

**Audited Financial Statements
and Supplementary Information**

**Delray Beach Police Officers'
Retirement System**

**A Pension Trust Fund of
the City of Delray Beach, Florida**

September 30, 2020



**CALER, DONTEN, LEVINE,
COHEN, PORTER & VEIL, P.A.**

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2020

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Independent Auditor's Report

To the Board of Trustees
Delray Beach Police Officers' Retirement System
Delray Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Delray Beach Police Officers' Retirement System (the "Plan"), a pension trust fund of the City of Delray Beach, Florida, 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, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards 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 entity'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 entity'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 Delray Beach Police Officers' Retirement System, a pension trust fund of the City of Delray Beach, Florida, as of September 30, 2020, and the change in fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 7 and the pension information on pages 23 to 29 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Investment and Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Investment and Administrative Expenses is the responsibility of management and was derived from and relates 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 U.S. generally accepted auditing standards. In our opinion, the Schedule of Investment and Administrative Expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2021 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Cale, Dauter, Levine,
Cohen, Porter & Veil, P.A.*

West Palm Beach, Florida
April 26, 2021

Delray Beach Police Officers' Retirement System

Management's Discussion and Analysis

As management of the Delray Beach Police Officers' Retirement System (the "Plan"), we offer readers of the Plan's financial statements this narrative overview of the financial activities of the Plan for the year ended September 30, 2020. This narrative is intended to supplement the Plan's financial statements, and we encourage readers to consider the information presented here in conjunction with these statements, which begin on page 8.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The financial statements include:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

This report also contains the following *Required Supplementary Information* to the financial statements:

- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of City Contributions
- Schedule of Investment Returns
- Notes to Required Supplementary Information

The financial statements contained in the report are described below:

- The Statement of Fiduciary Net Position is a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the statement date. The resulting Net Position (Assets – Liabilities = Net Position) represents the value of assets held in trust for pension benefits.
- The Statement of Changes in Fiduciary Net Position displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (Decrease) in Net Position. This Net Increase (Decrease) in Net Position reflects the change in the net asset value of the Statement of Fiduciary Net Position from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements.
- The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to the comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Plan operates and provide additional levels of detail for select financial statement items (See Notes to Financial Statements on pages 10 to 22 of this report).

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this financial report includes three additional *Required Supplementary Information* schedules with historical trend information.

- The Schedule of Changes in the Net Pension Liability and Related Ratios (pages 23 to 24) includes information about the sources of changes to the net pension liability and to the changes in Plan fiduciary net position. It also provides information regarding the fiduciary net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.
- The Schedule of City Contributions (page 25) presents information regarding the value of total annual contributions required to be paid by the City and the actual performance of the City in meeting this requirement.
- The Schedule of Investment Returns (page 26) provides information regarding the Plan rate of return.
- The Notes to Required Supplementary Information (pages 27 to 29) provide background information and explanatory detail to aid in understanding the required supplementary schedules.

Financial Highlights

For fiscal years ended September 30, 2016 and prior, police officers participated in the City of Delray Beach Police and Firefighters Retirement System (the “Legacy Plan”) that provided pension benefits to both City police officers and firefighters. Effective October 1, 2016, the City Commission adopted City Ordinance No. 17-16, which provided for the establishment of separate retirement systems for the City’s police officers and firefighters, a new board of trustees for each system, changes in the allocation and use of Chapter 175 and 185 premium tax revenues, and changes to the retirement benefits of firefighters and police officers. Ordinance No. 17-16 specified that the determination of the assets and liabilities of the Legacy Plan allocable to the Plan should be made by the Plan’s actuary. The actuarial allocation was based on the census data, plan provisions, assumptions and methods used for the October 1, 2015 actuarial valuation of the Legacy Plan. The allocation method resulted in an allocation of 47.431% of the Legacy Plan assets to the new Delray Beach Police Officers’ Retirement System. The financial position and operating results of the Plan as of and for the years ended September 30, 2020 and 2019 present only the stand-alone, segregated Plan, although an investment in a real estate fund held by the Legacy Plan and the related income are allocated to the Delray Beach Police Officers’ Retirement System based on the actuarial percentage.

- The net position of the Plan restricted for pension benefits at the close of the fiscal years ended September 30, 2020 and 2019 was \$116,987,996 and \$106,861,770, respectively.
- Net position increased by \$10,126,226 or 9.5% during 2020, primarily due to the current year’s contributions and investment income.
- For the year ended September 30, 2020 Plan net position was 66.5% of the total pension liability of \$175,952,523. The net pension liability was \$58,964,527 at September 30, 2020, which was 487.9% of covered payroll.
- Additions to fiduciary net position for the year ended September 30, 2020 were \$19,838,837 which includes City, Police Officer and State contributions totaling \$10,461,679 and net income from investment activities totaling \$9,377,158.
- Deductions from fiduciary net position decreased \$73,240 to \$9,712,611 in 2020. The decrease relates to lower DROP benefit payments made in 2020.

Analysis of Financial Activities

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer, state and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits.

Contributions from the City of Delray Beach are made at levels determined by the Plan's actuary. Because expected investment returns and expected payroll growth has remained stable compared to previous years, the City's contribution requirement has increased slightly. Net position restricted for pension benefits increased by \$10,126,226 in 2020.

**Fiduciary Net Position
Table 1**

	2020	2019	Increase 2020 - 2019
Assets			
Current and other assets	\$ 1,523,799	\$ 540,513	\$ 983,286
Investments	<u>115,940,973</u>	<u>106,632,825</u>	<u>9,308,148</u>
Total Assets	<u>117,464,772</u>	<u>107,173,338</u>	<u>10,291,434</u>
Liabilities			
	<u>476,776</u>	<u>311,568</u>	<u>165,208</u>
Fiduciary Net Position	<u>\$ 116,987,996</u>	<u>\$ 106,861,770</u>	<u>\$ 10,126,226</u>

As the years roll forward and total assets and liabilities grow, investment income will continue to play an important role in funding future retirement benefits. Therefore, investment return over the long term is critical to the funding status of the retirement Plan.

During 2020, the Plan's investment portfolio returned income of 8.34% as compared to 4.43% for the prior year. It is important to remember that a retirement Plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Plan be able to meet an expected annual earnings yield of 6.75% on investments (lowered from 7.0% in the prior year).

Based on the latest actuarial analysis for the year ended September 30, 2020, the Plan's total pension liability exceeds its Plan net position by \$59.0 million (an increase of \$1.2 million from 2019), producing a plan net position as a percent of total pension liability of 66.5% (an increase from 64.9% for 2019).

