

CITY OF HOLLYWOOD POLICE OFFICERS RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018



CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

YEAR ENDED SEPTEMBER 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the City of Hollywood
Police Officers Retirement System

We have audited the accompanying financial statements of the City of Hollywood Police Officers Retirement System, which comprise the statement of fiduciary net position as of September 30, 2018, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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 Police Officers Retirement System as of September 30, 2018, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Matters

Prior Year Comparative Information

We have previously audited the City of Hollywood Police Officers Retirement System's 2017 financial statements, and our report dated June 11, 2018 expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-7 and the schedules of contributions from employers and other contributors, schedule of investment returns and schedules of changes in the employer's net pension liability and related ratios on pages 27-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of investment and administrative expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare 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 audited standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (Continued)

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2019, on our consideration of the City of Hollywood Police Officers Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the effectiveness of the Hollywood Police Officers Retirement System's internal control over financial reporting or on compliance. That report is an integral part of an audit in accordance with Government Auditing Standards in considering the City of Hollywood Police Officers Retirement System's internal control over financial reporting and compliance.

KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & Co.

Weston, Florida
February 22, 2019

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents Management Discussion and Analysis (MD&A) of the City of Hollywood Police Officers Retirement System's (the Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for the fiscal year ended September 30, 2018. Please read it in conjunction with the Plan's financial statements, which immediately follow.

General Overview of the Plan

The Plan was first established on March 9, 1976 by Ordinance No. 0-76-12. The Plan is amended from time to time. The Plan is also governed by certain provisions of Part VII, Chapter 112, and Chapter 185 of the Florida Statutes.

There is a Board of Trustees (the Board) in whom the general administration, management and responsibility for the proper operation of the Plan is vested.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: the MD&A, the financial statements, notes to the financial statements and supplementary information.

The financial statements provide both long-term and short-term information about the Plan's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred and appreciation (depreciation) of assets is recognized in the statement of changes in fiduciary net position. All assets and liabilities associated with the operation of the Plan are included in the statement of fiduciary net position.

The statement of fiduciary net position reports fiduciary net position and how it has changed. A net asset is the difference between the asset and any related liabilities. It is one measurement of the financial health or current position of the Plan.

Financial Highlights

The Plan's net results from operations for fiscal year 2018 reflected the following financial activities:

- Total net position restricted for pensions was \$306,028,992, which was 9% greater than 2017 total net position restricted for pensions.
- Total contributions for the year were \$21,255,019 which was 13% greater than the 2017 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Participant contributions were 8.0% of compensation for police officers on their first 27 years of continuous service. Police officers electing the Reformed Plan Retirement Benefit Option 2 shall contribute 0.5% of their earnings.
- Total interest and dividend income was \$6,971,566 which was 4% greater than the 2017 income.
- Net investment income was \$33,082,120 which was 7% greater than the 2017 income.
- Benefits paid were \$23,952,027, which was 6% greater than the benefits paid during 2017.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Fiduciary Net Position

The following condensed comparative statement of fiduciary net position is a snap shot of account balances at the fiscal year end of the Plan. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for Plan benefits.

The Plan continues to be evaluated for actuarial soundness by the actuary of the Plan. It should be noted that retirement system funding is based on a long-term perspective and that temporary fluctuations in the market are to be expected.

- Net position restricted for pensions at September 30, 2018 was \$306,028,992, a 9% increase from the net position at September 30, 2017.
- Total investments at September 30, 2018 were \$297,046,544, an 8% increase from the investments at September 30, 2017.

The table below presents condensed comparative statements of fiduciary net position as of September 30:

	2018	2017	% Change
Receivables	\$ 6,739,639	\$ 4,367,174	54%
Prepaid expense	2,308,677	2,157,488	7%
Investments, at fair value	297,046,544	274,293,949	8%
Total assets	306,094,860	280,818,611	9%
Total liabilities	65,868	333,942	(80%)
Net position restricted for pensions	\$ 306,028,992	\$ 280,484,669	9%

Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position presents the effect of Plan's transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the Plan equal the net increase or decrease in fiduciary net position.

The funding objective is to meet long-term obligations and fund all Plan benefits.

- Revenues (additions to fiduciary net position) for the Plan were \$54,380,989, which was made up of total contributions of \$21,255,019 plus net investment income of \$33,082,120 and other income of \$43,850.
- Expenses (deductions from fiduciary net position) increased from \$28,329,537 during 2017 to \$28,836,666 during 2018.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Changes in Fiduciary Net Position (Continued)

The table below presents a condensed comparative of the changes in fiduciary net position for the year ended September 30:

	2018	2017	% Change
Total contributions	\$ 21,255,019	\$ 18,776,017	13%
Net investment income	33,082,120	30,856,527	7%
Other income	43,850	18,854	133%
Total additions	54,380,989	49,651,398	10%
Total deductions	28,836,666	28,329,537	2%
Net increase	25,544,323	21,321,861	20%
Net position restricted for pensions – beginning	280,484,669	259,162,808	8%
Net position restricted for pensions – ending	\$ 306,028,992	\$ 280,484,669	9%

