City of Hollywood, Florida Employees' Retirement Fund

Financial Report
September 30, 2012

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

McGladrey

Independent Auditor's Report

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

We have audited the accompanying statements of plan net assets of the City of Hollywood, Florida Employees' Retirement Fund (the "Plan") as of and for the years ended September 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Hollywood, Florida Employee's Retirement Fund as of September 30, 2012 and 2011, and the respective changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 27, 2013 and September 20, 2012 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports are 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McGladrey LLP

Fort Lauderdale, Florida
September 27, 2013

Management's Discussion and Analysis

Our discussion and analysis of the City of Hollywood, Florida Employees' Retirement Fund's (the "Plan") financial performance provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2012 and 2011. Please read it in conjunction with the financial statements, which follow this discussion.

Financial Highlights

- Plan net assets held for benefits exceeded liabilities at the close of fiscal years ended September 30, 2012 and 2011 by $236,433,381 and $200,979,618 (reported as net assets held in trust for pension benefits), respectively. Net assets are held in trust to meet future benefit payments. The funded status of the Plan is disclosed in the Schedule of Funding Progress as part of the required supplementary information in this report.
- For the fiscal year ended September 30, 2012, liabilities increased by $960,341 (or 274%) primarily as a result of amounts due to brokers. For the fiscal year ended September 30, 2011, liabilities decreased by $726,749 (or 67.5%) primarily as a result of amounts due to brokers.
- For the fiscal year ended September 30, 2012, employer contributions to the Plan amounted to $18,406,878, an increase of $1,672,424 (or 10%) over fiscal year 2011. For the fiscal year ended September 30, 2011, employer contributions to the Plan amounted to $16,734,454, an increase of $328,130 (or 2.0%) over fiscal year 2010.
- For the fiscal year ended September 30, 2012, employee contributions were $2,666,583, a decrease of $1,003,779 (or 27.3%) over the prior year. For the fiscal year ended September 30, 2011, employee contributions were $3,670,362, an increase of $198,504 (or 5.7%) over the prior year.
- For the fiscal year ended September 30, 2012, net investment income increased by $38,748,150 (or 229.7%) to $38,916,858, net of investment expenses of $1,027,759 in comparison to fiscal year 2011. For the fiscal year ended September 30, 2011, net investment income decreased by $15,498,681 (or 98.9%) to $168,708 net of investment expenses of $1,090,384 in comparison to fiscal year 2010.
- For the fiscal year ended September 30, 2012, benefit payments, administrative expenses and refund of contributions increased by $3,901,460 (or 18.9%) to $24,536,556 over fiscal year 2011. For the fiscal year ended September 30, 2011, benefit payments, administrative expenses and refund of contributions increased by $2,667,490 (or 14.8%) to $20,635,096 over fiscal year 2010.
- On September 13, 2011 a Special Referendum was held where voters of the City approved significant changes to the pension plan. The revised October 1, 2010 actuaries valuation issued by the plan's actuaries reflecting these changes showed a decrease in the plan's actuarial accrued liability ("AAL") of approximately $18.4 million from the prior year's AAL.

Plan Highlights

For the fiscal year ended September 30, 2012, the relative gross gain of the portfolio was 20.29% for the trailing year exceeding the policy index for a portfolio with a similar composition of 19.44%, with net investment gain of $38,916,858 for the year. For the fiscal year ended September 30, 2011, the relative gross return of the portfolio was (0.86%) for the trailing year which was lower than the policy index for a portfolio with a similar composition of (2.11%), with net investment income of $168,708 for the year.

Using the Audited Financial Statements

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

Statements of Plan Net Assets

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

	2012	2011	2010
Cash and short-term investments	**$ 11,223**	$ 6,657	$ 5,722
Investments, at fair value	**225,999**	194,045	195,752
Receivables	**522**	628	644
Total assets	**237,744**	201,330	202,118
Liabilities	**1,311**	350	1,077
Net assets held in trust for pension benefits	**$ 236,433**	$ 200,980	$ 201,041

Statements of Changes in Plan Net Assets

The statement of changes in plan net assets 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 assets. The table below reflects a condensed comparative summary of the changes in net assets and reflects the activities of the Plan for the year ended September 30 (in thousands):