Financial Analysis Summary

As previously noted, net position viewed over time may serve as a useful indication of the Plan's financial position (see Table 1 above). At the close of fiscal year 2020, the assets of the Plan exceeded its current liabilities by \$116,987,996, shown as net position restricted for pension benefits. The net position is available to meet the Plan's ongoing obligation to Plan members and their beneficiaries.

Fiduciary Net Position

The Plan's fiduciary net position is established from employer, state and member contributions, and the accumulation of investment income, net of investment and administrative expenses and benefit payments.

Additions to Fiduciary Net Position

As noted above, fiduciary net position needed to finance retirement benefits are accumulated through collecting employer, state and member contributions and through investment earnings (net of investment expenses.) The additions totaled \$19,838,837 for the year ended September 30, 2020. This was \$5,754,268 more than the prior year, primarily due to increased investment returns.

**Additions to Fiduciary Net Position
Table 2**

	2020	2019	Increase 2020 - 2019
Contributions			
City	\$ 8,396,789	\$ 7,552,358	\$ 844,431
Police officers	1,196,828	1,160,807	36,021
State of Florida	<u>868,062</u>	<u>835,929</u>	<u>32,133</u>
Total Contributions	<u>10,461,679</u>	<u>9,549,094</u>	<u>912,585</u>
Net Investment Earnings	<u>9,377,158</u>	<u>4,535,475</u>	<u>4,841,683</u>
Total Additions	<u>\$ 19,838,837</u>	<u>\$ 14,084,569</u>	<u>\$ 5,754,268</u>

Deductions from Fiduciary Net Position

The Plan was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to employees who terminate employment, and the cost of administering the Plan.

**Deductions from Fiduciary Net Position
Table 3**

	2020	2019	Increase (Decrease) 2020 - 2019
Benefit Payments			
Retirement and disability payments	\$ 7,112,482	\$ 6,494,802	\$ 617,680
DROP withdrawals	2,423,076	3,006,201	(583,125)
Refunds of participant contributions	<u>33,258</u>	<u>103,178</u>	<u>(69,920)</u>
Total Benefit Payments	<u>9,568,816</u>	<u>9,604,181</u>	<u>(35,365)</u>
Administrative Expenses	<u>143,795</u>	<u>181,670</u>	<u>(37,875)</u>
Total Deductions	<u>\$ 9,712,611</u>	<u>\$ 9,785,851</u>	<u>\$ (73,240)</u>

Total deductions for the year ended September 30, 2020 totaled \$9,712,611 a decrease of .8% from 2019. The decrease was primarily due to decreased DROP payments in 2020. Deductions for the year ended September 30, 2019 totaled \$9,785,851.

The additions to plan net position of \$19,838,837 and deductions from Plan fiduciary net position of \$9,712,611 resulted in an overall increase of \$10,126,226 attributable to operations for the year ended September 30, 2020. The additions to plan net position of \$14,084,569 and deductions from Plan fiduciary net position of \$9,785,851 resulted in an overall increase of \$4,298,718 in net position restricted for pension benefits for the year ended September 30, 2019.

Fiduciary Responsibilities

The Board of Trustees is the fiduciary of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of the Plan are used exclusively for the benefit of Plan members and their beneficiaries and defraying reasonable expenses of administering the Plan.

Requests for Information

This financial report is designed to provide the Board of Trustees, Plan members, taxpayers and investment managers with an overview of the Plan's finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Pension Administrator
Delray Beach Police Officers' Retirement System
City of Delray Beach Finance - Pension Office
100 NW 1st Avenue
Delray Beach, FL 33444

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

September 30, 2020

	Defined Benefit Pension Plan	Deferred Retirement Option (DROP) Pension Plan	Total Pension Trust Funds
ASSETS			
Cash	\$ 11,747	\$ -	\$ 11,747
Receivables:			
Police officers' contributions	42,096	-	42,096
State of Florida contribution	868,062	-	868,062
Interest and dividends	98,805	-	98,805
Pending trades receivable	496,094	-	496,094
Miscellaneous	6,995	-	6,995
Total Receivables	<u>1,512,052</u>	-	<u>1,512,052</u>
Investments:			
Money market mutual funds	1,494,122	-	1,494,122
U.S. Government securities	1,973,841	-	1,973,841
U.S. Government Agency securities	5,998,300	-	5,998,300
Domestic corporate bonds	10,531,627	-	10,531,627
Global asset allocation investment fund	3,364,353	-	3,364,353
Global fixed income investment fund	2,492,882	-	2,492,882
Domestic equity securities	26,645,675	-	26,645,675
Domestic equity mutual funds	10,610,759	-	10,610,759
Domestic equity index funds	3,842,057	-	3,842,057
Pooled domestic equity index funds	8,974,369	-	8,974,369
International equity mutual funds	16,943,127	-	16,943,127
Foreign stocks	2,259,864	-	2,259,864
Timber investment funds	1,088,035	-	1,088,035
Real estate investment funds	7,760,749	-	7,760,749
Fixed income alternative investment fund	2,460,641	-	2,460,641
Participant directed pooled investment funds	-	9,500,572	9,500,572
Total Investments	<u>106,440,401</u>	<u>9,500,572</u>	<u>115,940,973</u>
Total Assets	<u>107,964,200</u>	<u>9,500,572</u>	<u>117,464,772</u>
LIABILITIES			
Accounts payable	83,042	-	83,042
Pending trades payable	393,734	-	393,734
Total Liabilities	<u>476,776</u>	-	<u>476,776</u>
NET POSITION			
Restricted for pension benefits	<u>\$ 107,487,424</u>	<u>\$ 9,500,572</u>	<u>\$ 116,987,996</u>

See notes to financial statements.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended September 30, 2020

	Defined Benefit Pension Plan	Deferred Retirement Option (DROP) Pension Plan	Total Pension Trust Funds
ADDITIONS			
Contributions:			
City of Delray Beach	\$ 6,917,364	\$ 1,479,425	\$ 8,396,789
Police officers	1,196,828	-	1,196,828
State of Florida	868,062	-	868,062
Total Contributions	<u>8,982,254</u>	<u>1,479,425</u>	<u>10,461,679</u>
Investment earnings:			
Net appreciation in fair value of investments	6,287,172	478,414	6,765,586
Interest, dividends and investment fund income	2,938,685	173,218	3,111,903
Other investment income	811	20,977	21,788
	<u>9,226,668</u>	<u>672,609</u>	<u>9,899,277</u>
Less investment expenses	<u>(519,088)</u>	<u>(3,031)</u>	<u>(522,119)</u>
Net Investment Earnings	<u>8,707,580</u>	<u>669,578</u>	<u>9,377,158</u>
Total Additions	17,689,834	2,149,003	19,838,837
DEDUCTIONS			
Police officers benefits	7,112,482	-	7,112,482
Deferred retirement option (DROP) benefits	1,479,425	943,651	2,423,076
Refunds of participant contributions	33,258	-	33,258
Administrative expenses	143,795	-	143,795
Total Deductions	<u>8,768,960</u>	<u>943,651</u>	<u>9,712,611</u>
Increase in Plan Net Position	8,920,874	1,205,352	10,126,226
NET POSITION RESTRICTED FOR PENSION BENEFITS			
Beginning of year	<u>98,566,550</u>	<u>8,295,220</u>	<u>106,861,770</u>
End of year	<u>\$ 107,487,424</u>	<u>\$ 9,500,572</u>	<u>\$ 116,987,996</u>

