

CITY OF HOLLYWOOD POLICE OFFICERS RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020



CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

YEAR ENDED SEPTEMBER 30, 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2020, 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, 2020, 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 2019 financial statements, and our report dated April 17, 2020 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 32-35 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 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 auditing 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 March 26, 2021, 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 City of 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
March 26, 2021

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents Management's 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, 2020. 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 most recent ordinance was Ordinance 0-2019-02. 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 five parts: MD&A, the basic financial statements, notes to the financial statements, supplementary information and required 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 and required 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 2020 reflected the following financial activities:

- Total net position restricted for pensions was \$339,830,142, which was 6% greater than 2019 total net position restricted for pensions.
- Total contributions for the year were \$ 24,577,070, which was 30% lower than the 2019 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Participants made contributions to the Plan of 9.5% of compensation until retirement.
- Total interest and dividend income was \$6,858,166, which was 6% higher than the 2019 income.
- Net investment income was \$25,141,119, which was 125% higher than the 2019 income.
- Benefits paid directly to retirees were \$24,779,350, which was 2% lower than the benefits paid directly to retirees during 2019.

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 snapshot 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 pension 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.

- Fiduciary net position at September 30, 2020 was \$339,830,142, a 6% increase from the net position at September 30, 2019.
- Total investments at September 30, 2020 were \$334,497,208, an 8% increase from the investments at September 30, 2019.

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

	2020	2019	% Change
Receivables	\$ 3,562,551	\$ 9,120,017	(61%)
Prepaid expense	2,602,330	2,433,707	7%
Investments, at fair value	334,497,208	310,083,797	8%
Total assets	340,662,089	321,637,521	6%
Total liabilities	831,947	154,034	440%
Net position restricted for pensions	\$ 339,830,142	\$ 321,483,487	6%

Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position presents the effect of Plan transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the Plan equal 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 \$49,763,049, which was comprised of total contributions of \$24,577,070, plus net investment income of \$25,141,119, and other income of \$44,860.
- Expenses (deductions from fiduciary net position) increased from \$30,926,353 during 2019 to \$31,416,394 during 2020.

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:

	2020	2019	% Change
Total contributions	\$ 24,577,070	\$ 35,154,854	(30%)
Net investment income	25,141,119	11,164,200	125%
Other income	44,860	61,794	(27%)
Total additions	49,763,049	46,380,848	7%
Total deductions	31,416,394	30,926,353	2%
Net increase	18,346,655	15,454,495	19%
Net position restricted for pensions – beginning	321,483,487	306,028,992	5%
Net position restricted for pensions – ending	\$ 339,830,142	\$ 321,483,487	6%

Asset Allocation

The table below indicates the Plan's investment policy limitations and actual asset allocations as of September 30, 2020:

Type of Investment	Investment Policy	Actual Allocation
Equity securities	40% to 80%	61.35%
Alternative investments	0% to 5%	3.13%
Fixed income	19% to 29%	22.62%
Real estate	0% to 15%	11.15%
Cash and cash equivalents	0% to 9%	1.75%

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 Plan's Board of Trustees (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.

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 September 2020.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Investment Activities (Continued)

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, 2020 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, 2020
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
RECEIVABLES:		
State contributions	\$ 1,797,433	\$ 7,379,064
DROP loans receivable	754,689	1,100,647
Accrued investment income	423,530	522,560
Employee and participant loans receivable	104,694	117,746
Accounts receivable - sale of investments	307,983	-
Participant contributions	174,222	-
TOTAL RECEIVABLES	<u>3,562,551</u>	<u>9,120,017</u>
PREPAID EXPENSE	<u>2,602,330</u>	<u>2,433,707</u>
INVESTMENTS, AT FAIR VALUE:		
Money market funds	5,874,194	14,132,837
Equity securities	205,209,105	179,756,213
Corporate bonds	40,863,804	51,617,001
Real estate funds	37,306,008	33,443,460
Government securities	34,786,461	21,965,599
Hedge funds	10,457,636	9,168,687
TOTAL INVESTMENTS, AT FAIR VALUE	<u>334,497,208</u>	<u>310,083,797</u>
TOTAL ASSETS	<u>340,662,089</u>	<u>321,637,521</u>
LIABILITIES		
ACCOUNTS PAYABLE	134,792	69,985
ACCOUNTS PAYABLE - PURCHASE OF INVESTMENTS	<u>697,155</u>	<u>84,049</u>
TOTAL LIABILITIES	<u>831,947</u>	<u>154,034</u>
NET POSITION RESTRICTED FOR PENSIONS		
NET POSITION RESTRICTED FOR DEFINED BENEFITS	227,814,785	215,913,475
NET POSITION RESTRICTED FOR DROP BENEFITS	108,861,604	102,286,417
NET POSITION RESTRICTED FOR SHARE BENEFITS	<u>3,153,753</u>	<u>3,283,595</u>
TOTAL NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 339,830,142</u>	<u>\$ 321,483,487</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, 2020
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2019)

