HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM
Office of Retirement
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

January 27, 2012

MINUTES

A regular meeting of the Hollywood Police Officers' Retirement System was held on Friday, January 27, 2012, at 9:00 A.M., in the Office of Retirement, 4205 Hollywood Blvd., Suite 4, Hollywood, Florida 33021.

PRESENT:

D. Strauss, Chairman, C. Marano, Secretary, C. O'Brien, R. Brickman, P. Laskowski and V. Szeto

Also present were Yvette Scott, City of Hollywood; Clement Johns, Goldstein Schechter Koch; Alan Ashworth, Eagle Asset Management; Steve Cypen, Board Attorney; David M. Williams, Plan Administrator.

Excused Absence: L. Wiener

READING OF THE WARRANTS

The warrants since the last meeting were reviewed and executed by the Board of Trustees.

APPROVAL OF THE MINUTES OF THE DECEMBER 16, 2011 MEETING

Mr. Strauss asked if there were any additions or corrections to the Minutes of the December 16, 2011 pension board meeting. Mr. Szeto made a motion to approve the Minutes of the December 16, 2011 pension board meeting, which was seconded by Mr. Laskowski. All board members voted yes.

ADMINISTRATIVE REPORT

Mr. Williams presented the Administrative Report to the Board.

DROP LOANS: Mr. Williams cited the respective member's loan requests. Mr. Williams outlined that the members have the funds in their personal DROP accounts to cover the loans and they have all been participants in the DROP plan for the required amount of time. No conflict exists with the 12-month rule. Mrs. Marano made a motion to approve the DROP loans as noted, which was seconded by Mr. Szeto. All board members voted yes.

ATTORNEY'S REPORT

Mr. Cypen advised the Board that the suit was filed against the city and counsel is awaiting a response from the city. Mr. Cypen advised the Board that he anticipates the requirement of an Attorney – Client session in the future.

Mr. Cypen also advised that he recently updated an investment management contract of Inverness Counsel with another client. Due to the long term relationship with Inverness, the existing contract needs to be brought up to date. That will be addressed at the next meeting.

INDEPENDENT AUDIT PRESENTATION - SEPTEMBER 30, 2011

Mr. Clement Johns, Goldstein Schechter Koch appeared before the Board. Mr. Johns stated that his firm has issued a clean unqualified opinion on the *pension system*, as well as the *DROP* & *Share Plans*.

Mr. Johns provided a detailed report to the Board to consider. The following are the highlights of the report:

- The Fund's assets exceeded its liabilities at the close of fiscal years ended September 30, 2011 and 2010 by $152,489,252 and $160,862,339, respectively (reported as net assets held in trust for pension benefits). Net assets are held in trust to meet future benefit payments. The decrease of $8,373,087 and the increase of $9,703,600, of the respective years have resulted primarily from the changes in the fair value of the Fund's investments due to volatile financial markets.

- The Fund's funded ratio, a comparison of the actuarial value of assets to the actuarial accrued pension liability, changed from 58.2% as of the October 1, 2008 to 53.5% as of the October 1, 2009 actuarial valuations and 60.7% as of the October 1, 2010 valuation.

- For the fiscal year ended September 30, 2011, liabilities increased by $7,706,590 (or 17.90%) primarily due to an increase in the Deferred Retirement Option Plan Payable and prepaid City contributions for the fiscal year ended September 30, 2011 received in advance.

- For the fiscal year ended September 30, 2010, liabilities increased by $6,627,690 (or 18.20%) primarily due to an increase in the Deferred Retirement Option Plan Payable.

- For the fiscal year ended September 30, 2011, employer (City) contributions to the Fund increased $547,525 (or 4.82%) based on the actuarial calculation. Actual employer contributions were $11,917,325 and $11,369,800 for 2011 and 2010, respectively.

- For the fiscal year ended September 30, 2010, employer (City) contributions to the Fund increased $1,250,612 (or 12.36%) based on the actuarial calculation. Actual employer contributions were $11,369,800 and $10,119,188 for 2010 and 2009, respectively.

- For the fiscal year ended September 30, 2011, state contributions to the Fund decreased $49,095 (or 4.46%). Actual state contributions were $1,052,885 and $1,101,980 for 2011 and 2010, respectively.

- For the fiscal year ended September 30, 2010, state contributions to the Fund decreased $111,001 (or 9.15%). Actual state contributions were $1,101,980 and $1,212,981 for 2010 and 2009, respectively.

- For the fiscal year ended September 30, 2011, employee contributions including buybacks increased by $73,259 (or 4.49%). Actual employee contributions and buybacks were $1,592,450 and $114,093 and $1,586,857 and $46,427, for 2011 and 2010, respectively. Employee contributions have fluctuated from year to year, based on the number of active members and changes in the rate of employee contributions.

- For the fiscal year ended September 30, 2010, employee contributions including buybacks decreased by $422,616 (or 20.56%). Actual employee contributions and buybacks were $1,586,857 and $46,427 and $1,629,767 and $426,133, for 2010 and 2009, respectively. Employee contributions have fluctuated from year to year, based on the number of active members and changes in the rate of employee contributions.