See notes to financial statements.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

1. Summary of Significant Accounting Policies

Reporting Entity: The Delray Beach Police Officers' Retirement System (the "Plan") was established by the City of Delray Beach, Florida, to account for the financial activity of the defined benefit pension plan and deferred retirement option plan (DROP) that accumulate funds for the retirement pensions of City police officers. The Plan uses separate fiduciary funds to report resources that are held in trust for the members and beneficiaries of the defined benefit pension plan and DROP plan (a defined contribution plan). The Plan is reported as a fiduciary fund (pension trust) in the City's basic financial statements.

Measurement Focus and Basis of Accounting: The Plan's financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Contributions from the Plan's members are recognized as revenue in the period in which the contributions are due. Contributions from the City, as calculated by the Plan's actuary, are recognized as revenue when due and when the City is legally required to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Cash: Cash includes temporary cash balances held by the Plan's investment managers and are uninsured and uncollateralized.

Investments: The Plan's investment functions for the defined benefit plan are performed by independent investment managers under the direction of the Board of Trustees. The defined benefit plan investments are held in safekeeping by a custodian independent of the investment managers. The DROP investments are self-directed participant accounts investing in pooled investments in mutual funds available through an affiliate of ICMA. Investments are reported at fair value or net asset value, except for money market mutual funds that are reported at amortized cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price. Net asset values of the timber and real estate funds are determined by the fund managers using fair market values of the underlying investments of the fund. Net appreciation (depreciation) in fair value of investments includes the difference between cost and fair value of investments held as well as the net realized gains and losses for securities which are sold. Interest and dividend income are recognized on the accrual basis when earned. Purchases and sales of investments are recorded on a trade date basis.

Net Position: The net position of the Plan is restricted for pension benefits pursuant to legal restrictions of the enabling City ordinance that requires all Plan assets be utilized for pension benefits.

Investment and Administrative Expenses: Investment management fees are typically paid based on individually negotiated investment management agreements. The investment management fees are usually paid quarterly based on the investment portfolio's net asset value at the end of the quarter or may be performance related based on exceeding a market benchmark. Fees are paid from the appropriate investment manager's portfolio and are recognized as investment expenses in the Statement of Changes in Fiduciary Net Position over the time period to which the fees apply. Investment expenses also include custody fees paid to the Plan's investment custodian and performance monitoring fees paid to outside investment consultants engaged by the Plan.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

1. Summary of Significant Accounting Policies (Continued)

Administrative expenses include the various costs of administering the operations of the Plan, including fees for actuarial, audit, insurance and legal services, allocable costs for services provided by the City and office related expenses for supplies, postage and telephone.

Risk Management: The Plan is exposed to various risks of loss related to torts; theft of assets; fiduciary duty; and, errors and omissions. The Plan is also subject to risk of loss arising in the ordinary course of business, including, but not limited to, claims for damages for personal injuries and breach of contract. The Plan purchases commercial insurance for these risks. There were no significant reductions in insurance coverage from the prior year and no settlements in excess of coverage for the prior three years.

As a political subdivision of the State of Florida, the Plan has sovereign immunity under the Florida Constitution for tort actions. Therefore, in accordance with Chapter 768.28 Laws of Florida, the Plan is not liable to pay a claim or judgment, or any portions thereof, which when totaled with all other claims or judgments paid by the State or its agencies or subdivisions arising out of the same incident or occurrence, exceeds the aggregate sum of \$300,000. Chapter 768.28 also provides that judgments may be claimed or rendered in excess of these limits; however, these amounts must be reported to and approved by the Florida Legislature.

New Accounting Pronouncements: GASB Statement No. 84, *Fiduciary Activities*, establishes guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. GASB Statement No. 84 will be effective for the Plan's fiscal year ending September 30, 2021. The Plan has not determined the effect, if any, of the new GASB Statement on the Plan's financial statements.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could vary from the estimates that were used.

2. Plan Description

The following brief description of the Plan is provided for general information purposes only. Members should refer to the enabling City ordinance for more complete information.

The Plan was originally established in 1974 by the City of Delray Beach as the City of Delray Beach Police and Firefighters Retirement System (the "Legacy Plan") to provide pension benefits to all full-time City police officers and firefighters. Effective October 1, 2016, the City Commission adopted City Ordinance No. 17-16, which provided for the establishment of separate retirement systems for the City's police officers and firefighters, a new board of trustees for each system, changes in the allocation and use of Chapter 175 and 185 premium tax revenues, and changes to the retirement benefits of police officers and firefighters. The changes in Ordinance No. 17-16 were ratified by the City's collective bargaining agreements with the Palm Beach County Police Benevolent Association

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

2. Plan Description (Continued)

and the Professional Fire Fighters/Paramedics of Palm Beach County, Local 2928, IAFF. Unless otherwise noted, these financial statements present only the financial activity of the Delray Beach Police Officers' Retirement System established on October 1, 2016 pursuant to Ordinance No. 17-16.

Plan Administration: The Plan is governed by Florida Statutes Chapter 185, as modified by ordinances adopted by the City Commission of the City of Delray Beach. Additionally, the Fund is governed by Chapter 112, Part VII, of the Florida Statutes. All full time police officers of the City are required to participate in the Plan as a condition of employment. Civilian members of the City Police Department and the Police Chief, upon the Police Chief's written election not to participate, are excluded from the Plan.

The Plan is managed by a five member Board of Trustees consisting of the following members: two legal residents of the City who are appointed by the City Commission; two full-time City police officers elected by the active members of the Plan; and, a fifth member chosen by a majority of the other four members. Each trustee serves for a term of four years, except for the fifth member, who serves for a four year term. Each trustee may serve successive terms.