	<u>2020</u>	<u>2019</u>
ADDITIONS:		
Contributions:		
City	\$ 19,856,774	\$ 24,446,359
State	1,797,433	7,379,064
Participant	2,237,954	2,010,083
Rollover	67,650	758,862
Jumpstart	555,000	400,000
Buyback	62,259	160,486
Total contributions	<u>24,577,070</u>	<u>35,154,854</u>
Investment income:		
Net appreciation in fair value of investments	19,879,997	6,187,885
Interest and dividend income	6,858,166	6,494,048
Total investment income	26,738,163	12,681,933
Less: investment expenses	1,597,044	1,517,733
Net investment income	<u>25,141,119</u>	<u>11,164,200</u>
Other income	44,860	61,794
TOTAL ADDITIONS	<u>49,763,049</u>	<u>46,380,848</u>
DEDUCTIONS:		
Benefit payments	24,779,350	25,408,602
DROP distributions	5,199,804	4,087,970
Share distributions	399,855	602,773
Refunds of contributions	314,396	112,089
Administrative expenses	722,989	714,919
TOTAL DEDUCTIONS	<u>31,416,394</u>	<u>30,926,353</u>
NET INCREASE IN NET POSITION		
RESTRICTED FOR PENSIONS	18,346,655	15,454,495
NET POSITION RESTRICTED FOR		
PENSIONS - BEGINNING	<u>321,483,487</u>	<u>306,028,992</u>
NET POSITION RESTRICTED FOR		
PENSIONS - ENDING	<u>\$ 339,830,142</u>	<u>\$ 321,483,487</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, 2020

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 subject the Plan to concentration of credit risk, as defined by GAAP, consist primarily of contribution receivables and accrued investment income.

The Plan's investments consist of common stocks, REITs, 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 the financial statements to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2019, 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 (the City) ordinance for more detailed and comprehensive information.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(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. On February 20, 2019, Ordinance 0-2019-02 (the Ordinance) was passed and adopted, and retroactively changed Plan benefits and how those benefits are administered. 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, 2020, Plan participation consisted of the following:

Active participants	290
Retired members, beneficiaries, and deferred vested members	385
Terminated vested not yet receiving benefits	<u>9</u>
	<u>684</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. Additionally, participants are further divided into 3 distinct groups called: Group One Restored Members (Group One), Group Two Restored Members (Group Two), and Group Three Restored Members (Group Three).

Group One consists of participants employed on February 20, 2019 who were hired on or before September 30, 2011 and will be eligible to retire on or before September 30, 2020 based on a normal retirement date of age 50 or 22 years of continuous service.

Group Two consists of participants employed on February 20, 2019 who were hired on or before September 30, 2011 and will not be eligible to retire until after September 30, 2020 based on a normal retirement date of age 50 or 22 years of continuous service.

Group Three consists of participants who were hired after September 30, 2011.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Average Final Compensation

For purposes of Group One and Group Two participants only, average final compensation shall include the average of the participant's highest 3 years of earnings preceding the actual retirement or termination date of such participant. For purposes of Group Three participants only, average final compensation shall include the arithmetic average of earnings for the 60 highest consecutive months of the last 120 months of credited service prior to retirement, termination, or death.

Benefits

For purposes of Group One and Group Two participants only, participants who have attained age 50 or completion of 22 years of continuous service are eligible for retirement benefits. For purposes of Group Three participants only, participants who have attained age 55 with 10 years of continuous service or upon completion of 22 years of continuous service are eligible for retirement benefits.

Group One Normal Retirement Benefits

Effective February 20, 2019, the following benefits will apply to Group One participants only:

A 3% multiplier for the first 20 years of continuous service. a 4% multiplier for the 21st year of continuous service, and upon completion of 22 years of continuous service, and an accrued benefit of 80% of average final compensation.

Group One participants employed on February 20, 2019 who did not participate in the deferred retirement option plan (the DROP plan) shall receive a 2% annual increase in benefits commencing 3 years after the date retirement benefits begin. Group One participants employed on February 20, 2019 who participated in the DROP plan shall receive a 2% annual increase in benefits commencing upon the later of (i) separation of employment and (ii) 3 years after the participant entered the DROP plan.

Only those Group One participants employed on February 20, 2019 and participating in either the DROP plan or the reformed planned retirement benefit on February 20, 2019 shall be eligible for the supplemental pension distribution.