Asset Allocation

The table below indicates the Plan's investment policy limitations and actual asset allocations as of September 30, 2018:

Type of Investment	Investment Policy	Actual Allocation
Equity securities	45% to 65%	63.50%
Alternative investments	0% to 5%	2.27%
Fixed income	22% to 60%	22.40%
Real estate	0% to 15%	10.57%
Cash and cash equivalents	0% to 5%	1.26%

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

The Board recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's financial condition enables the Board to adopt long-term investment perspective.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Investment Activities

Investment income is vital to the Plan for current and future financial stability. The Board has a fiduciary responsibility to act prudently when making plan investment decisions. To assist the Board in this area, the Board retains investment managers who supervise and direct the investment of the assets. The Board also retains an investment monitor to evaluate and report on quarterly basis compliance by the investment managers with the investment policy of the Board and investment performance of the Plan. The investment policy statement was last amended during November 2017.

The Board and its investment consultant review portfolio performance in compliance with the investment policy statement quarterly. Performance is evaluated both individually by money manager style and collectively by investment type and for the aggregate portfolio.

Financial Analysis Summary

The investment activities for the fiscal year ended September 30, 2018 are a function of the underlying market, money managers' performance and the investment policy's asset allocation model. The Plan has consistently implemented a high quality, conservative approach.

Contacting the Plan's Financial Management

This financial analysis is designed to provide the Board, Plan participants and the marketplace credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or you need additional financial information, please contact the administrator of the Plan:

City of Hollywood
Police Officers Retirement System
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
RECEIVABLES:		
City contributions	\$ 4,736,140	\$ 2,590,418
Participant contributions	133,972	63,033
Accrued investment income	570,775	554,511
Accounts receivable - sale of investments	4,962	31,074
DROP loans receivable	1,293,790	1,128,138
TOTAL RECEIVABLES	<u>6,739,639</u>	<u>4,367,174</u>
PREPAID EXPENSE	<u>2,308,677</u>	<u>2,157,488</u>
INVESTMENTS, AT FAIR VALUE:		
Money market funds	3,759,898	5,115,595
Equity securities	188,611,765	166,530,081
Domestic corporate bonds	46,454,415	45,638,903
Foreign corporate bonds	1,530,320	1,578,125
Real estate funds	31,387,374	28,700,465
Government securities	18,549,590	21,725,509
Hedge fund	6,753,182	5,005,271
TOTAL INVESTMENTS, AT FAIR VALUE	<u>297,046,544</u>	<u>274,293,949</u>
TOTAL ASSETS	<u>306,094,860</u>	<u>280,818,611</u>
LIABILITIES		
ACCOUNTS PAYABLE	65,868	105,130
ACCOUNTS PAYABLE - DROP BENEFITS	-	137,695
ACCOUNTS PAYABLE - PURCHASE OF INVESTMENTS	<u>-</u>	<u>91,117</u>
TOTAL LIABILITIES	<u>65,868</u>	<u>333,942</u>
NET POSITION RESTRICTED FOR PENSIONS		
NET POSITION RESTRICTED FOR PENSIONS:		
Net position restricted for defined benefits	211,623,323	192,866,380
Net position restricted for DROP benefits	80,798,757	77,157,590
Net position restricted for reformed plan retirement benefits	9,836,516	7,004,296
Net position restricted for share benefits	3,770,396	3,456,403
TOTAL NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 306,028,992</u>	<u>\$ 280,484,669</u>

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

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
ADDITIONS:		
Contributions:		
City	\$ 19,492,251	\$ 17,005,579
Participant	1,714,922	1,625,263
Buyback	47,846	57,026
Rollover	-	88,149
Total contributions	<u>21,255,019</u>	<u>18,776,017</u>
Investment income:		
Net appreciation in fair value of investments	27,489,860	25,602,965
Interest and dividend income	<u>6,971,566</u>	<u>6,698,664</u>
Total investment income	34,461,426	32,301,629
Less: investment expenses	<u>1,379,306</u>	<u>1,445,102</u>
Net investment income	<u>33,082,120</u>	<u>30,856,527</u>
Other income	<u>43,850</u>	<u>18,854</u>
TOTAL ADDITIONS	<u>54,380,989</u>	<u>49,651,398</u>
DEDUCTIONS:		
Benefit payments	23,952,027	22,666,416
DROP distributions	3,332,868	3,946,790
RPRB distributions	683,555	675,917
Share distributions	221,570	293,310
Refunds of contributions	53,956	20,298
Administrative expenses	<u>592,690</u>	<u>726,806</u>
TOTAL DEDUCTIONS	<u>28,836,666</u>	<u>28,329,537</u>
NET INCREASE IN NET POSITION		
RESTRICTED FOR PENSIONS	25,544,323	21,321,861
NET POSITION RESTRICTED FOR		
PENSIONS - BEGINNING	<u>280,484,669</u>	<u>259,162,808</u>
NET POSITION RESTRICTED FOR		
PENSIONS - ENDING	<u>\$ 306,028,992</u>	<u>\$ 280,484,669</u>

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

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation and Income Recognition

Investments are reported at fair value (see Note 3). 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 (see Note 4 for discussion of fair value measurements).

