefighters. The provisions of the Plan provide for retirement, disability, and survivor benefits.

Funding Policy - As of the year ended September 30, 2016, participants were required to contribute percentages of their annual earnings to the Plan as follows:

Tier 1	8.0%
Tier 2	7.5%

Prior to 1988, contributions to the System were made on an after-tax basis. Subsequent to this date, contributions are made on a pre-tax basis pursuant to an amendment to the Plan. These contributions are designated as employee contributions under Section 414(h)(2) of the Internal Revenue Code. Contribution requirements of the Plan's participants are established and may be amended by the City of Hollywood, Florida in conjunction with the Hollywood, Firefighters' Local Union Number 1375.

A participant may buy back past credited service by paying into the Plan the amount of contributions that the participant would otherwise have paid for such continuous past service, plus the interest that would have been earned had such funds been invested by the Plan during that time.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

The City's funding policy is to make actuarially computed contributions to the Plan in amounts, such that when combined with participants' contributions and the State insurance excise tax rebate, all participants' benefits will be fully provided for by the time that they retire.

The City's actuarially determined contribution rate for the year ended September 30, 2016 was 81.7%. This rate consists of 22.8% of member salaries to pay normal costs plus 58.9% to amortize the unfunded actuarially accrued liability pursuant to the September 30, 2015 amended actuarial valuation.

Administrative Costs - All administrative costs of the Plan are financed through charges allocated against the DROP accounts. The City contributes the remainder of the cost of administration of the Plan.

Cash - The Plan considers money market and demand account bank and broker-dealer deposits as cash. Temporary investments, shown on the balance sheet are composed of investments in short-term custodial proprietary money market funds.

Federal Income Taxes - The Board has submitted an application for a Plan Determination to the Internal Revenue Service for its Plan. Based on the information provided the Board received a favorable determination letter from the Internal Revenue Service dated January 25, 2017.

The Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - Management has adopted the provisions set forth in GASB Statement No. 56, *Subsequent Events*, and considered subsequent events through the date of the audit report which is the date that the financial statements were available to be issued.

Risk and Uncertainties - The Plan invests in a variety of investment funds. Investments in general are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of fiduciary net position.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

2. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements - Governmental Accounting Standards Board (GASB) 67, *Financial Reporting for Pension Plans* and GASB 68, *Accounting & Financial Reporting for Pensions (Employer)*, address accounting and financial reporting requirements for pension plan activities. The City of Hollywood Firefighters' Pension System (Plan) is a single employer pension plan as defined by GASB 67. The requirements for GASB 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. GASB 67 is effective for fiscal years beginning after June 15, 2013.

It is important to note that the disclosures related to GASB 67 are accounting measurements, not actuarial measurements of the funded status of the plan, and are not used to develop employer contribution rates.

GASB 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS September 30, 2016 and 2015

3. Deposits and Investments

Deposits

At the year-ended September 30, 2016 the carrying amount of the Plan's demand deposits was \$3,555 and the bank balance was \$3,555. These deposits were covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Security for Public Deposits Act. Provisions of the Act require that public deposits may only be held at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of the securities pledged by the defaulting depository, are assessed against the other qualified public depositories of the same type as the depository in default.

Fiduciary International of the South (FTIOS), and J.P. Morgan Investment Management periodically hold uninvested cash in their respective capacities as custodians for the Plan. These funds exist temporarily as cash in the process of collection from the sale of securities.

Investments

Alternative investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended international and domestic mutual funds, commingled pooled funds and limited partnerships.

The Plan's independently managed investments are segregated into seven separate accounts and managed under separate investment contracts with the following managers or funds:

- A. Advisory Research, Inc.
- B. Westfield Capital Management Co., LP.
- C. Garcia, Hamilton & Associates
- D. Sawgrass Asset Management, LLC
- E. GAMCO Asset Management, Inc.
- F. WCM Investment Management, Inc.
- G. Templeton Global Total Return, Pimco Diversified, Inc. Instl. Fund and Westwood Income Opportunity Fund

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

3. Deposits and Investments (Continued)

Investments (Continued)

These accounts give FTIOS the custodianship over the invested assets, but gives the above managers or funds the authority to manage the investments.

Alternative investment vehicles are valued using the net assets value (NAV) provided by the investment managers of the fund. The NAV is based on the value of the underlying assets owned by the fund minus its liabilities and then divided by the number of shares or percentage of ownership outstanding. The NAV's unit price is quoted on a private market that is not active; however, the unit price is based on underlying investment which are traded on an active market.