A maximum normal retirement benefit of 80% of average final compensation.

Eligibility to participate in the DROP plan, with the Group One participant to select an entry date on or after the day the participant attained age 50 or completed 22 years of continuous service, subject to the existing limitation of 30 years of service with the City.

Participants with 10 or more years of continuous service shall be eligible to receive a vested benefit commencing upon attainment of age 50.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Group Two Normal Retirement Benefits

Effective October 1, 2020, the following pension benefits in effect on September 30, 2011 will be restored to Group Two participants:

A 3% multiplier for the first 20 years of continuous service, a 4% multiplier for the 21st year of continuous service, and upon completion of 22 years of continuous service, an accrued benefit of 80% of average final compensation.

Group Two participants employed on February 20, 2019 who do not participate in the DROP plan shall receive a 2% annual increase in benefits commencing 3 years after the date retirement benefits begin. Group Two participants employed on February 20, 2019 who participate in the DROP plan shall receive a 2% annual increase in benefits commencing upon the later of (i) separation of employment and (ii) 3 years after the participants entered the DROP plan.

A maximum normal retirement benefit of 80% of average final compensation

Eligibility to participate in the DROP plan, with the Group Two participant to select an entry date on or after the day the participant attained age 50 or completed 22 years of continuous service, subject to the existing limitation of 30 years of service with the City. Upon reaching a normal retirement date, a Group Two participant may elect to participate in the reformed planned retirement benefit as an alternative to choosing DROP plan participation, but cannot participate in both.

Group Two participants with 10 or more years of continuous service shall be eligible to receive a vested benefit commencing upon attainment of age 50.

Group Three Normal Retirement Benefits

Effective October 1, 2020, the following pension benefit changes will be made for Group Three participants:

Maintain the 3% multiplier for the first 21 years of continuous service but allow Group Three participants to retire upon completion of 22 years of creditable service at an accrued benefit of 75% of their average final compensation.

A maximum normal retirement benefit of 75% of average final compensation.

Increase the maximum participation period for Group Three participants in the reformed planned retirement benefit from 5 years to 8 years at any time upon attainment of normal retirement date.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

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 or disability.

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. If the participant is not married at the time of death, and the participant has no surviving children, and the participant fails to designate a beneficiary, then the monthly benefit shall be paid to the participant's estate for a period of 10 years.

Cost of Living Adjustment

Group One participants and Group Two participants employed on February 20, 2019 who did not participate in the DROP plan shall receive a 2% annual increase in benefits commencing 3 years after the date retirement benefits begin. Group One participants and Group Two participants employed on February 20, 2019 who participated in the DROP plan shall receive a 2% annual increase in benefits commencing upon the later of (i) separation of employment and (ii) 3 years after the participants entered the DROP plan.

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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Deferred Retirement Option Plan (DROP) (Continued)

Group One and Group Two participants who elect to enter the DROP plan shall have the option to receive One of the following: the variable rate of return, which for any month shall be the actual net rate of investment gain or investment loss on the Plan's assets for the month, determined as of the last day of the month, reduced in the event of a net investment gain or increased in the event of a net investment loss by an administrative fee determined by the Board; or 6% per year, minus administrative costs provided if Plan earnings exceed 6% per year, earnings in excess of 6% per year and not in excess of 12% per year shall offset the City's cost of maintaining the DROP plan program, and Plan earnings in excess of 12% per year shall be divided between the DROP participant and the City. Members eligible to retire before February 29, 2013 or members eligible for normal retirement based on years of service or age as of September 30, 2011 will receive an 8% fixed rate of return.

The maximum period of participation in the DROP plan for participants who entered the DROP plan shall be the lesser of 8 years or that period of participation in the DROP plan that would result in a total of 30 years of employment with the City. The City employment of each participant who elects to participate in the DROP plan after June 7, 2006, shall terminate not later than the end of the participant's maximum period of participation in the DROP plan.

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 summary of the changes in the DROP balance as of September 30, 2020 is as follows:

Beginning balance	\$ 102,286,417
Additions	3,711,743
DROP conversion adjustments	182,463
Distributions	(5,199,804)
Net earnings	7,880,785
Ending balance	<u>\$ 108,861,604</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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

DROP Loan Program (Continued)

A summary of the changes in the DROP loans receivable balance as of September 30, 2020 is as follows:

Beginning balance	\$ 1,100,647
Additional loans	724,250
Loan repayments	<u>(1,070,208)</u>
Ending balance	<u>\$ 754,689</u>

Supplemental Pension Check

There shall be payable to eligible persons a supplemental pension distribution for each fiscal year in which the actual rate of investment return earned on Plan assets exceeds the assumed rate of investment return on Plan assets. The total amount of the supplemental pension distribution for a particular fiscal year shall be equal to the actuarial present value of future retirement benefits, as calculated on the eligible retirees' portion of the Plan's earnings attributable to assets apportioned to retiree benefit liability, multiplied by the excess (not to exceed 2%) of the actual rate of investment return over the assumed rate of investment return for the fiscal year. The Board of Trustees shall determine who is an eligible person and the specific amount to be paid to each eligible person; provided, however, that only those Group One participants employed on February 20, 2019 and participating in either the DROP plan or the reformed planned retirement benefit on February 20, 2019 shall be eligible for the supplemental pension distribution.