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Basis of Accounting and Use of Estimates

The accompanying financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which potentially expose the Plan to concentration of credit risk, as defined by GAAP, consist primarily of contribution receivables and related income.

The Plan's investments consist of common stocks, commingled equity funds, government securities, corporate bonds, foreign bonds, real estate funds, hedge funds, and money market funds, which inherent in the fair market value determination, include the risk factor of credit worthiness for each individual security.

Comparative Information

The financial statements include certain prior-year comparative information. Such summarized information does not include sufficient detail in the notes to financial statements to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2017, from which the information was derived.

NOTE 2. DESCRIPTION OF THE PLAN

The following description of the City of Hollywood Police Officers Retirement System (the Plan) provides only general information. Participants should refer to the City of Hollywood, Florida's ordinance for more complete information.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

General

The Plan is a single-employer defined benefit pension plan, established by the City of Hollywood, Florida (the City), pursuant to City Ordinance No. 0-76-12 (as amended) which became effective March 9, 1976. As the Plan is sponsored by the City, the Plan is included as a pension trust fund in the City's comprehensive annual financial report as part of the City's financial reporting entity.

The Plan is administered by a board of seven trustees (the Board) comprised of one participant appointed by the Mayor of the City, one participant appointed by the City Commission, and five participants elected by the Police Department and participants of the Plan.

Plan Participation

At September 30, 2018, Plan participation consisted of the following:

Active participants	279
Retired members, beneficiaries, and deferred vested members	<u>377</u>
	<u>656</u>

Eligibility

Participants are eligible if the participant is an active employee, at least 18 years of age, have passed all required medical examinations and other requirements of the City, and have completed requirements of the Police academy.

Average Monthly Earnings

Average monthly earnings shall be used and defined in the determination of certain benefits as follows. Average monthly earnings (AME) are 1/12th of the average of the participant's highest paid three-month measurement periods preceding the participant's retirement for participants who were eligible to retire prior to September 30, 2011. For participants who were eligible to retire after September 30, 2011, AME is defined as a participant's highest consecutive 60 months' earnings of the last 120 months of service.

Benefits

Participants who have attained age 50 with 10 years of credited service or completion of 22 years of continuous service are eligible for retirement benefits. A participant has vested benefits after 10 years of continuous service.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Normal Retirement Benefits

3.0% times AME times years of continuous service up to 20 years plus 4% of the participant's AME multiplied by years and completed months of continuous service after 20 years with a maximum of 80% of AME.

Participants hired on or before October 1, 2011 with less than 10 years of creditable service as of September 30, 2011 and participants hired after September 30, 2011, normal retirement shall be the attainment of age 55 with 10 or more years of creditable service or upon attaining 25 years of creditable service.

For participants who are eligible for normal retirement as of September 30, 2011, the monthly benefit amount is equal to 3% of the participant's AME multiplied by years and completed months of continuous service up to 20 years plus 4% of the participant's AME multiplied by years and completed months of continuous service after 20 years with a maximum of 80% of AME. Upon completion of 22 years of continuous service, a participant will receive a monthly benefit of 80% of AME (resulting in a 12% earnings increase in benefits at the moment the participant attains 22 years of service). The normal form of benefit payment is life annuity with ten-years certain.

For participants who are not vested and are not eligible for normal retirement as of September 30, 2011, the monthly benefit amount is equal to 3.3% of average final compensation multiplied by years of service earned up to September 30, 2011 (the frozen accrued benefits as of October 1, 2011 based on the benefit structure in place as of September 30, 2011 prior to July 17, 2013) plus 3% of AME multiplied by years and completed months of service earned after September 30, 2011.

The AME prior to October 1, 2011 are computed based on the earnings of the three highest paid years of employment prior to retirement or termination. Earnings include basic annual wages, including regular longevity raises and overtime up to 400 hours per year, but not including amounts for unused sick time or unused vacation time paid at retirement or termination. Earnings shall include basic annual wages, longevity pay, and assignment pay, but not include overtime pay, payments for accrued holiday pay, payments for accrued blood time, annual cash-out payments for accrued vacation time, payments for accrued compensatory time, and payments for unused sick time or for unused vacation time which is paid upon retirement or termination.

Disability Benefits

Any participant who, receives a medically substantiated service-connected injury, disease or disability, as determined by the medical board, which injury, disease or disability permanently incapacitates the participant, physically or mentally, from their regular and continuous duties as a police officer, will receive a benefit equal to the greater of their accrued benefit on the date of disability based on the applicable benefit rate or 50% of earnings at the time of determination of disability.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Disability Benefits (Continued)

Participants with at least five years of continuous service who, sustain a non-service incurred injury, illness, disease or disability, and which illness, injury, disease or disability permanently incapacitates the participant physically or mentally from their regular and continuous duty as a police officer, shall receive a benefit equal to 2.5% of their AME multiplied by years of service.