Plan Membership: The Plan membership as of October 1, 2019, the date of the most recent actuarial valuation, is summarized as follows:

Retirees and Beneficiaries	
Retirees and beneficiaries receiving benefits	131
DROP retirees	15
Terminated employees entitled to benefits but not receiving them	7
Total Retirees and Beneficiaries	153
 Active Members	
Vested	66
Nonvested	83
Total Active Members	149

Pension Benefits: The Plan provides retirement, death and disability benefits for police officers. Benefit provisions are established and may be amended by City Ordinance.

Eligibility for Normal Retirement - For police officers hired on or before July 7, 2015, eligibility for normal retirement is the earlier of age 55 and 10 years of service or 20 years of service regardless of age. For police officers hired after July 7, 2015, eligibility for normal retirement is the earlier of age 55 and 10 years of service or 25 years of service regardless of age.

Annual Retirement Benefit - The annual retirement benefit for police officers is based on the date of hire as follows:

- A) Police officers hired on or before July 7, 2015, with 20 or more years of service at that date, receive 3.5% (if the enhanced multiplier is elected or 3.0% if it is not elected) times the police officer's average final compensation for all credited service.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

2. Plan Description (Continued)

B) Police officers hired on or before July 7, 2015, and retiring with:

- 1) less than 20 years of service receive 2.5% times the police officer's average final compensation times all years of credited service prior to July 7, 2015 plus 3.0% times the police officer's average final compensation times all years of credited service after July 7, 2015 (subject to a maximum annual benefit of \$108,000, but in no event less than 2.0% times average final compensation for each year of service).
- 2) more than 20 years of service receive 3.5% (if the enhanced multiplier is elected or 3.0% if it is not elected) times the police officer's average final compensation for all credited service prior to July 7, 2015 plus 3.0% times the police officer's average final compensation times all credited service after July 7, 2015 (subject to a maximum annual benefit of 87.5% of average final compensation). Police Officers hired after April 9, 2013 may not elect the enhanced multiplier.

C) Police officers hired after July 7, 2015 receive 2.75% times the police officer's average final compensation times all years of credited service (subject to a maximum annual benefit of \$108,000 and further subject to a maximum of 68.75% of their average final compensation, but in no event less than 2% times average final compensation for each year of service).

Early Retirement - A participant age 50 with 10 or more years of credited service is eligible for early retirement. Early retirement benefits are computed in the same manner as normal retirement, based upon the participant's final average salary and credited service at the date of termination, reduced by 3.0% for each year prior to the normal retirement date. Police officers hired after July 7, 2015 are not eligible for early retirement benefits.

Disability Benefits - Disability benefits for service related disabilities are based on a determination of total and permanent disability by the Board of Trustees. Ten years of service are required for non-service related disability benefits. The disability benefit is the participant's accrued pension benefit, but not less than 60% of the participant's average final compensation for service related disabilities. For non-service related disabilities, the benefit is 2.0% of average final compensation times the years of credited service with a minimum of 25% of the participant's average final compensation.

Death Benefits - For any police officer who dies in the line of duty, the surviving spouse shall receive until death or remarriage, 50% of the police officer's final average compensation. Each surviving child under age 18 shall receive 5% of the police officer's final average compensation until age 18 (or 22 if a full-time student). The maximum service-incurred survivor benefit is 60% of the police officer's final average compensation. For any police officer with more than five years of service whose death is not in the line of duty, the surviving spouse shall receive until death or remarriage, 65% of the police officer's accrued benefit at the time of death, subject to a minimum benefit of 20% of the police officer's final average earnings. Each surviving child under age 18 shall receive 5% of the police officer's final average earnings until age 18 (or 22 if a full-time student) with the total death benefit limited to 50% of the police officer's final average compensation.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

2. Plan Description (Continued)

Cost of Living Adjustments - Post retirement cost of living adjustments are provided for pension recipients. An annual increase equal to a 1% base benefit plus what can be funded from State revenues applies for those who retired after October 1, 1993, commencing on the 1st anniversary of the retiree's first benefit payment following their 25th hire date anniversary.

Deferred Retirement Option Plan (DROP) - Police officers are eligible to enter the Deferred Retirement Option Plan (DROP) at the normal retirement date, while continuing active employment as a police officer. Upon entering into the DROP, the participant becomes a retiree for all Plan purposes and the accrued benefit is frozen. The maximum duration of DROP participation is 5 years. Normal retirement payments that would have been payable to the participant as a result of retirement are paid to and invested in the DROP to be distributed to the participant upon his or her request or as required by law.

The Board of Trustees contracts with the International City Management Association Retirement Corporation (ICMA-RC) to administer the DROP through a separate 401(a) plan. Police officers who elect to participate in DROP are required to use a self-directed investment program through the ICMA 401(a) plan. The DROP participants self-direct their account in investment options offered by ICMA and approved by the Plan's Board of Trustees. The assets of the DROP cannot be legally accessed by the Plan to pay retirement benefits to other Plan participants because the DROP assets are held in the participants' name in a separate trust under the 401(a) plan. Accordingly, the DROP plan has been reported as a separate defined contribution plan in the accompanying financial statements.

Contributions: Contribution requirements are established and may be amended by City Ordinance. Contribution requirements are based on the benefit structure established by the City. Members are required to contribute 9.0% of salary. Pursuant to Chapter 185, Florida Statutes, a premium tax on certain casualty insurance contracts written on properties within the corporate boundaries of the City is collected by the State and remitted to the Plan for the State's annual contribution amount. The City is required to contribute the remaining amounts necessary to finance the Plan's benefits through periodic contributions at actuarially determined rates sufficient to pay the normal cost plus an amount sufficient to amortize the unfunded accrued past service liability over a period not greater than 30 years. By mutual agreement of the City and the police officers' union, all annual premium tax moneys received pursuant to Chapter 185, up to \$606,595, the amount received during the 2013 calendar year, shall be used to offset the cost of current benefits by reducing the City's annual required contribution to the Plan.

A rehired member may buy back one or more years of continuous past service by paying into the Plan the amount of contributions the employee would otherwise have paid for such service, plus the investment earnings that would have been earned had such funds been invested by the Plan during that time. The buy back of past service must be paid to the Plan within 90 days of being rehired by the City.

Vesting and Refunds of Member Contributions: Police officers who terminate employment with less than 10 years of continuous service, upon the election to receive a refund of member contributions, receive a noncompounded, simple interest rate of three percent per year applied to the principal balance of the participant's contributions as accrued on December 31st of each year. Employees who terminate employment with 10 years or more of continuous service, upon the election to receive a refund of

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

2. Plan Description (Continued)

member contributions, receive a noncompounded, simple interest rate of five percent per year applied to the principal balance of the participant's contribution as accrued on December 31st of each year. Each member is guaranteed the payment of benefits at least equal in total to his accumulated contributions plus interest as provided herein. Any forfeitures that may arise upon the termination of a member's employment are used to offset the City's contribution.