Planned Retirement Benefit (PRB) and Reformed Planned Retirement Benefit (RPRB)

The Plan provides for a benefit to be known as the Planned Retirement Benefit (PRB) and a benefit to be known as the Reformed Planned Retirement Benefit (RPRB). The PRB, as described below, will be retroactive to October 1, 2011, but any participant who retires or enters the DROP prior to July 17, 2013, will not be eligible for the PRB. Effective September 16, 2015, the RPRB was created and shall be as described below.

For Group Three participants, in order to be eligible for either the PRB or the RPRB, the participant must submit a written election, on a specified form, declaring the participant's intent to participate at any time on or after reaching the participant's normal retirement date. For Group Three participants electing to participate in the RPRB, the specified form will identify the maximum number of years the participant may participate in the PRB and the participant's latest employment termination date based on the maximum number of years identified. The participant will also have to make an irrevocable election of one of the following options:

- a) During the period of participation in the RPRB, contribution at the participant's contribution rate as established in the ordinance until termination of employment, and upon termination, election of one of the 3 options regarding how the participant wishes to receive the RPRB earned (identical to the 3 options that are provided for the PRB as follows); or

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Planned Retirement Benefit (PRB) and Reformed Planned Retirement Benefit (RPRB) (Continued)

- b) During the period of participation in the RPRB, contribution equal to 0.5% of the participant's earnings until termination of employment, and upon termination, taking of a lump sum that would be valued based on the number of years the participant worked after electing to participate in the PRB, RPRB, or combination of both (or the number of years for which the participant elects to receive benefits as follows).

A participant who elects to participate in the PRB or the RPRB shall not exceed 30 years of service with the City, including any time participating in the PRB and/or the RPRB. A participant may terminate employment any time prior to reaching the earlier of the maximum participation period for the PRB and/or the RPRB, as noted below, or 30 years of service with the City. A Group Three participant may participate in the PRB, the RPRB, or a combination of both, for a maximum of 8 years. A participant who reaches their normal retirement date but not more than 30 years of service with the City may, upon termination of employment, elect to receive benefits under the PRB, the RPRB, or a combination of both, for a period of not more than 8 years.

When a participant who has participated in the PRB, but has not participated in the RPRB, terminates employment, the participant shall elect how they wish to receive the PRB earned. The participant may choose to take (i) a maximum lump sum payment that would be valued based on the number of years the participant worked after electing to participate in the PRB (or the number of years for which the participant elects to receive benefits as noted above); (ii) a larger final pension annuity payment (meaning a larger annuity than that earned prior to electing to participate in the PRB) based on the number of years the participant worked after electing to participate in the PRB (or the number of years for which the participant elects to receive benefits as noted above); or (iii) any combination of a lump sum payment and larger annuity by dividing the years worked after electing to participate in the PRB (or the number of years for which the participant elects to receive benefits as noted above) between a lump sum payment and larger annuity payments. Any lump sum payment must be paid out to the participant at termination (i.e., it cannot be left in the Plan).

Upon termination of employment, a participant who, at the beginning of their period of commencement in the RPRB, made the irrevocable election to take their benefit in a lump sum upon termination will be allowed to leave the lump sum in the Plan. The Plan's actual investment rates of return (whether positive or negative) shall be applied to the lump sum for as long as any portion thereof remains in the Plan. For as long as any portion of the lump sum remains in the Plan, the participant shall pay a fee, in an amount to be determined by the Board, for the administrative cost of managing the lump sum, or portion thereof, that remains in the Plan.

While participating in the PRB and/or the RPRB, a participant shall continue making their applicable contributions, as provided in the Plan, until termination of employment.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Planned Retirement Benefit (PRB) and Reformed Planned Retirement Benefit (RPRB) (Continued)

Any participant who has reached their normal retirement date, and has submitted the written election form to participate in the PRB or the RPRB, shall maintain the right to participate in the PRB or the RPRB up to the date on which the maximum period applicable to the participant has been reached or employment has terminated pursuant to the terms of the PRB or the RPRB, as provided above, and no amendment to the Plan may alter this right.