No participants with at least 5 years of continuous service shall receive less than 25% of their AME in effect at the time of determination of disability. Upon attainment of age 50, the benefit will be recomputed as a normal retirement benefit with consideration for service granted for the period of time that the participant was receiving a disability retirement payment.

Death Benefits

A service-incurred death benefit will be paid to the surviving spouse at the rate of 50% of the participant's monthly earnings at the time of death. A non-service-incurred death benefit will be paid to the surviving spouse at the rate of 25% of the participant's monthly earnings at the time of death. Death benefits are payable to the surviving spouse until death or remarriage. Upon the death or remarriage of the spouse, the death benefits are payable to the participant's dependent children until the youngest child reaches the age of 18.

Cost of Living Adjustment

A retiree whose benefit commences on or after April 1, 1987 and any beneficiary of such a retiree will receive a 2% annual increase in benefit payments commencing three years after the retiree's benefit payments have begun. For participants who enter the DROP on or after October 1, 2006, cost-of-living adjustments do not occur while the participant participates in the DROP. Adjustments commence the later of the date the participant leaves the DROP and three years after entry into the DROP. There shall be no annual cost-of-living adjustments effective October 1, 2011.

Deferred Retirement Option Plan (DROP)

Prior to October 1, 2011, a Plan participant may enter into the police officers' Deferred Retirement Option Plan (DROP) upon the attainment of normal retirement age. The DROP is administered by the Board. Once a participant enters the DROP, their monthly retirement benefit is frozen, and their monthly benefit is paid into their DROP account.

A participant hired on or before September 30, 2009 who elects to enter the DROP has the option to receive a rate of return on their DROP account that is equal to the assumed rate of investment return on Plan assets. For participants hired on or after October 1, 2009, their DROP account shall earn interest at the rate of six percent (6%) per year. In the event the Plan's earnings exceed six percent (6%) per year, the earnings in excess of six percent (6%) up to and including 12 percent (12%) per year shall offset the City's cost of maintaining the DROP program. Earnings in excess of twelve percent (12%) per year shall be equally divided between the DROP participant and the City.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Deferred Retirement Option Plan (DROP) (Continued)

Upon termination of employment, but not more than eight years after entry into the DROP, or that period of participation in the DROP that would result in a total of 30 years of employment with the City, the balance in the participant's DROP account, including interest, is payable to them and they also begin to receive their (frozen) monthly retirement benefit.

The DROP may receive eligible rollover contributions from eligible governmental 457(b) plans. These rollover contributions remain in a variable-rate account as described above and do not qualify for the fixed rate option.

A Plan participant who does not enter the DROP prior to October 1, 2011 shall not be able to participate in the DROP, unless the participant was eligible to retire as of September 30, 2011.

A summary of the changes in the DROP balance as of September 30, 2018 is as follows:

Beginning balance	\$ 77,157,590
Additions	918,779
Distributions	(3,332,868)
Fees	(31,853)
Earnings	6,087,109
Ending balance	<u>\$ 80,798,757</u>

DROP Loan Program

Current DROP participants or retirees may borrow against their DROP account balance up to the maximum amount permitted by the Internal Revenue Service (IRS).

No interest shall be earned or paid by the Plan on funds loaned from the DROP account until repaid.

The DROP loan program is administered in accordance with the loan policy adopted by the Board and shall comply with all applicable IRS rules and regulations governing such loans.

A summary of the changes in the DROP loans receivable balance as of September 30, 2018 is as follows:

Beginning balance	\$ 1,128,138
Additional loans	1,262,500
Loan repayments	(1,096,848)
Ending balance	<u>\$ 1,293,790</u>

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Supplemental Pension Check

For retirees, surviving spouses, and other beneficiaries who reached their normal retirement date or entered the DROP on or before September 30, 2011; if the actual asset return of the Plan exceeds 8% for any fiscal year, the excess market value return (up to 2%) will be allocated to retirees and beneficiaries based on service at retirement. For retirees, surviving spouses, and other beneficiaries who reached their normal retirement date or entered the DROP after September 30, 2011, no supplemental pension check will be paid.

Reformed Planned Retirement Benefit (RPRB)

The Reformed Planned Retirement Benefit (the RPRB) is an optional form of benefit payment that participants may elect when they reach their normal retirement age. In general, the RPRB option replaces the DROP program in place prior to October 1, 2011.

Effective September 16, 2015, the previous Planned Retirement Benefit program was replaced with the RPRB. In order to participate in the RPRB, a participant must submit in writing declaring their intent to participate in the program at any time on or after reaching the previous normal retirement date. For participants participating in the RPRB in effect prior to September 16, 2015, an irrevocable election must be made no later than November 16, 2015 on one of the RPRB options described below.