3. Investments

Authorized Investments - Florida Statutes and the Plan's investment policy authorize the Plan to invest in Florida Prime (a State administered investment pool); negotiable direct obligations of or obligations unconditionally guaranteed by the U.S. Government; interest-bearing time deposits or savings accounts in financial institutions located in Florida and organized under Federal or Florida laws; money market mutual funds limited to U.S. Government securities; obligations of the Federal Farm Credit Banks, Fannie Mae, Freddie Mac, the Federal Home Loan Bank or its district banks; obligations guaranteed by the Government National Mortgage Association; and any additional investments authorized by the Plan's investment policy.

The Plan's investment policy further authorizes the Plan to invest, with certain limitations, in tax sale certificates of the State of Florida or any of its political subdivisions, preferred and common stocks of certain domestic and international corporations, debt securities of certain domestic and international corporations, mutual funds (including exchange traded funds), and alternative investments, including private investment funds consisting of equity and fixed income investments, timber, real estate, and similar investments that are not publicly traded.

Investment Allocation - The policy in regard to the allocation of invested assets is established and may be amended by a majority vote of the Board of Trustees. It is the Board of Trustees' policy to pursue an investment strategy that reduces risk through the prudent diversification of the investment portfolio across a broad selection of distinct asset classes. The investment policy of the Plan discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The investment strategy and allocations are reviewed quarterly with the assistance of the Plan's investment consultant and are rebalanced to the target asset allocations based on market conditions.

The long-term expected net rate of return on investments was determined using a building-block method. Best-estimate ranges of expected future rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. The long-term expected net rate of return on investments is the best-estimate ranges weighted by asset allocation plus expected inflation. Best estimates of arithmetic real rates of return for each major asset class as provided by the investment managers, together with the Board of Trustees' adopted asset allocation policy as of September 30, 2020, are as follows:

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

3. Investments (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate Of Return
Domestic equity	42.5%	7.5%
International equity	15.0	8.5
Fixed income	27.5	2.5
Real estate	10.0	4.5
Alternatives	5.0	6.2
Total	100.0%	

Rate of Return: The annual money-weighted rate of return on Plan investments, net of pension investment expense, was 8.34% for the year ended September 30, 2020. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

Fair Value of Investments: The Plan follows the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which establishes a framework for measuring the fair value of investments in a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB Statement No. 72 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Plan has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include the following:

- Quoted prices for similar assets in active markets.
- Quoted prices for identical or similar assets in inactive markets.
- Inputs other than quoted prices that are observable for the assets.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. These unobservable inputs reflect the entity's own estimates for assumptions that market participants would use in pricing the asset or liability. Valuation techniques would typically include discounted cash flow models and similar techniques, but may also include the use of market prices of assets that are not directly comparable to the subject asset.

The fair value measurement of an asset within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The categorization of an investment within the fair value hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Plan's perceived risk of that investment.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

3. Investments (Continued)

Valuation Methodologies: The following valuation methods and assumptions were used by the Plan to estimate the fair value of financial instruments measured at fair value on a recurring basis under GASB Statement No. 72:

U.S. Government and Agency securities, domestic corporate bonds, global asset allocation investment fund and global fixed income investment fund: Valued at the closing price reported on the active exchange on which the individual securities are actively traded. Securities that are not actively traded are valued using a matrix pricing technique based on the securities' relationship to quoted benchmark prices.

Domestic equity securities and foreign stocks: Valued at the closing price reported on the active exchange on which the individual securities are actively traded.

Domestic and international equity mutual funds and domestic equity index funds: Valued at the closing net asset value reported on the active exchange on which the individual investment funds are actively traded.

Investments measured at net asset value (NAV): Pooled domestic equity index funds, timber and real estate investment funds and the fixed income alternative investment fund, are valued at the unadjusted NAV per share at September 30, 2020, calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies based on the fair value of the underlying fund investments, as determined by the fund manager or by valuations of a fund's underlying assets as provided by the general partner or investment manager, since the assets are not publicly traded. Timber and real estate values are based upon periodic independent appraisals performed for assets held by the funds. The fair value of timber and real estate is the price that would be received if the asset was sold to a market participant assuming the highest and best use of each asset at the measurement date. The pooled domestic equity index fund and fixed income alternative investment fund are not publicly traded and invest in various types of equity and fixed income securities.

DROP participant pooled investment funds: Price/unit values for DROP investment options are calculated daily by the DROP provider based on the quoted price on a national exchange for the underlying mutual funds held in comingled pooled investment accounts through a group trust, adjusted for certain expense factors disclosed in the DROP provider contract.

The methods and assumptions described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Plan believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no changes in the methods and assumptions used for the year ended September 30, 2020.

Fair Value of Investments: The financial assets measured at fair value on a recurring basis include the Plan's investments. There were no liabilities measured at fair value on a recurring basis at September 30, 2020.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

3. Investments (Continued)

The fair value of the Plan's investments at September 30, 2020 is summarized as follows:

	Fair Values at September 30, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income investments				
U.S. Government	\$ -	\$ 1,973,841	\$ -	\$ 1,973,841
U.S. Government Agency	-	5,998,300	-	5,998,300
Domestic corporate bonds	-	10,531,627	-	10,531,627
Global asset allocation investment fund	3,364,353	-	-	3,364,353
Global fixed income investment fund	<u>2,492,882</u>	<u>-</u>	<u>-</u>	<u>2,492,882</u>
Total fixed income investments	5,857,235	18,503,768	-	24,361,003
Equity investments				
Domestic equity securities	26,645,675	-	-	26,645,675
Domestic equity mutual funds	10,610,759	-	-	10,610,759
Domestic equity index funds	3,842,057	-	-	3,842,057
International equity mutual funds	16,943,127	-	-	16,943,127
Foreign stocks	<u>2,259,864</u>	<u>-</u>	<u>-</u>	<u>2,259,864</u>
Total equity investments	<u>60,301,482</u>	<u>-</u>	<u>-</u>	<u>60,301,482</u>
Total investments at fair value	<u>\$ 66,158,717</u>	<u>\$ 18,503,768</u>	<u>\$ -</u>	84,662,485
Investments measured at NAV				
Alternative investment funds				
Pooled domestic equity index funds				8,974,369
Timber investment fund				1,088,035
Real estate investment funds				7,760,749
Fixed income alternative investment fund				<u>2,460,641</u>
Total investments at NAV				20,283,794
Investments at amortized cost				
Money market mutual funds				<u>1,494,122</u>
Total Investments				<u>\$ 106,440,401</u>

The ICMA 401(a) DROP plan investments consist of participant directed investments in comingled pooled investment accounts that invest in various mutual fund products through a group trust sponsored by Vantage Trust Company, an affiliate of ICMA.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

3. Investments (Continued)

The fair value of the DROP investments at September 30, 2020 is summarized as follows:

DROP investments	
Domestic fixed income funds	\$ 588,803
Asset allocation funds	2,648,350
Domestic equity funds	1,782,179
International equity funds	612,007
Specialty sector funds	230,517
Stable value fund	<u>3,638,716</u>
Total DROP Investments	\$ <u>9,500,572</u>

All DROP investments are considered to be Level 2 fair value investments.