For any participant who reached their normal retirement date between October 1, 2011, and July 17, 2013, the time such participant worked between their normal retirement date (on or after October 1, 2011) and the date the participant submits the PRB election form may be included in the participant's PRB participation period, provided the participant shall not exceed the maximum period of participation set forth above.

The lump sum payment, if elected, shall be calculated based upon the monthly values of the participant's final pension annuity benefit determined using the participant's creditable service, average final compensation, and multiplier, as provided in the Plan as of the beginning of the elected PRB or RPRB participation period, plus earnings on such amounts as provided below, subject to the limitations as follows.

Investment earnings applicable to any lump sum payment shall be calculated in arrears using the net investment rate earned by the Plan on its net assets for each month of creditable service worked during the PRB or RPRB participation period, and applied to the prior pension annuity balance including all prior months of creditable service, including prior monthly earnings. The investment earnings shall be compounded monthly to determine the amount of investment earnings to be credited during each year of the PRB or RPRB participation period. The aggregate value of the monthly investment earnings calculations will determine the amount of investment earnings to be credited for the PRB or RPRB participation period. The investment earnings credited to said participant will be net of the investment earnings retained by the Plan as follows.

The following applies only to the PRB. With regard to any Plan earnings calculated into the participant's lump sum payment, there shall be no losses counted in those years for which the Plan return is negative, and no investment earnings will be credited for such negative years. In any year for which Plan earnings are greater than 4% (applied monthly at the rate of 0.327%), the next 2% (applied monthly at the rate of 0.165%) of Plan earnings (i.e., the annual earnings between 4% and 6%) shall be excluded from the participant's lump sum payment and retained by the Plan to offset unfunded liabilities. All earnings in excess of 6% will be split equally between the participant and the Plan until the Plan is 90% funded, at which time the split of earnings in excess of 6% will end and earnings in excess of 6% will be kept by the participant (but earnings between 4% and 6% will continue to remain in the Plan to offset unfunded liabilities). The split of earnings in excess of 6% will resume if the funding of the Plan drops below 90%.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Planned Retirement Benefit (PRB) and Reformed Planned Retirement Benefit (RPRB) (Continued)

If an eligible participant who is participating in the PRB or RPRB dies during the participant's PRB or RPRB participation period, then the participant's designated beneficiary or, if there is no designated beneficiary, then the participant's estate shall make the election provided above with respect to the PRB or RPRB earned.

In accordance with Ordinance 0-2019-02, eligible participants had a one-time opportunity to elect to transfer from the RPRB to the DROP. The participant's participation date for the DROP was retroactive to the date the participant would have otherwise been eligible had the DROP benefit not been altered.

There were no PRB or RPRB balances as of September 30, 2020.

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.

The City paid to the Share Plan each year an amount equal to the amount it received 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 were allocated among the participants' accounts. The allocation was based on the proportion of the total number of months of credit accrued by each participant in the immediately preceding Share Plan Year 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 were 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 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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Share Plan (Continued)

Commencing on July 17, 2013, the State funds received by the City pursuant to Florida Statutes Chapter 185 shall be used to offset City contribution requirements and shall not be divided into individual "share" accounts. In addition, all funds received by the Plan prior to that date and held by the Plan on that date shall be applied to reduce City contributions.

A summary of the changes in the Share Plan as of September 30, 2020 was as follows:

Beginning balance	\$ 3,283,595
Distributions	(399,855)
Net earnings	<u>270,013</u>
Ending balance	<u>\$ 3,153,753</u>

Funding

Participants made contributions to the Plan at the rate of 8.0% of their earnings until February 20, 2019. Group One participants, Group Two participants, and Group Three participants shall contribute 9.5%, effective with the first full pay period that starts on or after February 20, 2019. Upon entry into the DROP, participants shall cease making contributions.

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 July 17, 2013, the amount is reduced by any allowable Chapter 185 state contributions. Pursuant to Florida Statutes, Chapter 185, the City imposes a 0.85% tax on casualty insurance premiums paid to insure property within its corporate limits. The proceeds of this tax are contributed to the Plan.

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.