1) RPRB Option 1:

- a. Employee contributions shall be 8% of earnings.
- b. Monthly benefit is calculated under one of the following options:
 - i. As if the participant retired when he/she makes the election to participate
 - ii. As if the participant retired when service terminates using service and pay earned after entering the RPRB program.
- c. Lump sum benefit is calculated under one of the following options:
 - i. Based on number of years worked after electing to participate.
 - ii. No lump sum.
- d. Participants may choose any combination of lump sum payments or a larger annuity by dividing the years worked after electing to participate in the RPRB program.
- e. Any lump sum payment must be paid out to the participant at termination and cannot be left in the Plan.
- f. 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 50% of Plan earnings in excess of 6%, unless the Plan is 90% funded. If the Plan is at least 90% funded, the crediting rate will be based on the 100% of the first 4% of Plan earnings plus 100% of Plan earnings in excess of 6%. The participant will not share in asset losses in those years where Plan returns are negative.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Reformed Planned Retirement Benefit (Continued)

2) *RPRB Option 2:*

- a. Employee contributions shall be 0.5% of earnings.
- b. Monthly benefit is calculated as if the participant retired when he/she makes the election to participate.
- c. Lump sum benefits are calculated based on number of years worked after electing to participate.
- d. Lump sum benefits can be left in the Plan after service termination.
- e. The crediting rate applicable to any lump sum payment shall be calculated in arrears equal to the actual investment rate of return of the Plan. The participant will share in asset losses in those years where Plan returns are negative and asset gains when Plan returns are greater than the assumed rate of return.

If electing RPRB Option 2, the participant will receive a refund equal to 7.5% of pay (8.0% minus 0.5%) for the time he/she participated in the PRB and were making 8% contributions. After electing RPRB option 2, future contributions will be reduced from 8% to 0.5%.

A summary of the changes in the RPRB balance as of September 30, 2018 is as follows:

Beginning balance	\$ 7,004,296
Additions	2,313,912
Distributions	(683,555)
Interest	<u>1,201,863</u>
Ending balance	<u>\$ 9,836,516</u>

Share Plan

Effective June 30, 2002, the Hollywood Police Officers Share Plan (the Share Plan), a defined contribution plan was created to implement the provisions of Chapter 185, Florida Statutes, and to provide means whereby police officers of the City may receive benefits from the funds provided for that purpose by Chapter 185, Florida Statutes. The Share Plan is in addition to any other benefits, and shall not in any way affect any other benefits that now or hereafter exist. The Board shall provide for all assets of the Share Plan to be held in trust solely for the use of paying the benefits provided and the expenses of the Share Plan.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Share Plan (Continued)

The City shall pay to the Share Plan each year an amount equal to the amount it receives from the State under the provisions of Chapter 185, Florida Statutes, as amended. As of each valuation date, the amounts received since the preceding valuation date shall be allocated among the participants' accounts. The allocation shall be based on the proportion of the total number of months of credit accrued by each participant in the immediately preceding Share Plan Year bears to the total months of credit of all participants in that Share Plan Year with no credit given on accounts of a participants' seniority, rank, or compensation. Forfeitures are allocated in the same manner described above.

The Board shall ascertain the value of the assets of the Share Plan as of each valuation date and shall allocate to the account of each participant their share of the increase or decrease in the fair market value of the Share Plan's assets net of administrative expenses. The participant's share of the increase or decrease of the Share Plan assets shall bear the same ratio to the total amount of the increase or decrease in the Share Plan as the value of the portion of the participant's account invested in the Share Plan bears to the total value of the Share Plan.

A participant shall receive a benefit from the Share Plan upon their termination of employment, disability, retirement, or death in accordance with the Share Plan agreement. However, no participant shall receive a benefit from the Share Plan in excess of the amount credited to their account.

Commencing June 7, 2006, the State funds received by the City pursuant to Florida Statutes Chapter 185 subsequent to the funds normally receive during fiscal year ended September 30, 2006 shall not be divided into individual "share" accounts but shall be used exclusively to fund plan benefits, including "minimum benefits" and "extra benefits" as provided in Chapter 185.

A summary of the changes in the Share Plan as of September 30, 2018 was as follows:

Beginning balance	\$ 3,456,403
Earnings	535,563
Distributions	<u>(221,570)</u>
Ending balance	<u>\$ 3,770,396</u>

Funding

Participants make contributions to the Plan at the rate of 8.0% of their earnings. Participants electing RPRB option 2 shall contribute 0.5% of their earnings. If a participant's service is terminated prior to becoming eligible for a withdrawal of retirement benefit, their accumulated contributions are returned to them without interest.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Funding (Continued)

The City pays into the Plan such amount as is actuarially determined to provide for benefits under the Plan not met by participant contributions. Commencing June 7, 2006, the amount is reduced by any allowable Chapter 185 state contributions. The Plan has not received any Chapter 185 contributions since 2014.

The City is expected to contribute such additional amounts as are necessary on an actuarial basis to fund the Plan's expenses, normal costs and to amortize the unfunded actuarial accrued liability. For the year ended September 30, 2018, the Plan's actuary determined that the required City contribution was \$19,492,251.