	2012	2011	2010
Additions:			
Contributions:			
City	**$ 18,407**	$ 16,735	$ 16,406
Participants	**2,666**	3,670	3,472
Total contributions	**21,073**	20,405	19,878
Net investment income (loss)	**38,917**	169	15,667
Total additions (deductions)	**59,990**	20,574	35,545
Deductions:			
Pension benefits	**23,725**	19,975	17,385
Administrative expenses	**315**	269	223
Refund of contributions	**497**	391	359
Total deductions	**24,537**	20,635	17,967
Net increase (decrease)	**35,453**	(61)	17,578
Net assets held in trust for pension benefits, beginning of year	**200,980**	201,041	183,463
Net assets held in trust for pension benefits, end of year	**$ 236,433**	$ 200,980	$ 201,041

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, 2012 increased from those of fiscal year ended September 30, 2011. Actual returns for the fiscal year ended September 30, 2011 decreased from those of fiscal year ended September 30, 2010.

The benefit payments are a function of changing payments to retirees or their beneficiary (if the retiree is deceased and new retirements during the period).

Asset Allocation

At September 30, 2012 the domestic equity portion comprised 58.2% ($138,012,384) of the total portfolio. The allocation to fixed income securities was 23% ($54,567,638), while cash and cash equivalents comprised 4.7% ($11,222,651). Real estate partnerships comprised 7.8% ($18,516,399) and international equities comprised 6.3% ($14,902,440).

At September 30, 2011 the domestic equity portion comprised 54.0% ($108,414,337) of the total portfolio. The allocation to fixed income securities was 31.9% ($63,893,979), while cash and cash equivalents comprised 3.3% ($6,656,543). Real estate partnerships comprised 6.3% ($12,702,264) and international equities comprised 4.5% ($9,034,791).

The target asset allocation ranges as of September 30 were as follows:

	2012	2011
Domestic equities	**45 – 65%**	45 – 65%
Fixed income	**25 – 45%**	25 – 45%
International equities	**2.5 – 7.5%**	2.5 – 7.5%
Real estate	**0.0 – 7.5%**	0.0 – 7.5%

Contacting the Plan's Financial Management

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

City of Hollywood, Florida
Employees' Retirement Fund

Statements of Plan Net Assets
September 30, 2012 and 2011

	2012	2011
Assets:		
Cash and short-term investments	**$ 11,222,651**	$ 6,656,543
Investments, at fair value:		
U.S. government securities	**18,062,876**	29,039,814
U.S. government agency securities	**13,626,256**	14,238,826
Corporate bonds	**22,878,506**	20,615,339
Corporate stocks	**138,012,384**	108,414,337
Pooled investment funds	**33,418,839**	21,737,055
Total investments	**225,998,861**	194,045,371
Receivables:		
Accounts receivable	**-**	1,993
Accrued interest and dividends	**522,401**	625,902
Total receivables	**522,401**	627,895
Total assets	**237,743,913**	201,329,809
Liabilities:		
Accrued expenses	**210,784**	179,640
Due to brokers	**951,685**	-
Due to City of Hollywood	**148,063**	170,551
Total liabilities	**1,310,532**	350,191
Net assets held in trust for pension benefits	**$ 236,433,381**	$ 200,979,618

See Notes to Financial Statements.

City of Hollywood, Florida
Employees' Retirement Fund

Statements of Changes in Plan Net Assets
For Year Ended September 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
City	**$ 18,406,878**	$ 16,734,454
Participants	**2,666,583**	3,670,362
Total contributions	**21,073,461**	20,404,816
Investment income:		
Net appreciation (depreciation) in fair value of plan investments	**35,001,375**	(3,701,215)
Interest and dividends	**4,943,242**	4,960,307
	39,944,617	1,259,092
Less: investment expense	**1,027,759**	1,090,384
Net investment income	**38,916,858**	168,708
Total additions	**59,990,319**	20,573,524
Deductions:		
Pension benefits paid	**23,724,848**	19,975,509
Administrative expenses	**314,718**	268,932
Refunds of contributions to participants	**496,990**	390,655
Total deductions	**24,536,556**	20,635,096
Net increase (decrease) in plan net assets	**35,453,763**	(61,572)
Net assets held in trust for pension benefits, beginning of year	**200,979,618**	201,041,190
Net assets held in trust for pension benefits, end of year	**$ 236,433,381**	$ 200,979,618

See Notes to Financial Statements.