Rate of Return

For the year ended September 30, 2020, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 7.46%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

(Continued)

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 September 2020. The following was the Board's adopted asset allocation policy as of September 30, 2020:

<u>Type of Investment</u>	<u>Target Allocation Range</u>
Equity securities	40% to 80%
Alternative investments	0% to 5%
Fixed income	19% to 29%
Real estate	0% to 15%
Cash and cash equivalents	0% to 9%

During the year ended September 30, 2020, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$19,879,997 (reported as net appreciation in fair value of investments in the statement of changes in fiduciary net position) as follows:

Common stock	\$ 13,796,489
Commingled equity fund	3,688,445
Domestic corporate bonds	2,673,674
Real estate funds	(808,819)
Government securities	1,170,713
Hedge funds	<u>(640,505)</u>
Total	<u>\$ 19,879,997</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	\$ 40,863,804	\$ -	\$ 13,569,247	\$ 24,575,333	\$ 2,719,224
U.S. Treasury notes	3,133,769	-	-	3,133,769	-
U.S. Treasury bonds	14,733,328	-	-	14,733,328	-
U.S. agencies	<u>16,919,364</u>	<u>6,689,440</u>	<u>9,158,157</u>	<u>101,645</u>	<u>970,122</u>
Totals	<u>\$ 75,650,265</u>	<u>\$ 6,689,440</u>	<u>\$ 22,727,404</u>	<u>\$ 42,544,075</u>	<u>\$ 3,689,346</u>

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 3. INVESTMENTS (Continued)

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	\$ 3,915,861
AA+	35,432,140
AA	663,321
AA-	3,383,237
A+	569,395
A	5,948,785
A-	13,733,649
BBB+	10,314,519
BBB	1,689,358
	<u>\$ 75,650,265</u>

"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, 2020, the foreign investments were 1.5% 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 3 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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020

(Continued)

NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

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

Common stocks and REITs: 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.

Hedge funds: 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 floating net asset value of shares held by the Plan at year end.

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CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Plan's fair value hierarchy for investments at fair value as of September 30, 2020:

		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	\$ 152,821,176	\$ 152,821,176	\$ -	\$ -
REITs	929,192	929,192	-	-
Commingled equity funds	51,458,737	51,458,737	-	-
Total equity securities	<u>205,209,105</u>	<u>205,209,105</u>	<u>-</u>	<u>-</u>
Debt securities:				
U.S. treasury securities	17,867,097	3,133,769	14,733,328	-
U.S. agency securities	16,919,364	-	16,919,364	-
Corporate bonds	40,863,804	-	40,863,804	-
Total debt securities	<u>75,650,265</u>	<u>3,133,769</u>	<u>72,516,496</u>	<u>-</u>
Total investments by fair value level	<u>280,859,370</u>	<u>\$ 208,342,874</u>	<u>\$ 72,516,496</u>	<u>\$ -</u>
<u>Investments measured at the net asset value (NAV) ^(a)</u>				
Real estate funds	37,306,008			
Hedge funds	<u>10,457,636</u>			
Total investments measured at the NAV	<u>47,763,644</u>			
Money market funds (exempt)	<u>5,874,194</u>			
Total investments	<u>\$ 334,497,208</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, 2020
(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⁾	\$ 26,988,501	\$ -	Quarterly	90 Days
Real estate fund ⁽²⁾	10,317,507	-	Quarterly	10 Days
Hedge fund ⁽³⁾	5,366,897	788,364	Quarterly	95 Days
Hedge fund ⁽⁴⁾	4,953,337	-	N/A	N/A
Hedge fund ⁽⁵⁾	<u>137,402</u>	<u>4,862,598</u>	N/A	N/A
Total investments measured at the NAV	<u>\$ 47,763,644</u>	<u>\$ 5,650,962</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 dedicated exclusively to co-investments, which target high-conviction ideas that are catalyst-driven and/or designed to exploit market dislocations. The investment is valued at NAV and redemptions, which are only allowed for class A, must be received by the fund 95 days prior to quarter end.
- ⁽⁴⁾ 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 is liquidating, therefore, no redemptions are allowed.
- ⁽⁵⁾ Hedge fund: This fund seeks to generate long-term, consistent investor returns, predominantly in the form of income distributions, from direct lending and similar financing opportunities to vessel owners and operators, and other maritime businesses. The investment is valued at NAV and no redemptions are currently allowed.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 5. NET PENSION LIABILITY

The components of the net pension liability of the Plan at September 30, 2020 were as follows:

Total pension liability	\$ 580,694,514
Plan fiduciary net position	<u>339,830,142</u>
City's net pension liability	<u>\$ 240,864,372</u>

Plan fiduciary net position as a percentage of the total pension liability	58.52%
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The total pension liability was determined by an actuarial valuation as of October 1, 2019, and rolled forward to the measurement date of September 30, 2020, 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.

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

Female: PubG.H-2010 Headcount Weighted Safety Employee set forward 1 year; projected generationally using projection scale MP-2018.

Male: PubG.H-2010 Headcount Weighted Safety Below Median Employee set forward 1 year; projected generationally using projection scale MP-2018.