Alternative Investment Funds: The alternative investment funds may hold certain investments which may be valued by a single market maker. While the fund managers use their best judgment in estimating the fair values of underlying funds, there are inherent limitations in any estimation technique. Accordingly, the fair values of alternative investment funds have been estimated by the management of the pension funds and their investment advisors in the absence of readily ascertainable market values.

The reported fair values for the alternative investment funds may differ significantly from the values that would have been used had a ready market for the underlying funds existed and the differences could be material. Future confirming events will affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material. The alternative investment funds also expose the Plan to additional investment risks, including liquidity risks; counterparty and custody risks; foreign political, economic and governmental risks; and, market risk. At September 30, 2020, the Plan's alternative investments had future funding commitments of approximately \$470,000, no lock-up periods and were generally redeemable monthly, quarterly or annually with 5 to 90 days' notice, subject to the approval of the investment manager.

Custodial Credit Risk: Custodial credit risk is defined as the risk that the Plan may not recover cash and investments held by another party in the event of financial failure. The Plan's investment policy requires investments to be fully insured or collateralized, or held in independent custodial safekeeping accounts in the name of the Plan. At September 30, 2020 all direct investments in securities were held in an independent custodial safekeeping account. Money market mutual funds, mutual funds, index funds and alternative investments, were considered *unclassified* investments pursuant to GASB Standards.

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. The Plan's investment policy requires diversification of investments to minimize potential losses on individual securities. Securities of a single issuer are limited to no more than 5% of the Plan's net position invested in common stocks and debt securities. Investments in mutual funds, index funds and alternative investments are excluded from the concentration of credit risk disclosure requirement.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

3. Investments (Continued)

Credit Risk: Credit risk is the risk that a debt issuer will not fulfill its obligations. The Plan's investment policy addresses credit risk by limiting investments to the safest types of securities, which are generally those with investment grade credit ratings (BBB or better) from a Nationally Recognized Statistical Rating Organization (NRSRO) at the date of purchase. The Plan utilizes ratings from Standard & Poor's and Moody's Investor Services for its investments.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the time to maturity, the greater the exposure to interest rate risk. The Plan's investment policy has no specific limits on investment maturities.

The table below summarizes the NRSRO ratings and the average effective duration in years for the fixed income investments of the Plan at September 30, 2020.

	NRSRO Rating	Average Effective Duration	Fair Value
Money market mutual funds	AAAm	Under 90 days	\$ 1,494,122
U.S. Government securities	AAA	8.3 years	1,973,841
U.S. Government Agency securities	Unrated	.2 years	5,998,300
Domestic corporate bonds	A	6.3 years	10,531,627
Global asset allocation investment fund	Unrated	2.5 years	3,364,353
Global fixed income investment fund	Unrated	2.1 years	2,492,882
Fixed income alternative investment fund	Unrated	Not available	2,460,641
Participant directed pooled investment funds (DROP)			
Domestic fixed income and stable value funds	Unrated	Not available	4,227,519

Foreign Currency Risk: Foreign currency risk includes the risk of revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social, and economic developments. Moreover, securities of foreign governments may be less liquid, subject to delayed settlements and taxation on realized and unrealized gains, and their price may be more volatile than those of comparable securities in U.S. companies.

Risks and Uncertainties: Due to the various risks associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements. The value, liquidity, and related income of certain securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations, commercial mortgage backed securities and real estate funds or pooled funds investing in these securities or entities, are particularly sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

4. Net Pension Liability

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

Total pension liability	\$ 175,952,523
Plan fiduciary net position	116,987,996
Net pension liability	\$ 58,964,527
Plan fiduciary net position as a percentage of the total pension liability	66.5%

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of October 1, 2019, based on the following actuarial assumptions:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	20 years
Asset valuation method	4 year smoothed
Cost of living adjustments	1.0% per year
Inflation	2.5%
Salary increases	5.25% - 6.75% including inflation
Investment rate of return	6.75% net of investment expense, including inflation
Mortality	PUB-2010 Headcount Weighted Safety Below Median Male Table and PUB-2010 Headcount Weighted Safety Employee Female Table. The tables use ages set forward one year and mortality improvements to all future years after 2010 using scale MP-2018. These are the same mortality rates used for Special Risk Class members in the July 1, 2019 actuarial valuation of the Florida Retirement System.

The actuarial assumptions used in the October 1, 2019 valuation were based on an experience study for the seven years ended September 30, 2019.

The following actuarial assumptions were updated effective October 1, 2019:

- The discount rate was lowered from 7.0% to 6.75%.
- The rate of salary increase was increased from 5.0% - 6.25% to 5.25% - 6.75%.
- The mortality assumption for active members prior to retirement was revised in accordance with a revision to the active member pre-retirement mortality assumption used by the Florida Retirement System in their July 1, 2019 actuarial valuation.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2020

4. Net Pension Liability (Continued)

- Rates of retirement for employees hired after July 7, 2015 were added.
- Rates of termination were updated to be based on years of service.

Discount Rate: The discount rate used to measure the total pension liability was 6.75%. This is the single rate that reflects the long-term expected rate of return on pension plan investments expected to be used to finance the payment of benefits. The projection of cash flows used to determine the discount rate assumed that plan member contributions are made at the current contribution rate and that City contributions will be made for the actuarially determined contribution. Based on those assumptions, the pension plan's fiduciary net position is projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments is applied to all periods of projected benefit payments to determine the total pension liability. For purposes of this determination it is understood that pension plan assets are expected to be invested using a strategy to achieve the net discount rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate: The following table presents the net pension liability calculated using the current discount rate of 6.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	\$ 80,609,058	\$ 58,964,527	\$ 41,221,081

REQUIRED SUPPLEMENTARY INFORMATION

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Required Supplementary Information - Schedule of Changes in the Net Pension Liability and Related Ratios