Note 1. Plan Description and Summary of Significant Accounting Policies

The City of Hollywood, Florida Employee's Retirement Fund (also known as the General Employees' Retirement Fund) (the "Plan") is a single-employer defined-benefit plan. The Plan was established on October 1, 1958, as set forth in Article X, Section 10.01 of the City of Hollywood, Florida (the "City") charter and is governed by various state and federal laws. The City requires that substantially all full-time, permanent general employees of the City contribute to the Plan. Contributions required from Plan members are at the rate of 9% of compensation, which has been on a tax-deferred basis since 1994. The City is required to contribute the remaining amounts necessary to fund the Plan using an actuarial basis as required by state statute. The City's actuarially determined required contribution rate for fiscal year 2012 is 36.14% 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.

On September 13, 2011 a Special Referendum was held in the City for voters to consider approving changes proposed to the General Employees pension plan. This referendum was approved by a majority of the voters participating in this referendum. As a result, effective October 1, 2011 the changes approved for the pension plan were implemented. The pension plan changes were designed to help reduce the City's future pension costs.

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, 2012. Anyone wishing further information about the City is referred to the CAFR in which the Plan has been included.

At October 1, 2011 and 2010, membership in the Plan consisted of:

	October 1	
	2011	2010
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	**1,053**	946
Current employees:		
Vested	**464**	551
Nonvested	**70**	117
Total current employees	**534**	668
Total all plan participants	**1,587**	1,614

The plan had numerous changes that were effective October 1, 2011 impacting mainly General Fund Plan members and employees hired on or after that date. Details of those plan changes are reflected in the notes that follow.

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

For employees hired on or after July 15, 2009

- Vesting period will be 7 years of credited service.
- Normal retirement date shall be age fifty-seven (57) or older with twenty-five (25) years of credited service: age sixty (60) or older with seven (7) years of credited service; or thirty (30) years of credited service, regardless of age.
- Upon reaching normal retirement date, a member is entitled to a normal retirement benefit of two and one-half percent (2.5%) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81%) of average final compensation.
- Average final compensation shall be based on the member's highest one hundred four (104) consecutive bi-weekly pay periods of credited service.
- Compensation shall include only the member's base pay, which includes longevity pay, but no other payments shall be included.
- Eligibility for non-duty disability benefits shall commence upon the member completing seven (7) years of credited service.
- A vested member who separates from city employment prior to his or her normal retirement date and does not receive a refund of contributions shall have a right to receive a retirement benefit beginning at age sixty (60) based on the benefit formula in effect on the date of separation from city employment, years of credited service and average final compensation on that date.
- Members shall contribute nine percent (9%) of their compensation to the Plan.
- Members shall not be eligible to participate in the DROP.
- Members shall not be eligible for a COLA after their retirement benefits commence.

For employees hired 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%) 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%) COLA shall be payable annually commencing the later of three (3) years after retirement benefits begin or one (1) year after separation employment following participation in the DROP.
- Contributions for these employees will increase to eight percent (8%) of compensation on October 1, 2009 and then to nine percent (9%) of compensation on October 1, 2010.
- For Plan members hired prior to July 15, 2009 who retire or enter the DROP on or after August 17, 2009 compensation shall exclude all earnings and payouts for blood time and compensatory time. Payouts for accumulated annual leave that may be counted as compensation for such members shall not exceed 125 hours per year for employees covered by the General employees' bargaining unit: and shall not exceed 60 hours per year for employees who retire from a position not covered by the General employees' bargaining unit.

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.

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

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

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

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

For 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%) of average final compensation for each year of credited service, up to a maximum benefit of eighty-one (81%) of average final compensation. Average final compensation shall be based on the member's highest one hundred and four (104) consecutive bi-weekly pay periods of credited service.

As of September 30, 2011, benefits under the existing plan were frozen. 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% of average final credited compensation earned on or after October 1, 2011 up to the benefit equal to the net result of subtracting from 81% the product of 3% times the number of years of credited service earned up to September 30, 2011. Average final compensation for General Fund members effective October 1, 2011 shall include only the member's base pay which includes longevity but no other payments shall be included. A General Fund member's entitlement to a benefit in the form of a COLA shall be frozen as of September 30, 2011. Under the benefit structure effective October 1, 2011, a General Fund member shall not be eligible for a COLA.