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

Female: PubG.H-2010 Headcount Weighted Safety Healthy Retiree set forward 1 year; projected generationally using projection scale MP-2018.

Male: PubG.H-2010 Headcount Weighted Safety Below Median Healthy Retiree set forward 1 year; projected generationally using projection scale MP-2018.

The rate of mortality for the period after service retirement for a disabled participant is as follows:

Pub-2010 80% Headcount Weighted General Disabled Retiree; 20% Headcount Weighted Safety Disabled Retiree; projected generationally using projection scale MP-2018.

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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 5. NET PENSION LIABILITY (Continued)

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, 2020 (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	60.00%	7.50%
Domestic bonds*	28.00%	2.50%
Real estate	10.00%	4.50%
Alternative assets	<u>2.00%</u>	5.77%
	<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	\$292,130,102	\$240,864,372	\$198,338,663

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.

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2020
(Continued)

NOTE 6. RISKS AND UNCERTAINTIES (Continued)

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. COVID-19 CONSIDERATIONS

The Plan's ongoing funding may experience instability and estimates included in the financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events affect the Plan's net position will depend on future developments, which are highly uncertain and cannot be predicted at this time.

NOTE 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 26, 2021, the date the financial statements were available to be issued.

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF INVESTMENT AND ADMINISTRATIVE EXPENSES

YEAR ENDED SEPTEMBER 30, 2020
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2019)

	<u>2020</u>	<u>2019</u>
INVESTMENT EXPENSES:		
Financial management expense	\$ 1,438,238	\$ 1,391,722
Custodial fee	70,531	58,416
Investment consultant fee	<u>88,275</u>	<u>67,595</u>
TOTAL INVESTMENT EXPENSES	<u><u>\$ 1,597,044</u></u>	<u><u>\$ 1,517,733</u></u>
 ADMINISTRATIVE EXPENSES:		
Accounting	\$ 21,535	\$ 38,925
Actuarial	118,219	113,786
Computer expenses	44,256	56,775
Employee benefits	52,023	52,591
Insurance	43,851	67,140
Legal	85,830	75,968
Miscellaneous	8,620	4,045
Office	2,725	1,200
Rent	24,525	24,525
Salaries and payroll taxes	279,759	212,764
Travel and education	<u>41,646</u>	<u>67,200</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$ 722,989</u></u>	<u><u>\$ 714,919</u></u>
 TOTAL ADMINISTRATIVE EXPENSES AS A PERCENTAGE OF NET POSITION RESTRICTED FOR PENSIONS	 0.21%	 0.22%

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

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2020

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTORS (UNAUDITED)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially determined employer contribution	\$ 27,676,165	\$ 29,182,499	\$ 19,492,251	\$ 17,005,579	\$ 13,960,747
Actual employer contribution	<u>29,033,271</u>	<u>29,182,499</u>	<u>19,492,251</u>	<u>17,005,579</u>	<u>13,960,747</u>
Annual contribution deficiency (excess)	<u>\$ (1,357,106)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 <u>\$ 22,824,881</u>	 <u>\$ 21,786,392</u>	 <u>\$ 23,585,094</u>	 <u>\$ 23,676,707</u>	 <u>\$ 18,649,015</u>
 Actual contributions as a percentage of covered-employee payroll	 127.20%	 133.95%	 82.65%	 71.82%	 74.86%

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined employer contribution	\$ 13,425,807	\$ 12,479,297	\$ 10,824,075	\$ 9,931,274	\$ 12,970,210
Actual employer contribution	<u>13,425,807</u>	<u>12,479,297</u>	<u>10,824,075</u>	<u>9,931,274</u>	<u>12,970,210</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 <u>\$ 16,504,396</u>	 <u>\$ 15,092,088</u>	 <u>\$ 14,581,728</u>	 <u>\$ 13,707,806</u>	 <u>\$ 15,230,825</u>
 Actual contributions as a percentage of covered-employee payroll	 81.35%	 82.69%	 74.23%	 72.45%	 85.16%

Notes to Schedules of Contributions from Employer and Other Contributors

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	13 to 26 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
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 required 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>
2020	7.46%
2019	3.39%
2018	11.68%
2017	10.91%
2016	9.41%
2015	1.58%
2014	9.88%
2013	9.91%
2012	17.03%
2011	1.48%