Accordingly, the fair values of alternative investment funds have been estimated by the Plan's management in the absence of readily ascertainable market values. Therefore, the values of such funds are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

The Plan's alternative investments are summarized as follows:

- A. JPMCB Special Situation Property Fund (Real Estate)
- B. U.S. Real Estate Investment Fund (Real Estate)
- C. Sustainable Woodlands Fund II, L.P. (Timber)
- D. RBC Global Asset Management (GAM) International Fund (International)
- E. Crescent Direct Lending Leverage Fund (Domestic)
Fund, L.P. (Fixed Income)

The investment managers listed above are monitored by the Board of Trustees and an investment advisor.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

3. Deposits and Investments (Continued)

Investments (Continued)

Exchange traded funds (commonly referred to as "ETF") are funds that trade like other publicly-traded securities and are designed to track an index. Similar to shares of an index mutual fund, each share of the Fund represents a partial ownership in an underlying portfolio of securities intended to track a market index. Unlike shares of a mutual fund, which can be bought and redeemed from the issuing fund by all shareholders at a price based on NAV, only authorized participants may purchase or redeem shares directly from the Fund at NAV. Also, unlike shares of a mutual fund, the shares of the Fund are listed on a national securities exchange and trade in the secondary market at market prices that change throughout the day.

The Fund invests in a particular segment of the securities market and seeks to track the performance of a securities index that generally is not representative of the market as a whole. The Fund is designed to be used as part of broader asset allocation strategies. Accordingly, an investment in the Fund should not constitute a complete investment program.

The Plan held no investments that individually represent 5% or more of the Plan's net position available for benefits during the year ended September 30, 2016.

The Plan has no instrument that, in whole or in part, is accounted for as a derivative instrument under GASB statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* during the current Plan year.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

3. Deposits and Investments (Continued)

Investments (Continued)

The Plan held the following fixed investments as of September 30, 2016:

Investment Type	<u>Fair Value</u> 9/30/16	Overall Credit Rating	Average Effective Duration (Years)
U.S. Government securities	\$ 2,730,308	AA	7.4
U.S. Government agency securities	21,380,750	AA	10.6
Corporate bonds	7,673,562	A-AA	8.2
Domestic fixed income investment funds	12,811,136	A	N/A
International fixed income investment fund	4,992,781	A	N/A
Temporary investments	<u>6,087,500</u>	N/A	N/A
Total	\$ <u><u>55,676,037</u></u>		

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the time to maturity, the greater the exposure to interest rate risks. Through its investment policies the Plan manages its exposure to fair value losses rising from increasing interest rates. The Plan limits the effective duration of its investment portfolio through the adoption of the Barclays Capital U.S. Aggregate Bond Index.

Credit Risk - Credit risk is the risk that a debt issuer will not fulfill its obligations. Consistent with state law the Plan's investment guidelines limit its fixed income investments to a quality rating of "A" or equivalent as rated by Moody's or by Standard & Poor's bond rating services at the time of purchase. Fixed income investments which are downgraded below the minimum rating must be liquidated at the earliest beneficial opportunity .

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

3. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk - Custodial credit risk is defined as the risk that the Plan may not recover cash and investments held by another party in the event of a financial failure. The Plan requires all securities to be held by a third party custodian in the name of the Plan. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a “delivery vs. payment” basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in mutual funds and investment fund are considered *unclassified* pursuant to the custodial risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book-entry form.

Investing in Foreign Markets - Investing in foreign markets may involve special risks and considerations not typically associated with investing in companies in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social, and economic developments. Moreover, securities of foreign governments may be less liquid, subject to delayed settlements, taxation on realized or unrealized gains, and their prices are more volatile than those of comparable securities in U.S. companies.

Foreign Tax Withholdings and Reclaims - Withholding taxes on dividends from foreign securities are provided for based on rates established via treaty between the United States of America and the applicable foreign jurisdiction, or where no treaty exists at the prevailing rate established by the foreign country. Foreign tax withholdings are reflected as a reduction of dividend income in the statement of operations. Where treaties allow for a reclaim of taxes, the Fund will make a formal application for refund. Such reclaims are included as an addition to dividend income.

Investing in Real Estate - The Plan is subject to the risks inherent in the ownership and operation of real estate. These risks include, among others, those normally associated with changes in the general economic climate, trends in the industry including creditworthiness of tenants, competition for tenants, changes in tax laws, interest rate levels, the availability of financing and potential liability under environmental and other laws.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

**4. Net Increase (Decrease) in Realized and
Unrealized Appreciation (Depreciation) of Investments**

The Plan's investments appreciated (depreciated) in value during the year ended September 30, 2016 and 2015 as follows:

	2016			2015		
	Realized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)	Total	Realized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)	Total
Investments at fair value as determined by quoted market price:						
U.S. Government securities	\$ 1,040,864	\$ (485,138)	\$ 555,726	\$ 139,616	\$ 500,548	\$ 640,164
U.S. Government agency securities	(209,523)	(16,093)	(225,616)	(197,474)	(73,448)	(270,922)
Corporate bonds	120,950	(41,608)	79,342	31,984	52,115	84,099
International fixed income investment fund	(250,407)	184,212	(66,195)	(23,008)	(846,367)	(869,375)
Domestic fixed income investment funds	(228,193)	996,012	767,819	66,960	(435,820)	(368,860)
Domestic stocks	2,128,348	3,979,211	6,107,559	5,064,368	(4,985,085)	79,283
Domestic equity investment fund	11,606	760,717	772,323	51,794	(730,400)	(678,606)
International equity investment fund	-	1,438,496	1,438,496	1,657,780	(2,288,287)	(630,507)
International stock	96,888	2,010,601	2,107,489	(50,077)	(377,527)	(427,604)
Timber investment fund	-	451,288	451,288	-	266,328	266,328
Real estate investment funds	1,089,183	852,272	1,941,455	315,960	1,158,062	1,474,022
Net increase in realized and unrealized appreciation (depreciation) of investments	<u>\$ 3,799,716</u>	<u>\$ 10,129,970</u>	<u>\$ 13,929,686</u>	<u>\$ 7,057,903</u>	<u>\$ (7,759,881)</u>	<u>\$ (701,978)</u>

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments.

Unrealized gains and losses on investments sold in 2016 that had been held for more than one year were included in net appreciation (depreciation) reported in the prior year.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

5. Investments

The Plan's investments at both carrying value and cost or adjusted cost as of September 30, 2016 and 2015 are summarized as follows:

Investment	2016		2015	
	Cost	Fair Value	Cost	Fair Value
U.S. Government securities	\$ 2,717,264	\$ 2,730,308	\$ 22,233,958	\$ 22,732,140
U.S. Government agency securities	21,360,155	21,380,750	9,772,776	9,810,464
Corporate bonds	7,669,426	7,673,562	2,238,972	2,284,716
International fixed income investment fund	5,561,327	4,992,781	5,586,497	4,833,739
Domestic fixed income investment funds	12,507,645	12,811,136	10,435,860	9,743,339
Domestic stocks	71,368,300	81,208,210	67,182,052	73,042,751
Domestic equity investment fund	11,482,384	12,250,479	10,073,806	10,081,184
International equity investment fund	10,893,349	16,252,364	8,893,349	12,813,867
International stock	15,888,386	17,162,167	15,598,547	14,861,727
Timber investment fund	6,156,667	7,518,190	6,516,363	7,426,598
Real estate investment funds	15,431,005	19,138,275	20,632,923	23,487,921
Temporary investments	6,087,500	6,087,500	8,086,500	8,086,500
Total	<u>\$ 187,123,408</u>	<u>\$ 209,205,722</u>	<u>\$ 187,251,603</u>	<u>\$ 199,204,946</u>

6. Mortgage-Backed Securities

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

7. Designations

A portion of the plan net assets are designated for benefits that accrue in relation to the DROP accounts as further described in Note 1. Allocations to the DROP plan accounts for the year ended September 30, 2016 are presented below as determined in the most recent annual valuation available for the year ended September 30, 2015:

Designated for DROP accounts (fully funded)	\$ 83,874,284
	<hr/>
Total designated net position	83,874,284
Undesignated net position	125,339,652
	<hr/>
Total net position	<u>\$ 209,213,936</u>

If the actuarial asset basis return of the trust exceeds the assumed actuarial return for any fiscal year, the excess return (up to 2%) will be allocated equally to eligible participants. The 2015 actuarial asset return was 10.38% compared to the expected 7.50%.

Participants not eligible to retire as of September 30, 2011 are not eligible for supplemental pension distributions.

8. DROP Loans

Participants who have completed at least twelve months of participation in the DROP are eligible to receive a loan from their own DROP account.

During the fiscal year ended September 30, 2016, certain DROP participants borrowed from their respective DROP accounts. These loans require repayment in five years at interest rates set by the Board of Trustees. If this loan is being used to acquire a participant's principal residence, the loan must be repaid within fifteen years.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

8. DROP Loans (Continued)

A schedule of the changes of these loans is summarized as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>9/30/15</u>	<u>Additions</u>	<u>Repayments</u>	<u>9/30/16</u>
DROP Loans Receivable				
September 30, 2015	<u>\$ 762,045</u>	<u>\$ -</u>	<u>\$ 215,140</u>	<u>\$ 546,905</u>

Future minimum annual principal payments on these loans are as follows:

<u>September 30</u>	
2017	\$ 124,403
2018	108,536
2019	73,388
2020	43,726
2021	22,045
Thereafter	<u>174,807</u>
Total	\$ <u>546,905</u>

Loan interest income for the year ended September 30, 2016 was \$35,232.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

9. Plan Amendments

The Plan was amended during the fiscal year ended September 30, 2016 as follows:

- In the event that the Board finds that a member is totally and permanently disabled by the plan's definition, the City may assign the member to a modified duty or light duty position. If the City makes available a modified or light duty position, and a member rejects the assignment, said member shall be ineligible for either continued employment or disability retirements.
- Regarding the DROP account benefit of any current City employee who was previously a member of the General Employees Plan and who later moved to a Firefighter position and is a member of the Firefighter's Pension Fund and is now participating in the DROP in the Firefighters' Pension Fund, any DROP benefit being held for that employee in the General Plan may be moved from the General Plan to the Firefighters Plan.