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

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

(1) Normal retirement date shall be age 65 or older with seven (7) years credited service; age 62 or older with 25 years of credited service; or age 60 with 30 years of credited service.
(2) Vesting period is seven (7) years of credited
(3) Upon reaching normal retirement date, a General Fund member is entitled to a normal retirement benefit of 2% of average final compensation for each year of credited service, up to a maximum of 81% of average final compensation.
(4) Average final compensation for a General Fund member is based on the highest 130 consecutive bi-weekly pay periods of the last 260 bi-weekly pay periods of credited service
(5) Eligibility for non-duty disability benefits shall commence after completing seven (7) years of credited service
(6) General Fund member is not eligible to participate in the DROP
(7) General Fund members will not be eligible for a COLA.
(8) General Fund member who separate from the City prior to his or her normal retirement date having completed seven (7) years of credited service, does not receive a refund of contributions shall have the right to receive a service retirement benefit beginning at age 65 based on the benefit formula in effect on the date of separation from city, years of credited service and average final compensation on that date.

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

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

A member's accrued benefit equates to 3% or 1% of the average monthly compensation multiplied by years of creditable service, for contributory and noncontributory periods, respectively.

Note 1. Plan Description and Summary of Significant Accounting Policies (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 of Hollywood, who is vested, dies before retirement, his or her designated beneficiary (or beneficiaries) shall have the option of receiving the members' contribution to the fund, plus simple interest at the rate of four percent (4%) per year, or benefit payments until his or her own death equal to the benefit payments the deceased member would have received had he or she retired on the day of his or her death having selected to receive his or her annuity as joint and last survivor, whereby the retired member shall receive a reduced monthly benefit for life, and following the retired member's death, the same monthly benefit is paid to the member's designated beneficiary for life.

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

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

Upon commencement of participation in the DROP, the member's contribution and the City's contribution to the Plan for the member cease as the member will not earn further creditable service for pension purposes. For each member electing participation in the DROP, an individual DROP account shall be created. Payment shall be made by the Plan into the member's DROP account in an amount equal to the normal monthly retirement benefit, which the member would have received had the member separated from service and commenced receipt of pension benefits. Payments received by the member in the DROP account are tax deferred. The rate of return earned by the DROP account is the actuary's estimated rate of return for that particular Plan year or the Plan's actual net rate of return, whichever is greater. Notwithstanding the preceding sentence, 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 assets held in trust for pension benefit.

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

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

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

DROP participation does not affect any other death or disability benefits provided to general employees under federal law, state law, City ordinance or any rights or benefits under any applicable collective bargaining agreement. At October 1, 2011 and 2010, there were 172 and 106 DROP participants, respectively.

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

Other: Operating expenses incurred by the Plan for investment management services totaled $1,027,759 and $1,090,384 for the fiscal years ended September 30, 2012 and 2011, respectively.

Administrative expenses incurred by the Plan for expenses with the Pension Coordinator's Office, legal fees and custodian fees totaled $314,718 and $268,932 for fiscal years September 30, 2012 and 2011, respectively. Administrative costs of the Plan incurred by the City were approximately $46,381 and $44,086 for the years ended September 30, 2012 and 2011, respectively, and are not reflected in the accompanying financial statements.

A summary of the Plan's significant accounting policies follows:

Basis of accounting: The financial statements are prepared using the accrual basis of accounting. Contributions from members are recorded in the period the City makes payroll deductions from participants (members). City contribution requirements are actuarially determined and are normally remitted on a biweekly basis with the members contributions. Benefit payments and refunds to members are recognized when due and payable in accordance with the terms of the Plan.

During fiscal years 2012 and 2011, the City remitted the balance of the required contribution in a lump sum during January 2012 and December 2010, respectively in order to reduce interest accruing on the Plan's unfunded liability.

Use of estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in net assets available for Plan benefits. Actual results could differ from those estimates.

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

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

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

Investments: Investments are carried at fair value, which is determined as follows: securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price; commercial paper, time deposits and short-term investment pools are valued at cost, which approximates fair value; and amounts in investment funds are valued at the market value of the shares at year-end. Alternative investments, which include real estate investment trusts and private equity, where no readily ascertainable market value exits, management, in consultation with the general partner and investment advisors, has determined the fair values of the individual investments based upon the partnership's most recent available information.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in plan net assets along with gains and losses realized 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.