Last Seven Fiscal Years

	Fiscal Year	
	2020	2019
Total Pension Liability		
Service cost	\$ 3,026,742	\$ 2,660,367
Interest	11,453,773	10,940,196
Changes in excess State contributions	-	-
Changes of benefit terms	-	-
Differences between expected and actual experience	4,122,894	2,398,201
Contributions - buyback	-	-
Changes of assumptions	795,219	4,555,304
Benefit payments, including refunds	(8,089,391)	(8,299,339)
Net change in total pension liability	11,309,237	12,254,729
Total pension liability, beginning of fiscal year	164,643,286	152,388,557
Total pension liability, end of fiscal year (a)	<u>\$ 175,952,523</u>	<u>\$ 164,643,286</u>
Plan Fiduciary Net Position		
Contributions		
Employer	\$ 6,917,364	\$ 6,247,516
Plan members	1,196,828	1,160,807
State	868,062	835,929
Net investment income (loss)	9,377,158	4,535,475
Other income	-	-
Equity allocation from Legacy Pension Fund	-	-
Benefit payments, including refunds	(8,089,391)	(8,299,339)
Administrative expense	(143,795)	(181,670)
Net change in plan fiduciary net position	10,126,226	4,298,718
Plan fiduciary net position, beginning of fiscal year	106,861,770	102,563,052
Plan fiduciary net position, end of fiscal year (b)	<u>\$ 116,987,996</u>	<u>\$ 106,861,770</u>
Net Pension Liability, end of fiscal year [(a)-(b)]	<u>\$ 58,964,527</u>	<u>\$ 57,781,516</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	<u>66.5%</u>	<u>64.9%</u>
Covered Payroll	<u>\$ 12,084,406</u>	<u>\$ 12,078,834</u>
Net Pension Liability as a Percentage of Covered Payroll	<u>487.9%</u>	<u>478.4%</u>

Notes to Schedule:

Information prior to fiscal year 2014 is not available.

Prior to 2017 the Police Officers' and Firefighters' Retirement Systems were operated as a single plan covering both employee groups. The City adopted Ordinance No. 17-16 effective October 1, 2016, that established a separate pension plan for police officers and a separate pension plan for firefighters. Information for 2016 and prior years is for the combined pension plan.

Fiscal Year				
2018	2017	2016	2015	2014
\$ 2,250,201	\$ 2,257,858	\$ 4,161,533	\$ 4,116,670	\$ 4,215,639
10,828,233	10,166,078	16,394,667	19,332,804	16,854,289
-	-	(1,741,230)	659,168	1,406,983
-	-	(1,121,765)	(347,798)	-
(1,601,389)	3,864,146	1,568,118	(2,020,566)	-
-	-	32,218	34,696	128,140
12,048,119	-	7,407,717	-	-
<u>(8,478,635)</u>	<u>(7,528,330)</u>	<u>(13,532,591)</u>	<u>(13,282,705)</u>	<u>(12,180,870)</u>
15,046,529	8,759,752	13,168,667	8,492,269	10,424,181
137,342,028	128,582,276	238,707,736	230,215,467	219,791,286
<u>\$ 152,388,557</u>	<u>\$ 137,342,028</u>	<u>\$ 251,876,403</u>	<u>\$ 238,707,736</u>	<u>\$ 230,215,467</u>
\$ 5,113,912	\$ 5,162,290	\$ 10,789,457	\$ 10,837,369	\$ 9,057,075
1,126,780	1,058,195	1,806,021	1,634,828	1,594,712
786,320	742,419	1,909,358	1,896,237	1,951,084
7,424,945	9,498,373	13,455,717	(1,922,565)	14,082,413
-	-	150,647	22,903	-
-	79,052,787	-	-	-
<u>(8,478,635)</u>	<u>(7,528,330)</u>	<u>(13,532,591)</u>	<u>(13,282,705)</u>	<u>(12,180,870)</u>
<u>(108,929)</u>	<u>(156,400)</u>	<u>(245,221)</u>	<u>(231,434)</u>	<u>(232,362)</u>
5,864,393	87,829,334	14,333,388	(1,045,367)	14,272,052
96,698,659	8,869,325	153,260,618	154,305,985	140,033,933
<u>\$ 102,563,052</u>	<u>\$ 96,698,659</u>	<u>\$ 167,594,006</u>	<u>\$ 153,260,618</u>	<u>\$ 154,305,985</u>
<u>\$ 49,825,505</u>	<u>\$ 40,643,369</u>	<u>\$ 84,282,397</u>	<u>\$ 85,447,118</u>	<u>\$ 75,909,482</u>
<u>67.3%</u>	<u>70.4%</u>	<u>66.5%</u>	<u>64.2%</u>	<u>67.0%</u>
<u>\$ 11,125,424</u>	<u>\$ 10,738,126</u>	<u>\$ 19,643,308</u>	<u>\$ 18,107,436</u>	<u>\$ 16,474,658</u>
<u>447.9%</u>	<u>378.5%</u>	<u>429.1%</u>	<u>471.9%</u>	<u>460.8%</u>

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Required Supplementary Information - Schedule of City Contributions

Last Seven Fiscal Years

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
2020	\$ 7,523,959	\$ 7,523,959	\$ -	\$ 12,084,406	62.3%
2019	6,854,111	6,854,111	-	12,078,834	56.7%
2018	5,985,879	5,720,507	265,372	11,125,424	51.4%
2017	5,503,513	5,904,709	(401,196)	10,738,126	55.0%
2016	11,294,379	11,294,379	-	19,643,308	57.5%
2015	11,293,235	11,342,291	(49,056)	18,107,436	62.6%
2014	9,209,334	9,561,997	(352,663)	16,474,658	58.0%

Notes to Schedule:

Information prior to fiscal year 2014 is not available.

Prior to 2017 the Police Officers' and Firefighters' Retirement Systems were operated as a single plan covering both employee groups. The City adopted Ordinance No. 17-16 effective October 1, 2016, that established a separate pension plan for police officers and a separate pension plan for firefighters. Information for 2016 and prior years is for the combined pension plan.

Actual contribution for 2017 and later years is based on the City contribution plus \$606,595 of the State contribution per the City's pension ordinance.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Required Supplementary Information - Schedule of Investment Returns

Last Seven Fiscal Years

<u>Fiscal Year Ended September 30,</u>	<u>Annual money- weighted rate of return, net of investment expenses</u>
2020	8.34 %
2019	4.43 %
2018	7.81 %
2017	10.74 %
2016	8.86 %
2015	(1.23)%
2014	9.32 %

Notes to Schedule:

Information prior to fiscal year 2014 is not available.