The above amendment did not affect the City's funding obligation.

The Plan was amended during the fiscal year ended September 30, 2015 as follows::

Changed the retirement eligibility to the earlier of 25 years of Credited Service regardless of age and the attainment of age 55 with 10 years of Credited Service for Tier 2 Members and Tier 1 Members with less than 10 years of Credited Services as of September 30, 2011.

The cost impact, determined as of October 1, 2013, for the fiscal year ending September 30, 2015 is as follows:

	<u>Current</u>	<u>Proposed</u>
Total required contribution	\$ 15,429,856	\$ 15,535,192
Expected Member contributions	1,224,602	12,245,602
Required City & State contributions	14,205,254	143,130,591
Estimated State contribution	1,562,180	1,562,180
Balance from City	12,643,074	12,748,411

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS September 30, 2016 and 2015

10. Plan Termination

Although it has not expressed an intention to do so, the City may terminate the Plan by a written ordinance of the City Commission of Hollywood duly certified by and official of the City. In the event that the Plan is terminated or contributions to the Plan are permanently discontinued, the benefits of each firefighter in the Plan at such termination date would be non-forfeitable.

11. Commitments and Contingencies

As described in Note 1, certain members of the Plan are entitled to refunds of their accumulated contributions, without interest, upon termination of employment with the City prior to being eligible for pension benefits. At September 30, 2016 aggregate contributions from active members of the Plan were approximately \$16,200,000. The portion of these contributions which are refundable to participants who may terminate with less than ten years of service has not been determined.

12. Risk and Uncertainties

The Plan invests in a variety of investment funds. Investments in general are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of fiduciary net position available for benefits.

13. Actuarial Assumption Change

The following assumption were updated in the October 1, 2015 valuation, based on the experience study issued on April 25, 2016:

- Termination rates
- Disability rates
- Salary scale

Those assumption changes reduced the City's funding requirement by approximately \$400,000.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

14. Lease (License) Agreements

The Plan entered certain non-cancellable operating space and equipment lease agreements expiring through 2019. The future minimum annual payments under these agreements are summarized as follows:

<u>Year</u>	<u>Equipment</u>	<u>Space</u>	<u>Total</u>
<u>End</u>	<u>Lease</u>	<u>Lease</u>	<u>Total</u>
2017	\$ 5,388	\$ 32,304	\$ 37,692
2018	5,388	32,781	38,169
2019	5,388	32,781	38,169
2020	5,388	32,781	38,169
2021	2,694	32,781	35,475
Thereafter	-	16,390	16,390
	<u>\$ 24,246</u>	<u>\$ 179,818</u>	<u>\$ 204,064</u>

Lease expense under these agreements for the fiscal year ended September 30, 2016 was \$38,495.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

15. Investment Measurement at Fair Value

Fair Value Hierarchy

The accounting standards break down the fair value hierarchy into three levels based on how observable the inputs are that make up the valuation. The most observable inputs are classified as Level 1 where the unobservable inputs are classified as Level 3.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

As a general rule, any asset that has a daily closing price and is actively traded will be classified as a Level 1 input.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. Inputs to the valuation methodology include: (1) quoted market prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in active markets, (3) inputs other than quoted prices that are observable for the asset or liability, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

As a general rule, if an asset or liability does not fall into the requirements of a Level 1 or Level 3 input, it would default to Level 2. With Level 2 inputs, there is usually data that can be easily obtained to support the valuation, even though it is not as easily obtained as a Level 1 input would be.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As a general rule, Level 3 inputs are those that are difficult to obtain on a regular basis and require verification from an outside party, such as an auditor or an appraisal, to validate the valuation.

Net asset value (NAV) is a common measurement of fair value for Level 1, Level 2, and Level 3 investments. A fund's NAV is simply its assets less its liabilities, and is often reported as a per share amount for fair value measurement purposes. The Plan would multiply the NAV per share owned to arrive at fair value. Level 1 investment in funds such as mutual funds report at a daily NAV per share and are actively traded. NAV also comes in to play for Level 2 and 3 investments. As a matter of convenience (or referred to in accounting literature as a "practical expedient"), a Plan can use the NAV per share for investments in a nongovernmental entity that does not have a readily determined fair value, such as an alternative investment. 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 fund's reported NAV as a matter of convenience.

The Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following total recurring fair value measurements as of September 30, 2016 and 2015:

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

- *Debt securities* - Debt securities classified in Level 1 or Level 2 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used by International Data Pricing and Reference Data, LLC to value securities based on the securities' relationship to benchmark quoted prices.
- *Mutual funds* - The rationale for inclusion in Level 1 or Level 2 points to the unobservable inputs involved in mutual fund pricing. Mutual funds do not trade using bid and ask, as with ETF's or common stock. Instead, the prices are determined by the net asset value of the underlying investments at the close of business for the next day's open. The underlying assets themselves may include a variety of Level 1 and Level 2 securities and some may be valued using matrix pricing which interpolates the price of a security based on the price of similar securities.
- *Fixed income funds* - Valued using pricing models maximizing the use of observable input for similar securities. This includes basing value on yield currently available on comparable securities of issues with similar credit ratings.
- *Equity funds* - Valued at market prices for similar assets in active markets.
- *Common stock* - Valued at quoted market prices for identical assets in active markets.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Investments by fair value level	September 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government securities	\$ 2,730,308	\$ -	\$ 2,730,308	\$ -
U.S. Government agency securities	21,380,750	-	21,380,750	-
Corporate bonds	7,673,562	-	7,673,562	-
International fixed income investment fund	4,992,781	4,992,781	-	-
Domestic fixed income investment fund	5,835,835	5,835,835	-	-
Domestic stocks	81,208,210	81,208,210	-	-
Domestic equity investment fund	12,250,479	12,250,479	-	-
International equity investment fund	16,252,364	16,252,364	-	-
International stock	17,162,167	17,162,167	-	-
Timber investment fund	7,518,190	-	-	7,518,190
Temporary investments	<u>6,087,500</u>	<u>6,087,500</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	\$ 183,092,146	\$ <u>143,789,336</u>	\$ <u>31,784,620</u>	\$ <u>7,518,190</u>
Investment measured at the net asset value (NAV):				
Real estate investment funds	19,138,275			
Domestic fixed income investment fund	<u>6,975,301</u>			
Total investments measured at NAV	<u>26,113,576</u>			
Total investments measured at fair value	\$ <u>209,205,722</u>			

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Level 3 Investments

The Sustainable Woodlands Fixed II, LP records its investments in timber and timber lands at fair value which is determined using Level 3 inputs. The fair value of timber and timberlands is determined by adjusting the latest third party appraisals for recent activity. A summary of quantitative information regarding significant unobservable inputs (Level 3) to the latest third party appraisals follows:

Income approach: In order to value timberlands using the income approach, which is the most prevalent method for valuing timber and timberlands, independent third party appraisers (Appraisers) develop cash flow models. A model requires the Appraisers, in conjunction with Company management, to develop estimates around the future growth and harvest of timber, a forecast of future timber and timberlands prices, a reliable estimate of the cash flows necessary to sustain the existing inventory and the development of an appropriate discount rate.

Discount rate: A significant unobservable input used in the income approach to valuation is the discount rate, which is the interest rate used to convert a stream of future cash flows to present value, and which represents the risk-adjusted required return the particular asset should earn. Current timber models project cash flows over 3-20 year periods and use a reversion value to estimate the fair value of timber and timberland assets. One method used for estimating the discount rate for modeling is the capital asset pricing model (CAPM), which uses a risk-free rate of return, timberland beta and market risk premium estimates to determine the appropriate required return. Additionally, the Appraisers use market information, such as implied discount rates on recent transactions and other market based information, to estimate discount rates for each valuation.

Future timber pricing: A significant unobservable input used in the income approach to valuation is market selling prices for merchantable timber during the estimated year of harvest. Income approach models use estimated income for the expected volumes of timbers to be harvested during the discount period and such valuation methodology requires an estimate of the sales price of timber during the year of final harvest and thinning (where appropriate). Future price projections are based on a number of factors, including but not limited to local market dynamics, projected macroeconomic climates, assumptions around current and forecasted demand, estimates of housing starts and expected product mix.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Investments measured at NAV	2016 Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Real estate investment funds:				
U.S. Real Estate Investment Fund, LLC.	\$ 9,070,061	\$ -	Quarterly	90 days
JPMCB Special Situation Property Fund	<u>10,068,214</u>	<u>-</u>	Quarterly	45 days
Total	19,138,275	-		
Domestic fixed income investment fund:				
Crescent Direct Landing Levered Fund	<u>6,975,301</u>	<u>3,182,261</u>	Indefinite	90 days
Total investments measured at NAV	\$ <u><u>26,113,576</u></u>	\$ <u><u>3,182,261</u></u>		

1. The real estate investment funds are open end, commingled private real estate and nest lease portfolios. These real estate-based funds are structured as Limited partnerships. Their primary focus is to invest in well-based income producing properties and leases within major U.S. markets. The fair values of the investments in these funds have been determined using the NAV per unit of the Trusts ownership interest in partners' capital. The investments of the fund are valued quarterly. Withdrawal requests must be made 60 days in advance and may be paid in one or more installments.