The investment policy is determined by City Charter in conjunction with the board of trustees and is implemented by investment advisors. At September 30, 2012, 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 65% of the total plan assets;
- Fixed income investments, provided that no one issue of these obligations is more than 5% of the investment manager's portfolio;
- Time deposits or time certificates in any banking institution organized under the laws of the United States, provided that such investments are not more than 5% of the short-term investment account;
- International equity investments made through the purchase of units of commingled funds or group trusts are limited to a maximum of 7.5% 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 7.5% of plan investments, as determined by the Board of Trustees in consultation with the investment consultant.

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

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

Note 1. Plan Description and Summary of Significant Accounting Policies (Continued)

Subsequent events: Management has evaluated subsequent events through September 27, 2013, the date which the financial statements were available for issuance.

Note 2. 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 investments to a maximum of 10 years.

At September 30, 2012, the Plan had the following fixed income investments and maturities:

		Investment Maturities (in thousands)			
	Fair Value	**1 Year**	**1 – 5 Years**	**6 – 10 Years**	**10 Years**
U.S. government securities:					
U.S. Treasuries	**$ 18,063**	**$ 1,893**	**$ 7,973**	**$ 3,047**	**$ 5,150**
U.S. government agencies	**13,626**	**779**	**709**	**1,560**	**10,578**
Total U.S. government securities	**31,689**	**2,672**	**8,682**	**4,607**	**15,728**
Corporate bonds	**22,879**	**1,222**	**8,730**	**7,853**	**5,074**
Total plan fixed income investments	**$ 54,568**	**$ 3,894**	**$ 17,412**	**$ 12,460**	**$ 20,802**

At September 30, 2011, the Plan had the following fixed income investments and maturities:

		Investment Maturities (in thousands)			
	Fair Value	1 Year	1 – 5 Years	6 – 10 Years	10 Years
U.S. government securities:					
U.S. Treasuries	$ 29,040	$ 3,979	$ 14,812	$ 3,473	$ 6,776
U.S. government agencies	14,239	940	2,261	980	10,058
Total U.S. government securities	43,279	4,919	17,073	4,453	16,834
Corporate bonds	20,615	935	7,936	6,731	5,013
Total plan fixed income investments	$ 63,894	$ 5,854	$ 25,009	$ 11,184	$ 21,847

Note 2. 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. Investment policies of the Plan limit equity securities to those listed on a national securities exchange or traded in the over-the-counter market and quoted in the National Association of Securities Dealers Automatic Quotation Service. Investments in any issuing company are limited to not more than 5% of the market value of the assets. Fixed income portfolios are to be invested in marketable securities rated in the highest four quality grades as established by one or more of the nationally recognized bond rating services.

As a means of limiting its exposure to credit risk, the Plan diversifies its investments by security type and institution and limits holdings by type of investment and with any one issuer.

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

	2012		2011	
	Fair Value	**Percentage of Portfolio**	Fair Value	Percentage of Portfolio
Employees Retirement Fund:				
U.S. government guaranteed	**$ 31,689**	**58.07%**	$ 43,279	67.74%
Quality rating of credit risk debt securities:				
AA	**6,809**	**12.48%**	6,646	10.40%
A	**7,560**	**13.85%**	5,689	8.90%
BB	**263**	**0.48%**	631	0.99%
BBB	**8,247**	**15.12%**	7,649	11.97%
Total credit risk of debt securities	**22,879**	**41.93%**	20,615	32.26%
Total plan fixed income securities	**$ 54,568**	**100.00%**	$ 63,894	100.00%

Custodial credit risk: 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.

The policy requires that time deposits made at banks must be made with Qualified Public Depositories in accordance with Chapter 280, Florida Statutes. The Plan deposits funds only in Qualified Public Depositories which have deposit insurance under the provision of the FDIC. As of September 30, 2012, the Plan's bank deposits were in Qualified Public Depositories and as such the deposits are not exposed to custodial credit risk.

As of September 30, 2012 and 2011, the Plan's investments are held by third-party safekeeping custodians selected by their board of trustees and registered in the Plan's name, except for certificates of deposit and other time deposits, which are collateralized in accordance with Florida statutes.