- For the fiscal year ended September 30, 2011, net investment loss was $959,592 compared with an income of $14,340,271 for the fiscal year ended September 30, 2010. Actual results were ($2,282,216) and $12,608,763 of net (depreciation) appreciation in fair value of investments for 2011 and 2010, respectively, and $5,781,480 and $5,577,104 of income from interest and dividends for 2011 and 2010, respectively. Deferred Retirement Option Plan participants' earnings were $3,434,750 and $2,955,098 for 2011 and 2010, respectively. Investment expenses increased by $133,608 or (13.05%).

- For the fiscal year ended September 30, 2010, net investment income was $14,340,271 compared with a loss of $133,572 for the fiscal year ended September 30, 2009. Actual results were $12,608,763 and $(3,235,293) of net appreciation (depreciation) in fair value of investments for 2010 and 2009, respectively, and $5,577,104 and $6,242,011 of income from interest and dividends for 2010 and 2009, respectively. Deferred Retirement Option Plan participants' earnings were $2,955,098 and $2,383,576 for 2010 and 2009, respectively. Investment expenses increased by $133,784 or (15.00%).

- For the fiscal year ended September 30, 2011, benefit payments and participants' contributions refunded increased by $3,255,472 (or 17.73%) primarily due to the distribution of a 13th check.

- For the fiscal year ended September 30, 2010, benefit payments and participants' contributions refunded increased by $1,295,889 (or 7.59%) primarily due to the increase in the number of retirees.

- For the fiscal year ended September 30, 2011, administrative expenses increased $93,041 from 2010 (or 24.64%) primarily due to an increase in fees for professional services.

- For the fiscal year ended September 30, 2010, administrative expenses decreased $25,688 from 2009 (or 6.37%) primarily due to a decrease in fees for professional services.

Plan Highlights

For the fiscal year ended September 30, 2011, the return of the portfolio, net of fees was 1.21% for the trailing year and ranked in the top 71st percentile, 0.64% below the median balance return of 1.85%. Actual investment loss in 2011 was $959,592 compared with income of $14,340,271 in 2010.

For the fiscal year ended September 30, 2010, the return of the portfolio, net of fees was 9.18 % for the trailing year and ranked in the top 54th percentile, 0.92% below the median balance return of 10.10%. Actual investment income in 2010 was $14,340,271 compared with losses of $(133,572) in 2009.

Statements of Plan Net Assets

The table below reflects condensed comparative statements of plan net assets as of September 30:

	2011	2010	2009
Cash and cash equivalents	**$ 4,759,663**	$ 3,631,033	$ 8,273,595
Receivables	**1,490,455**	1,449,023	1,190,960
Investments	**196,997,601**	198,834,160	178,118,371
Total assets	**203,247,719**	203,914,216	187,582,926
Liabilities	**50,758,467**	43,051,877	36,424,187
Net assets held in trust for pension benefits	**$152,489,252**	$ 160,862,339	$ 151,158,739

Statements of Changes in Plan Net Assets

The table below reflects a condensed comparative summary of the changes in net assets and reflects the activities of the Fund for the fiscal years ended September 30:

	2011	2010	2009
Additions:			
Contributions			
City	**$** 11,917,325	$ 11,369,800	$ 10,119,188
Employee	1,592,450	1,586,857	1,629,767
State	1,052,885	1,101,980	1,212,981
Buybacks	114,093	46,427	426,133
Total	14,676,753	14,105,064	13,388,069
Net investment (loss) income	(959,592)	14,340,271	(133,572)
Total additions	13,717,161	28,445,335	13,254,497
Deductions:			
Benefits paid	21,599,662	18,192,676	16,981,247
Participants' contributions refunded	19,909	171,423	86,963
Administrative expenses	470,677	377,636	403,324
Total deductions	22,090,248	18,741,735	17,471,534
Net (decrease) increase	(8,373,087)	9,703,600	(4,217,037)
Net assets held in trust for pension benefits at beginning of year	160,862,339	151,158,739	155,375,776
Net assets held in trust for pension benefits at end of year	**$** 152,489,252	$160,862,339	$ 151,158,739

Mr. Cypen advised that he wanted the "subsequent events" section of the report to clearly reflect the changes to the plan as follows:

Subsequent Events

The City has purportedly enacted changes to the plan scheduled to take effect subsequent to September 30, 2011:

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

- As of October 1, 2011 earnings shall be the sum of the following amounts actually paid to a member: Salary; longevity pay and assignment pay. Earnings shall not include overtime pay, payments for accrued holiday time, 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.

- A member hired prior to October 1, 2011 with less than ten years of credited service as of September 30, 2011 and a member hired on or after October 1, 2011 may retire on the day he or she attains age 55 and completes ten years of creditable service or on the day he or she attains age 52 and completes 25 years of creditable service. A member with 10 or more years of creditable service as of September 30, 2011 shall retain his or her current normal retirement date.