2. The Crescent Direct Lending Levered Fund is intended
 - a) to generate high current income while preserving capital by investing all capital contributions in the master fund and participating in its indirect investments primarily in senior secured loans (including first lien, unitranche and second lien loans) of private U.S. lower middle-market companies and in other permitted investments, including swap and hedging transactions; and

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

NAV Investments (Continued)

- b) To enter into and perform any contracts and agreements, and carry on any activities, necessary in the fund for, or incidental to, the accomplishment of the foregoing purpose.
- c) Investments in the fund are valued at cost or fair market value on the most recent practicable date, less outstanding indebtedness incurred to acquire or for the purpose of acquiring the investments;
- d) For commodities, valuation is based on the initial margin or option premium deposited with the futures commission merchant. Swap agreements and similar financial contracts are valued at fair market value or cost (not notional amount).

“Fair Market Value” shall mean a) with respect to Securities (other than Marketable Securities) that are traded in the interdealer market, external pricing sources, to the extent available, including broker/dealer quotes or pricing services, as determined in good faith by the General Partner, b) with respect to Marketable Securities

- (i) that are primarily traded on a securities exchange, the closing sale price on the principal securities exchange on which they are traded on the date of determination or, if no sales occurred on such date, the mean between the closing “bid” and “asked” prices on such date and
- (ii) the principal market for which is or is deemed to be the over-the-counter market, the closing sales price on the date of determination as published by NASDAQ or any similar organization, or if such price is not so published on any such date, the mean between the closing “bid” and “asked” prices, if available, on such date, which prices may be obtained from any reputable pricing service broker or dealer.

The Plan understands that no market exists for this investment and it is not registered as an investment company under the investment company act of 1940.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

NAV Investments (Continued)

	September 30, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government securities	\$ 22,732,140	\$ -	\$ 22,732,140	\$ -
U.S. Government agency securities	9,810,464	-	9,810,464	-
Corporate bonds	2,284,716	-	2,284,716	-
International fixed income investment fund	4,833,739	4,833,739	-	-
Domestic fixed income investment fund	5,074,163	5,074,163	-	-
Domestic stocks	73,042,751	73,042,751	-	-
Domestic equity investment fund	10,081,184	10,081,184	-	-
Domestic equity investment fund	12,813,867	12,813,867	-	-
International stock	14,861,727	14,861,727	-	-
Timber investment fund	7,426,598	-	-	7,426,598
Temporary investments	<u>8,086,500</u>	<u>8,086,500</u>	<u>-</u>	<u>-</u>
	171,047,849	\$ <u>128,793,931</u>	\$ <u>34,827,320</u>	\$ <u>7,426,598</u>
Total investments by fair value level				
Investment measured at the net asset value				
Real estate investment funds	23,487,921			
Domestic fixed income investment fund	<u>4,669,176</u>			
Total investments measured at NAV	<u>28,157,097</u>			
Total investments measured at fair value	\$ <u>199,204,946</u>			

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

15. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

NAV Investments (Continued)

	2015 Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investments measured at NAV				
Real estate investment funds:				
U.S. Real Estate Investment Fund, LLC.	\$ 11,330,911	\$ -	Quarterly	90 days
JPMCB Special Situation Property Fund	<u>12,157,010</u>	<u>-</u>	Quarterly	45 days
Total	23,487,921	-		
Domestic fixed income investment fund:				
Crescent Direct Landing Levered Fund	<u>4,669,176</u>	<u>5,455,413</u>	Indefinite	90 days
Total investments measured at NAV	<u>\$ 28,157,097</u>	<u>\$ 5,455,413</u>		

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

16. Net Pension Liability of the City

The components of net position liability of the City on September 30, 2016 were as follows:

Total Pension Liability	\$ 355,306,067
Plan Fiduciary Net Position	<u>209,213,936</u>
City's Net Pension Liability	<u><u>\$ 146,092,131</u></u>
Plan fiduciary net position as a percentage of total pension liability	58.47 %

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of October 1, 2015 updated to September 30, 2016 using the following actuarial assumptions applied to all measurement periods.

Inflation	2.50%
Salary increases	service based
Investment rate of return	7.50%
Discount rate	7.50%

Mortality Rate Healthy Lives:

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

Male: RP2000 Generational, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB.

Mortality Rate Disabled Lives:

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale.