Rate of Return

For the year ended September 30, 2018, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 11.68%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 3. INVESTMENTS

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The Board is authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common. The investment policy statement was last amended in November 2017. The following was the Board's adopted asset allocation policy as of September 30, 2018:

<u>Type of Investment</u>	<u>Target Allocation Range</u>
Equity securities	45% to 65%
Alternative investments	0% to 5%
Fixed income	22% to 60%
Real estate	0% to 15%
Cash and cash equivalents	0% to 5%

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 3. INVESTMENTS (Continued)

During the year ended September 30, 2018, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$27,489,860 (reported as net appreciation in fair value of investments in the statement of changes in fiduciary net position) as follows:

Common stock	\$ 20,800,042
Commingled equity fund	7,272,133
Domestic corporate bonds	(1,983,739)
Foreign corporate bonds	(39,859)
Real estate funds	1,571,822
Government securities	(437,358)
Hedge funds	<u>306,819</u>
Total	<u>\$ 27,489,860</u>

The Plan's investment policy does not use limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Plan's investments in government securities and corporate bonds had maturities as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Corporate bonds	\$ 47,984,735	\$ 917,634	\$ 26,705,881	\$ 20,361,220	\$ -
U.S. treasuries	13,485,806	3,592,267	1,757,829	8,135,710	-
U.S. agencies	<u>5,063,784</u>	<u>1,936,819</u>	<u>225,177</u>	<u>2,442,895</u>	<u>458,893</u>
Totals	<u>\$ 66,534,325</u>	<u>\$ 6,446,720</u>	<u>\$ 28,688,887</u>	<u>\$ 30,939,825</u>	<u>\$ 458,893</u>

The fixed income portfolio shall have a minimum rating of investment grade as reported by a major crediting service. The Plan's fixed income assets were rated as follows:

<u>Rating</u>	<u>Fair Value</u>
Aaa	\$ 23,063,396
Aa1	2,327,820
Aa2	1,026,409
Aa3	1,767,299
A1	8,844,421
A2	7,085,774
A3	19,637,157
Baa1	1,757,610
Baa2	<u>1,024,439</u>
Total	<u>\$ 66,534,325</u>

* Aaa securities include \$18,549,590 of U.S. treasury and U.S. agency securities guaranteed by the U.S. government.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 3. INVESTMENTS (Continued)

“Foreign currency risk” is the risk that fluctuations in currency exchange rate may affect transactions conducted in currencies other than U.S. Dollars and the carrying value of foreign investments. The Plan’s exposure to foreign currency risk derives mainly from its investments in international equity funds.

The investment policy limits the foreign investments to no more than 25% of the Plan’s investment balance. As of September 30, 2018, the foreign investments were 0.6% of total investments.

NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market as follows:

Level 1- Inputs to the valuation methodology are based upon quoted prices for identical assets in active markets.

Level 2- Inputs to the valuation methodology are based upon observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.

Level 3- Inputs to the valuation methodology are based upon unobservable inputs.

The following is a description of the valuation methodologies used for asset measured at fair value.

Common stocks: Valued at the closing price reported on the New York Stock Exchange.

Commingled equity funds: Valued at the Net Asset Value of units held at the end of the period based upon the fair value of the underlying investments.

Government securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

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

Real estate funds: Valued at the net asset value of shares held by the Plan at year end. The Plan has investments in private market real estate investments for which no liquid public market exists.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

Hedge fund: Value based on the net asset value per share, without further adjustment. Net asset value is based upon the fair value of the underlying investment.

Money market funds: Valued at the net asset value of shares held by the Plan at year end.

The following table presents the Plan's fair value hierarchy for investments at fair value as of September 30, 2018:

		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>Total</u>			
<u>Investments by fair value level</u>				
Equity securities:				
Common stocks	\$ 141,731,119	\$ 141,731,119	\$ -	\$ -
Commingled equity fund	<u>46,880,646</u>	<u>46,880,646</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>188,611,765</u>	<u>188,611,765</u>	<u>-</u>	<u>-</u>
Debt securities:				
U.S. treasury securities	13,485,806	13,485,806	-	-
U.S. agency securities	5,063,784	-	5,063,784	-
Corporate bonds	<u>47,984,735</u>	<u>-</u>	<u>47,984,735</u>	<u>-</u>
Total debt securities	<u>66,534,325</u>	<u>13,485,806</u>	<u>53,048,519</u>	<u>-</u>
Total investments by fair value level	<u>255,146,090</u>	<u>202,097,571</u>	<u>53,048,519</u>	<u>-</u>
<u>Investments measured at the net asset value (NAV) ^(a)</u>				
Real estate funds	31,387,374			
Hedge fund	<u>6,753,182</u>			
Total investments measured at the NAV	<u>38,140,556</u>			
Money market funds (exempt)	<u>3,759,898</u>			
Total investments	<u>\$ 297,046,544</u>			

(a) As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in the table presented are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the statement of fiduciary net position.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient, including their related unfunded commitments and redemption restrictions.