- The monthly retirement benefit shall equal 2.0% of average monthly earnings times years of service earned on or after October 1, 2011. If the member retires before attaining age 62, an additional benefit equal to 0.5% of average monthly earnings times continuous service on and after October 1, 2011 shall be paid to age 62.

- A member who does not enter DROP prior to October 1, 2011 shall not be eligible to enter the DROP, unless the member was eligible to retire as of September 30, 2011.

- Members of the Fund shall contribute 9.25% of their earnings.

- There shall be no annual increase (COLA) in retirement benefits under the benefit structure effective October 1, 2011.

- The supplemental pension distribution shall be payable only to retirees (and surviving spouses and other beneficiaries thereof) who reach their normal retirement or enter the DROP on or before September 30, 2011.

Because the Board is of the opinion the changes were not properly enacted, the Board has legally challenged the validity of these purported changes.

Actuarially Determined Contributions

The Fund contributions required from the City of Hollywood and the State of Florida for the fiscal years ended September 30, 2011 and 2010 were actuarially determined using a valuation date of October 1, 2009 and 2008, to be $13,136,365 and $11,427,524, respectively. The actuarially computed covered annual payroll was $18,445,452 and $18,459,663 for fiscal years ended September 30, 2011 and 2010, respectively.

However, recent changes enacted by the State of Florida required the Plan Actuary to calculate the required contributions for September 30, 2011 based on the contribution percentage rate (75.16%) stated in the October 1, 2009 valuation applied to the actual pensionable wages. As a result of this change, the Plan has recorded a revised minimum City contribution of $11,917,325 resulting in a prepaid City contribution of approximately $1,000,000 for the fiscal year ended September 30, 2011.

The required City contribution covers the following:

	2011		**2010**	
	Amount	**Percent of Actuarially Computed Covered Payroll**	Amount	Percent of Actuarially Computed Covered Payroll
Normal cost (excluding expenses)	**$ 2,994,479**	**16.2%**	$ 3,006,215	16.29%
Expenses	**400,000**	**2.2**	400,000	2.17
Payment to amortize unfunded liability	**9,575,731**	**51.9**	8,021,309	43.45
Total required	**$12,970,210**	**70.3%**	$ 11,427,524	61.91%

As a result of this prepayment caused by declining police payroll, Mr. Williams contacted Mr. Matthew Lala, Finance Director, City of Hollywood. Mr. Williams asked if the City of Hollywood would like to take this opportunity as fiduciaries to the plan and use the pre-payment to pay down the unfunded liability. Mr. Lala responded they would not, and would accept the pre-payment to offset the city's cost. Mr. Williams learned from Mr. Fernandez, Board Actuary, that Mr. Douglas Beckendorf, Actuary, State of Florida, Division of Retirement indicated to him it was not the Board's decision how to use this payment, but the plan sponsor. The Board of Trustees expressed their displeasure that Mr. Lala would not take this opportunity to reduce the city's long term costs by reducing the unfunded liability.

Mr. Laskowski made a motion to accept the Combined Financial Statements for the Plan, for September 30, 2011 as amended, which was seconded by Mr. O' Brien. All board members voted yes. The Board "*thanked*" the staff of Goldstein Schechter Koch, and particularly Elisabeth Capota for a job well done.

QUARTERLY PRESENTATION BY EAGLE ASSET MANAGEMENT

Mr. Alan Ashworth appeared before the Board and stated the combined market value of Eagle Account was at $18,989,492 as of December 30, 2011. Since inception (*01-08-03*) the Eagle Small Cap Account realized an annualized gross return of 10.26%, compared to the Russell 2000 of 8.82%. For the quarter ending December 30, 2011, Eagle Small Cap Account returned 13.86%, compared to 115.47% for the Russell 2000. The 3 & 5 Year returns were valued at 15.52% & 2.97% in comparison to the benchmark returns of 15.63% & 0.15% respectively.

Since inception (10-08-08) the Eagle Mid Cap Account realized a cumulative gross return of 10.92%, compared to the Russell Midcap Index of 14.51%. For the quarter ending December 30, 2011, Eagle Mid Cap Account returned 10.77%, compared to 12.31% for the Russell Midcap Index. The 1 & 3 Year returns were valued at -7.53% & 14.40% in comparison to the benchmark returns of -1.55% & 20.17% respectively.

Mr. Ashworth spoke of the under performance in the mid cap arena. He has spoke with the portfolio managers and they are focused on long term results. Top contributing and distracting equities were reviewed. Sector allocation & diversification and market weighting were also discussed.

OPEN DISCUSSION

Mr. Williams advised that he provided the notice of the Board Trustee nomination process to all members via internal e-mail. It was also posted to the announcement page of the web and on the front door of the Office of Retirement. The nomination dates are February 3-10th.

If warranted the election will be February 24^{th} to March 2^{nd}. The open seats are for Mrs. Cathleen Marano & Mr. Paul Laskowski.

MEETING ADJOURNED

There being no further business, the meeting was adjourned at 9:45 A.M.

Respectfully submitted, APPROVED:

C. Marano, Secretary D. Strauss, Chairperson