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale.

The most recent actuarial experience study used to review the other significant assumptions was dated April 25, 2016.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

16 Net Pension Liability of the City (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included the pension plan's target asset allocation as of September 30, 2016 are summarized in the following table:

<u>Target Allocation</u>	<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
42.5%	Domestic equity	5.50%
15%	International equity	8.50%
15%	Core Fixed Income	2.50%
10%	Non Core Fixed Income	2.50%
10%	Real estate	4.50%
2.5%	Timber	2.50%
5%	Alternative	5.00%

Discount Rate - The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.50%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	Current Discount		
	1% Decrease	Rate	1% Increase
	<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
City's net pension liability	<u>\$ 177,834,214</u>	<u>\$ 146,092,131</u>	<u>\$ 119,760,201</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM
September 30, 2016
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY
Last Three Fiscal Years

	September 30, <u>2016</u>	September 30, <u>2015</u>	September 30, <u>2014</u>
Total pension liability:			
Service cost	\$ 4,453,321	\$ 3,767,328	\$ 3,392,835
Interest	20,834,396	22,494,376	23,251,404
Changes in excess state money	-	-	62,926
Share Plan allocation	-	-	-
Changes of benefit terms	1,979,452	485,214	-
Difference between expected and actual experience	5,256,660	1,276,740	-
Changes of assumptions	11,571,857	2,607,740	-
Contribution buy-backs	102,854	-	-
Benefit payments, including refunds of employee contributions	<u>(20,200,193)</u>	<u>(20,225,704)</u>	<u>(19,215,460)</u>
Net change in total pension liability	23,998,347	10,405,694	7,491,705
Total pension liability - beginning	<u>331,307,720</u>	<u>320,902,026</u>	<u>313,410,321</u>
Total pension liability ending (a)	<u>\$ 355,306,067</u>	<u>\$ 331,307,720</u>	<u>\$ 320,902,026</u>
Plan fiduciary net position:			
Contributions - employer	\$ 13,072,574	\$ 13,479,650	\$ 9,493,630
Contributions - state	-	-	1,625,106
Contributions - employees	1,304,662	1,170,620	1,078,161
Contributions - buy-back	102,854	-	-
Net investment income	17,097,211	3,394,867	20,510,669
Benefit payments including refunds of employee contributions	(22,200,193)	(20,225,704)	(19,215,460)
Administrative xpenses	(630,289)	(491,494)	(635,223)
Other	<u>-</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	8,746,819	(2,672,061)	12,856,883
Plan fiduciary net position - beginning	<u>200,467,117</u>	<u>203,139,178</u>	<u>190,282,295</u>
Plan fiduciary net position - ending (b)	<u>\$ 209,213,936</u>	<u>\$ 200,467,117</u>	<u>\$ 203,139,178</u>
Net pension liability (asset) (a) - (b)	<u>\$ 146,092,131</u>	<u>\$ 130,840,603</u>	<u>\$ 117,762,848</u>

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

September 30, 2016

SCHEDULE OF RATIOS

Last Three Fiscal Years

	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>58.88%</u>	<u>60.50%</u>	<u>63.41%</u>
Covered employee payroll*	\$ <u>16,642,582</u>	\$ <u>16,753,713</u>	\$ <u>13,721,168</u>
Net pension liability as a percentage of covered payroll	<u>877.82%</u>	<u>780.96%</u>	<u>858.25%</u>

Notes to Schedule:

⁽¹⁾ The Covered Employee Payroll numbers shown are in compliance with GASB 82, except for the 09/30/2015 measurement period which includes DROP payroll.

Changes of benefit terms:

For measurement date 09/30/2016, no new Ordinances have been incorporated since the prior measurement date of 09/30/2015, however the Board under advisement from the Plan attorney, has determined that for the benefits accrued prior to October 1, 2011 that the Average Final Compensation is not "frozen" and should be based on the Average Final Compensation at termination. This change in interpretation is reflected as change for measurement date 09/30/2016.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM
September 30, 2016

SCHEDULE OF CONTRIBUTIONS
Last Three Fiscal Years

	September 30, 2016	September 30, 2015	September 30, 2014
	<u> </u>	<u> </u>	<u> </u>
Actuarially determined contributions	\$ 14,398,112	\$ 14,310,591	\$ 12,284,012
Contributions in relation to the actuarially determined contributions	<u>14,398,112</u>	<u>14,310,591</u>	<u>12,284,012</u>
Contribution deficiency (excess)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> -</u>
Covered employee payroll	\$ <u>16,642,582</u>	\$ <u>16,753,713</u>	\$ <u>13,712,168</u>
Contributions as a percentage of covered employee payroll	<u>86.51%</u>	<u>85.42%</u>	<u>89.58%</u>