<u>Investments Measured at the NAV</u>	<u>Fair Value</u>	<u>Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real estate fund ⁽¹⁾	\$ 21,674,520	\$ -	Quarterly	90 Days
Real estate fund ⁽²⁾	9,712,854	-	Quarterly	10 Days
Hedge fund ⁽³⁾	6,753,182	-	Quarterly	95 Days
Total investments measured at the NAV	<u>\$ 38,140,556</u>	<u>\$ -</u>		

- (1) Real estate fund: The fund is an open-end, real estate investment fund investing primarily in core institutional office, retail, industrial, and multi-family properties located throughout the United States. The investment is valued at NAV and its redemptions must be received by the fund 90 days prior to quarter end.
- (2) Real estate fund: This fund is an open-end, diversified core real estate commingled fund that invests primarily in core institutional office, retail, industrial, and multi-family properties located throughout the U.S. The investment is valued at NAV and its redemptions must be received by the fund 10 days prior to quarter end.
- (3) Hedge fund: This fund is open-end, diversified portfolio of private investment entities and/or separately managed accounts managed by investment managers specialized primarily in activist related alternative investment strategies. The investment is valued at NAV and its redemptions must be received by the fund 95 days prior to quarter end.

NOTE 5. NET PENSION LIABILITY

The components of the net pension liability of the Plan at September 30, 2018 were as follows:

Total pension liability	\$ 482,743,216
Plan fiduciary net position	<u>306,028,992</u>
City's net pension liability	<u>\$ 176,714,224</u>
Plan fiduciary net position as a percentage of the total pension liability	63.39%

The total pension liability was determined by an actuarial valuation as of September 30, 2018, using the following most significant actuarial assumptions: 8.0% for the investment rate of return, 5.03% to 10.67% for projected salary increases (including inflation), and 2.5% for inflation.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 5. NET PENSION LIABILITY (Continued)

The rates of mortality for the period after service retirement are as follows:

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

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

The long-term expected rate of return on Plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as included in the Plan's target asset allocation as of September 30, 2018 (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	57.00%	7.50%
Domestic bonds*	31.00%	2.50%
Real estate	10.00%	4.50%
Alternative assets	<u>2.00%</u>	5.61%
	<u>100.00%</u>	

* Domestic Bonds Target Allocation includes 4% cash target allocation

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed the City would contribute the actuarial determined contribution. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The sensitivity of the net pension liability to changes in the discount rate was measured as follows. The net pension liability of the Plan was calculated using the discount rate of 8.0%. It was also calculated using a discount rate that was 1-percentage-point lower (7.0%) and 1-percentage-point higher (9.0%) and the different computations were compared.

	1% decrease	Current discount rate	1% increase
	<u>(7.0%)</u>	<u>(8.0%)</u>	<u>(9.0%)</u>
Net pension liability	\$194,954,681	\$176,714,224	\$159,998,247

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018

(Continued)

NOTE 6. RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

Plan contributions are made and the actuarial present value of accumulated Plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 7. INCOME TAXES

The Plan is exempt from federal income taxes under the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made.

On September 11, 2015, the Plan obtained its most recent determination letter in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with applicable requirements of Internal Revenue Code 401(a), and therefore, no provision for federal income taxes has been made.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 8. LEGAL MATTER

The Plan is a party to legal proceedings, investigations, and claims in the ordinary course of operations. The Plan is a party to a lawsuit filed by the City against all pension plans (the Plans) sponsored by the City. The suit seeks a declaratory judgment alleging that the Plans did not have the authority to authorize paying a supplemental pension distribution to its participants during the 2014 and 2015 fiscal years. The Plan and parties to the lawsuit have filed a motion to dismiss the suit, which is currently pending. The Plans are vigorously defending the lawsuit.

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

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2018
(Continued)

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 22, 2019, the date the financial statements were available to be issued.

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CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2018

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT AND ADMINISTRATIVE EXPENSES

YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
INVESTMENT EXPENSES:		
Financial management expense	\$ 1,263,445	\$ 1,315,791
Custodial fee	69,059	65,133
Investment consultant fee	46,802	64,178
TOTAL INVESTMENT EXPENSES	<u>\$ 1,379,306</u>	<u>\$ 1,445,102</u>
 ADMINISTRATIVE EXPENSES:		
Accounting	\$ 28,069	\$ 29,882
Actuarial	81,505	162,184
Computer expenses	50,219	33,216
Dues and subscriptions	-	3,280
Employee benefits	48,823	52,651
Insurance	34,459	34,379
Legal	42,988	92,869
Medical costs	5,995	39,386
Office	2,125	1,490
Rent	24,525	24,525
Salaries and payroll taxes	209,058	216,998
Travel and education	64,924	35,946
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 592,690</u>	<u>\$ 726,806</u>
 TOTAL ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF NET POSITION RESTRICTED FOR PENSIONS	 0.19%	 0.26%

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTORS (UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined employer contribution	\$ 19,492,251	\$ 17,005,579	\$ 13,960,747	\$ 13,425,807	\$ 12,479,297
Actual employer contribution	<u>19,492,251</u>	<u>17,005,579</u>	<u>13,960,747</u>	<u>13,425,807</u>	<u>12,479,297</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 23,585,094</u>	<u>\$ 23,676,707</u>	<u>\$ 18,649,015</u>	<u>\$ 16,504,396</u>	<u>\$ 15,092,088</u>
Actual contributions as a percentage of covered-employee payroll	82.65%	71.82%	74.86%	81.35%	82.69%