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

CITY OF HOLLYWOOD

POLICE OFFICERS RETIREMENT SYSTEM

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
TOTAL PENSION LIABILITY:				
Service cost	\$ 6,546,335	\$ 5,379,012	\$ 5,062,784	\$ 4,926,424
Interest (excluding DROP and Share)	46,783,055	42,872,487	29,915,966	27,871,029
Change of assumptions	-	(14,264,607)	-	16,168,696
Benefit changes	3,634,391	61,009,969	-	-
Difference between expected and actual contributions	2,081,615	4,813,881	7,322,883	8,126,704
Benefit payments	(30,379,009)	(30,099,345)	(28,190,020)	(27,582,433)
Refund of contributions	(314,396)	(112,090)	(53,956)	(20,298)
NET CHANGE IN TOTAL PENSION LIABILITY	28,351,991	69,599,307	14,057,657	29,490,122
TOTAL PENSION LIABILITY - BEGINNING	<u>552,342,523</u>	<u>482,743,216</u>	<u>468,685,559</u>	<u>439,195,437</u>
TOTAL PENSION LIABILITY - ENDING	<u>580,694,514</u>	<u>552,342,523</u>	<u>482,743,216</u>	<u>468,685,559</u>
PLAN FIDUCIARY NET POSITION:				
Contributions - city and state	21,654,207	31,825,423	19,492,251	17,005,579
Contributions - members	2,922,863	3,329,431	1,714,922	1,625,263
Net investment income	25,141,119	11,164,200	33,082,120	30,856,527
Benefit payments, including refunds	(30,379,009)	(30,099,345)	(28,190,020)	(27,582,433)
Administrative expenses	(722,989)	(714,919)	(592,690)	(726,806)
Refund of contributions	(314,396)	(112,090)	(53,956)	(20,298)
Other	44,860	61,795	91,696	164,029
NET CHANGE IN PLAN FIDUCIARY NET POSITION	18,346,655	15,454,495	25,544,323	21,321,861
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>321,483,487</u>	<u>306,028,992</u>	<u>280,484,669</u>	<u>259,162,808</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>339,830,142</u>	<u>321,483,487</u>	<u>306,028,992</u>	<u>280,484,669</u>
NET PENSION LIABILITY - ENDING	<u>\$ 240,864,372</u>	<u>\$ 230,859,036</u>	<u>\$ 176,714,224</u>	<u>\$ 188,200,890</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	58.52%	58.20%	63.39%	59.84%
COVERED EMPLOYEE PAYROLL	\$ 22,824,881	\$ 21,786,392	\$ 23,585,094	\$ 23,676,707
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	1055.27%	1059.65%	749.26%	794.88%

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 required 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>2016</u>	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:			
Service cost	\$ 4,093,052	\$ 3,518,988	\$ 3,148,678
Interest (excluding DROP and Share)	25,130,908	24,415,878	29,080,971
Change of assumptions	25,704,000	-	-
Benefit changes	-	2,093,658	-
Difference between expected and actual contributions	9,005,099	5,887,738	1,770,772
Benefit payments	(23,179,330)	(23,318,201)	(22,993,671)
Refund of contributions	<u>(35,258)</u>	<u>(73,428)</u>	<u>(126,781)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	40,718,471	12,524,633	10,879,969
TOTAL PENSION LIABILITY - BEGINNING	<u>398,476,966</u>	<u>385,952,333</u>	<u>375,072,364</u>
TOTAL PENSION LIABILITY - ENDING	<u>439,195,437</u>	<u>398,476,966</u>	<u>385,952,333</u>
PLAN FIDUCIARY NET POSITION:			
Contributions - city and state	13,960,747	13,425,807	12,479,297
Contributions - members	1,714,832	1,454,477	1,341,148
Net investment income	22,123,392	3,175,147	22,976,304
Benefit payments, including refunds	(23,179,330)	(23,318,201)	(22,993,671)
Administrative expenses	(671,069)	(656,738)	(684,234)
Refund of contributions	(35,258)	(73,428)	(126,781)
Other	<u>(160,748)</u>	<u>210,285</u>	<u>27,952</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	13,752,566	(5,782,651)	13,020,015
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>245,410,242</u>	<u>251,192,893</u>	<u>238,172,878</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>259,162,808</u>	<u>245,410,242</u>	<u>251,192,893</u>
NET PENSION LIABILITY - ENDING	<u>\$ 180,032,629</u>	<u>\$ 153,066,724</u>	<u>\$ 134,759,440</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	59.01%	61.59%	65.08%
COVERED EMPLOYEE PAYROLL	\$ 18,649,015	\$ 16,504,396	\$ 15,092,088
NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	965.37%	927.43%	892.91%

his 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 required supplementary schedule.

CITY OF HOLLYWOOD
POLICE OFFICERS RETIREMENT SYSTEM

COMPLIANCE REPORT

YEAR ENDED SEPTEMBER 30, 2020



**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, 2020, 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 March 26, 2021.

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) as a basis for designing 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.

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 financial statements. 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.



**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)

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
March 26, 2021