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

September 30, 2016

NOTES TO SCHEDULE OF CONTRIBUTIONS

Valuation Date: October 1, 2014 (AIS 4/20/2016)
Actuarially determined contribution rates are calculated as of October 1, 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 cost method.
Amortization method: Level percentage, closed.
Remaining amortization period: 30 years.
Mortality rates Health Lives: RP-2000 combined healthy - sex distinct. Based on a study of over 650 public safety funds, the RP-2000 table reflects a 10% margin for future mortality improvements.
Mortality rates Disabled Lives: RP-2000 Disabled Table.
Interest rate: 7.5% per year compounded annually, net of investment related expenses.
13th check load: An underlying interest rate of 7.20% is used (0.3% lower than the assumed rate) to account for the 13th check. Additionally, since the DROP balances are included in the computation of the 13th check, the resulting load on the accrued liabilities is increased by 60% to account for this.

Termination rates:

<u>Percentage Terminating</u>	
<u>Age</u>	<u>During the Year</u>
20	10.30%
25	7.30%
30	4.15%
35	1.82%
40	0.99%
45	0.48%

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

September 30, 2016

NOTES TO SCHEDULE OF CONTRIBUTIONS (CONTINUED)

Disabled rates:		Ordinary	Service
		<u>Disability Rate</u>	<u>Disability Rate</u>
	<u>Age</u>		
	20	0.04%	0.03%
	25	0.06%	0.05%
	30	0.09%	0.07%
	35	0.12%	0.10%
	40	0.18%	0.14%
	45	0.32%	0.26%
	50	0.55%	0.44%
	55	0.79%	0.63%

Line of duty incidence: Death - 15% in the line of duty.
 Disability - 45% in the line of duty.

Salary increases:		Year of
		<u>Service</u>
		<u>Rate</u>
		0
		35.00%
		1
		12.00%
		2
		10.00%
		3
	8.50%	
	4	
	8.00%	
	5	
	7.50%	
	6	
	7.25%	
	7	
	7.25%	
	8	
	7.25%	
	9+	
	7.00%	

Payroll growth: Up to 3.00% per year.
 Actuarial asset method: The Actuarial Value of Assets utilizes a five-year smoothing methodology. The annual difference between expected and actuarial investment earnings (Market Value, net of investment related expenses), is phased in over a five-year period.

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM
September 30, 2016

SCHEDULE OF INVESTMENT RETURNS

Last Three Fiscal Years

	September 30, 2016	September 30, 2015	September 30, 2014
Annual money-weighted rate of return			
net of investment expenses	<u>8.57%</u>	<u>1.92%</u>	<u>10.77%</u>

ADDITIONAL INFORMATION

CITY OF HOLLYWOOD FIREFIGHTERS' PENSION SYSTEM

SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES

Years ended September 30, 2016 and 2015

	2016		2015	
	Investment	Administrative	Investment	Administrative
	Expenses	Expenses	Expenses	Expenses
Expenses:				
Actuary fees	\$ -	\$ 80,283	\$ -	\$ 57,312
Accounting fees		1,350		9,059
Administrators' fees	-	110,022	-	127,720
Audit fees	-	22,000	-	22,000
Custodial fees	60,126	-	50,695	-
Computer service	-	24,548	-	11,763
Copy machine lease	-	6,669	-	4,607
Directors' liability insurance	-	38,618	-	31,925
Dues and subscriptions	-	1,680	-	600
Investment managers' fees:				
Advisory Research, Inc.	93,940	-	92,570	-
Globalt, Inc.	63,081	-	60,901	-
GAMCO Asset Management, Inc.	153,250	-	202,668	-
Garcia, Hamilton & Associates	78,638	-	61,526	-
J. P. Morgan Investment Management, Inc.	198,617	-	153,867	-
Sawgrass Asset Management, LLC	109,246	-	124,191	-
Barrington International Management, Inc.	-	-	54,265	-
U.S. Real Estate	99,584	-	85,521	-
RBC Global Asset Management	177,725	-	143,900	-
WCM Management, Inc.	124,916	-	117,324	-
West field Capital Management, LP	26,849	-	-	-
Employee benefits	-	77,250	-	-
Legal fees	-	103,430	-	36,000
Legal, other	-	9,097	-	53,196
Office expenses	-	15,735	-	21,931
Office rent	-	31,827	-	32,368
Office staff	-	91,437	-	62,320
Performance monitor	61,900	-	62,999	-
Seminar expense	-	16,343	-	20,693
	<u>\$ 1,247,872</u>	<u>\$ 630,289</u>	<u>\$ 1,210,427</u>	<u>\$ 491,494</u>
Percentage of net position	<u>0.59%</u>	<u>0.30%</u>	<u>0.60%</u>	<u>0.24%</u>