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarially determined employer contribution	\$ 11,072,716	\$ 9,931,274	\$ 12,970,210	\$ 12,471,750	\$ 11,332,169
Actual employer contribution	<u>11,072,716</u>	<u>9,931,274</u>	<u>12,970,210</u>	<u>12,471,750</u>	<u>11,332,169</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$ 14,581,728</u>	<u>\$ 13,707,806</u>	<u>\$ 15,230,825</u>	<u>\$ 15,289,445</u>	<u>\$ 18,445,452</u>
Actual contributions as a percentage of covered-employee payroll	75.94%	72.45%	85.16%	81.57%	61.44%

Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed for bases established on or before October 1, 2016; Level dollar, closed effective for bases established on or after October 1, 2017
Remaining amortization period	15 to 28 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	5.03% to 10.67%, including inflation
Investment rate of return	8.0%, net of Plan investment expense, including inflation

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT RETURNS
(UNAUDITED)

Year Ended <u>September 30,</u>	Annual money- weighted rate of return net of investment <u>expense</u>
2018	11.68%
2017	11.59%
2016	9.41%
2015	1.59%
2014	9.92%

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

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
TOTAL PENSION LIABILITY:			
Service cost	\$ 5,062,784	\$ 4,926,424	\$ 4,093,052
Interest (excluding DROP and Share)	29,915,966	27,871,029	25,130,908
Change of assumptions	-	16,168,696	25,704,000
Benefit changes	-	-	-
Difference between expected and actual contributions	7,322,883	8,126,704	9,005,099
Benefit payments	(28,190,020)	(27,582,433)	(23,179,330)
Refund of contributions	<u>(53,956)</u>	<u>(20,298)</u>	<u>(35,258)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	14,057,657	29,490,122	40,718,471
TOTAL PENSION LIABILITY - BEGINNING	<u>468,685,559</u>	<u>439,195,437</u>	<u>398,476,966</u>
TOTAL PENSION LIABILITY - ENDING	<u>482,743,216</u>	<u>468,685,559</u>	<u>439,195,437</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - city and state	19,492,251	17,005,579	13,960,747
Contributions - members	1,714,922	1,625,263	1,714,832
Net investment income	33,082,120	30,856,527	22,123,392
Benefit payments, including refunds	(28,190,020)	(27,582,433)	(23,179,330)
Administrative expenses	(592,690)	(726,806)	(671,069)
Refund of contributions	(53,956)	(20,298)	(35,258)
Other	<u>91,696</u>	<u>164,029</u>	<u>(160,748)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	25,544,323	21,321,861	13,752,566
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>280,484,669</u>	<u>259,162,808</u>	<u>245,410,242</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>306,028,992</u>	<u>280,484,669</u>	<u>259,162,808</u>
NET PENSION LIABILITY - ENDING	<u>\$ 176,714,224</u>	<u>\$ 188,200,890</u>	<u>\$ 180,032,629</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	63.39%	59.84%	59.01%
COVERED EMPLOYEE PAYROLL	\$ 23,585,094	\$ 23,676,707	\$ 18,649,015
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	749.26%	794.88%	965.37%

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

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY AND RELATED RATIOS (UNAUDITED) (Continued)

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:		
Service cost	\$ 3,518,988	\$ 3,148,678
Interest (excluding DROP and Share)	24,415,878	29,080,971
Change of assumptions	-	-
Benefit changes	2,093,658	-
Difference between expected and actual contributions	5,887,738	1,770,772
Benefit payments	(23,318,201)	(22,993,671)
Refund of contributions	<u>(73,428)</u>	<u>(126,781)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	12,524,633	10,879,969
TOTAL PENSION LIABILITY - BEGINNING	<u>385,952,333</u>	<u>375,072,364</u>
TOTAL PENSION LIABILITY - ENDING	<u>398,476,966</u>	<u>385,952,333</u>
PLAN FIDUCIARY NET POSITION:		
Contributions - city and state	13,425,807	12,479,297
Contributions - members	1,454,477	1,341,148
Net investment income	3,175,147	22,976,304
Benefit payments, including refunds	(23,318,201)	(22,993,671)
Administrative expenses	(656,738)	(684,234)
Refund of contributions	(73,428)	(126,781)
Other	<u>210,285</u>	<u>27,952</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(5,782,651)	13,020,015
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>251,192,893</u>	<u>238,172,878</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>245,410,242</u>	<u>251,192,893</u>
NET PENSION LIABILITY - ENDING	<u>\$ 153,066,724</u>	<u>\$ 134,759,440</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	61.59%	65.08%
COVERED EMPLOYEE PAYROLL	\$ 16,504,396	\$ 15,092,088
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	927.43%	892.91%

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The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2018

**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**

To the Board of Trustees of the City of Hollywood
Police Officers Retirement System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the City of Hollywood Police Officers Retirement System, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City of Hollywood Police Officers Retirement System's basic financial statements, and have issued our report thereon dated February 22, 2019.

Internal Control over Financial Reporting

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

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

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

**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** (Continued)

Compliance and Other Matters

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

Purpose of this Report

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

KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & CO.

Weston, Florida
February 22, 2019