Concentration of credit risk: The investment policy of the Plan contains a limitation on the amount that can be invested in any one issuer, as well as portfolio allocation ranges and maximum percentages by types of investments. At September 30, 2012 and 2011, the Plan had 7.8% and 6.3%, respectively, of plan assets invested in Morgan Stanley – Prime Property Fund, LLC and 6.3% and 4.5%, respectively, of plan assets invested in HMIT – Hansberger INTL Core Fund.

Note 2. Deposits and Investments (Continued)

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect fair value of an investment or a deposit.

The Plan's pro rata share in a commingled equity investment fund exposes it to foreign currency risk as follows (in thousands):

	2012	2011
	Fair Value	Fair Value
Currency:		
Euro	**$ 2,419**	$ 1,522
British pound	**2,773**	1,615
Japanese yen	**1,741**	1,502
Swiss franc	**1,275**	665
Chinese renminbi	**1,212**	582
Canadian dollar	**1,078**	522
Brazilian real	**368**	359
Australian dollar	**664**	383
Hong Kong dollar	**751**	505
Korean won	**583**	194
Indian rupee	**301**	161
Russian ruble	**149**	218
Taiwan dollar	**375**	133
Israeli Shekel	**245**	-
Norwegian krone	**163**	96
South African Rand	**74**	88
Singapore dollar	**303**	60
Other	**203**	261
Total	**$ 14,677**	$ 8,866

Note 3. Due to / from Brokers

"Due to brokers" of $951,685 represents investments sold, for which the sale has not reached the settlement date at September 30, 2012. "Due from brokers" of $1,993 represents investments purchased, for which the sale had not reached the settlement date at September 30, 2011.

Note 4. Funded Status of the Plan

Actuarial Valuation Date	Actuarial Valuation Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-1)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as Percentage of Annual Covered Payroll ((b-a)/c)
10/01/2011	$ 224,237,503	$ 376,225,569	$ 151,988,066	59.6%	$ 29,823,518	509.6%

Required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 5. Actuarial Methods and Significant Assumptions

Actuarial methods and significant assumptions used to determine the ARC for the current year are as follows:

Actuarial valuation:	
Frequency	Annual
Latest date	October 1, 2010
Cost method	Entry age normal
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Amortization method	Level percent, closed
Assumptions:	
Investment Rate of Return	8.0%
Projected Salary increases*	4.0% to 9.0%
Mortality table	RP-2000 Combined Healthy

*Includes inflation at 3.5%.

Postretirement benefit increase	2% per year after 4 years of retirement

There have been no changes in actuarial methods or assumptions from the previous valuation.

Required Supplementary Information

City of Hollywood, Florida **Schedule 1**
Employees' Retirement Fund

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Valuation Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded AAL as Percentage of Annual Covered Payroll ((b-a/c)
10/01/11	224,237,503	376,225,569	151,988,066	59.6%	29,823,518	509.6%
10/01/10	223,942,457	351,118,031	127,175,574	63.8%	38,748,664	328.2%
10/01/09	220,155,870	369,526,337	149,370,467	59.6%	44,084,422	338.8%
10/01/08	222,098,827	348,634,231	126,535,404	63.7%	45,848,717	276.0%
10/01/07	212,980,592	325,892,851	112,912,259	65.4%	45,999,379	245.5%
10/01/06	195,193,325	303,778,626	108,585,301	64.3%	41,755,261	260.1%

See Accompanying Independent Auditor's Report.

City of Hollywood, Florida **Schedule 2**
Employees' Retirement Fund

Required Supplementary Information
Schedule of Employer Contributions

Year Ended September 30	Annual Required Contribution	Percentage Contributed
2012	$ 13,050,878	100.0%
2011	16,734,454	100.0%
2010	16,406,324	100.0%
2009	14,743,450	100.0%
2008	13,761,179	100.0%
2007	12,087,074	100.0%

See Accompanying Independent Auditor's Report.

Other Reports

Independent Auditor's Report
on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the statement of plan net assets of the City of Hollywood, Florida Employees' Retirement Fund (the "Plan") as of September 30, 2012, and the related statements of changes in plan net assets for the year then ended and have issued our report thereon dated September 27, 2013. 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.

Internal Control over Financial Reporting

Management of the Plan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, Plan management, and Plan participants and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Fort Lauderdale, Florida
September 27, 2013