Prior to 2017 the Police Officers' and Firefighters' Retirement Systems were operated as a single plan covering both employee groups. The City adopted Ordinance No. 17-16 effective October 1, 2016, that established a separate pension plan for police officers and a separate pension plan for firefighters. Information for 2016 and prior years is for the combined pension plan.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Required Supplementary Information

September 30, 2020

Actuarial valuation date	October 1, 2019
Measurement date	September 30, 2020
Note:	Actuarially determined contribution rates are calculated at October 1, one year prior to the end of the fiscal year in which the contributions are reported.

Actuarial methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	20 years
Asset valuation method	4 year smoothed
Inflation	2.5% per year
Salary increases (with inflation)	5.25% to 6.75% depending on service
Investment rate of return	6.75% per year compounded annually, net of expenses, with inflation
Cost of living adjustments	1.0% per year for those that retire after 10/1/1993
Retirement age	<p><i>For members hired before July 7, 2015:</i> 35% retire on normal retirement date; 10% retire each of the next two years; 25% retire in the third year; 25% retire in the fourth year; and 100% retire in the fifth year following normal retirement date. This assumption is based on the results of an experience study for the seven years ended September 30, 2019. No early retirement is assumed.</p> <p><i>For members hired after July 7, 2015:</i> 25% of those members age 55+ with 10-24 years of service and 100% of members with 25+ years of service.</p>
Mortality	<p><i>Healthy Lives:</i> PUB-2010 Headcount Weighted Safety Below Median Male Table and PUB-2010 Headcount Weighted Safety Employee Female Table. The tables use ages set forward one year and mortality improvements to all future years after 2010 using scale MP-2018.</p> <p><i>Disabled Lives:</i> 80% of the PUB-2010 Headcount Weighted General Disabled Retiree Male Table and Female Table and 20% of the PUB-2010 Headcount Weighted Safety Disabled Retiree Male Table and Female Table, both with no provision being made for future mortality improvements.</p> <p>The assumed rates of mortality were mandated by Chapter 2015-157, Laws of Florida. This law mandates the use of the assumption used in either of the two most recent valuations of the Florida Retirement System (FRS). The above rates are those used for Special Risk Class members in the July 1, 2019 FRS actuarial valuation report. 85% of active deaths are assumed to happen in the line of duty.</p>
Married	85% are assumed married with the husband 3 years older than the wife, for purposes of death-in-service benefits.

Rates of Separation from Active Membership	Percentage of Active Members		
	Years of Service	Sample Ages	Separating Within Next Year
	0 - 1	All Ages	9.0%
	2 - 3	All Ages	8.5%
	4 - 5	All Ages	8.0%
	6 - 7	All Ages	6.0%
	8 - 9	All Ages	3.0%
	10+	0 - 34	3.0%
	10+	35 - 39	2.5%
	10+	40 - 44	2.0%
	10+	45+	1.0%

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Required Supplementary Information (Continued)

September 30, 2020

Actuarial methods and assumptions used to determine contribution rates (Continued):

Disability Rate	Age	Percentage Disabled During the Year
	20	0.07%
	30	0.09%
	40	0.15%
	50	0.50%
Payroll Growth	1.17% (limited in compliance with Part VII of Chapter 112, Florida Statutes, to the actual ten-year payroll growth average as determined in 2014 and maintained for future valuations).	

Changes of benefit terms:

1. For the 2015 fiscal year, amounts reported as changes of benefit terms resulted from adoption of Ordinance 10-15 with an effective date of July 7, 2015, which provided that:
 - A. Member contributions will be 9.0% of earnings until the member has earned the maximum normal retirement benefit payable under the system.
 - B. For police officers who are employed on the effective date and have less than 20 years of continuous service as of that date, the following shall apply:
 1. For service earned on and after the effective date, the benefit multiplier shall be 3.0% per year of continuous service.
 2. The benefit accrued prior to the effective date shall be based on whether or not the member elected the enhanced multiplier and the number of years of continuous service at retirement.
 - a. For those electing the enhanced multiplier and retiring with 20 or more years of continuous service, the benefit multiplier for service accrued prior to the effective date will be 3.5%.
 - b. For those electing the enhanced multiplier and retiring with less than 20 years of continuous service, the benefit multiplier for service accrued prior to the effective date will be 2.5%.
 - c. For those not electing the enhanced multiplier (or hired on or after April 9, 2013) and retiring with 20 years or more of continuous service, the benefit multiplier shall be 3.0% for service prior to the effective date.
 - d. For those not electing the enhanced multiplier (or hired on or after April 9, 2013) and retiring with less than 20 years of continuous service, the benefit multiplier shall be 2.5% for service prior to the effective date.
 3. The maximum annual starting benefit shall be \$108,000.
 - C. For police officers who are employed on the effective date and have less than 10 years of service as of the effective date, earnings shall mean base wages paid to the member including state education compensation, police basic education, police career education compensation and up to 25 hours of overtime per fiscal year earned through the effective date, but excluding overtime earned after the effective date, bonuses and other payments.
 - D. For police officers hired on and after the effective date:
 1. Average monthly earnings shall mean one sixtieth of the arithmetical average for the highest 5 years of the last 10 years preceding the actual retirement or termination date.
 2. Earnings shall mean basic wages paid to the member including state education compensation, police basic education, police career education compensation, but excluding overtime compensation, bonuses and other payments.
 3. The normal retirement date shall be the earlier of:
 - a. 25 years of continuous service regardless of age.
 - b. Age 55 and the completion of 10 years of continuous service.
 4. The normal retirement benefit shall be 2.75% of average monthly earnings for each year of continuous service, subject to a maximum annual starting benefit of \$108,000 and further subject to a maximum benefit of 68.75% of average earnings.
 5. No early retirement eligibility.
 - E. As of the effective date, no further benefit enhancement or benefit adjustment shall be paid to police officers, other than the 2.0% per year benefit increase.
2. Upon adoption of Ordinance No. 17-16, effective for the September 30, 2016 measurement date, the following changes were effective for the Police Officers' Pension Plan:
 - A. All Chapter 185 tax monies up to \$606,595 will be used to offset the City's pension contribution for Police Officers.
 - B. Accumulated excess 185 monies totaling approximately \$2.4 million were used to pay down the unfunded actuarial accrued liability for Police officers.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Required Supplementary Information (Continued)

September 30, 2020

Actuarial methods and assumptions used to determine contribution rates (Continued):

Changes of assumptions:

1. Effective October 1, 2017, the discount rate was lowered from 8.0% to 7.25%. The mortality assumption for active members prior to retirement was revised in accordance with a revision to the active member pre-retirement mortality assumption used by the Florida Retirement System (FRS) in their July 1, 2016 actuarial valuation.
2. Effective October 1, 2018, the discount rate was lowered from 7.25% to 7.0%.
3. Effective October 1, 2019, the discount rate was lowered from 7.0% to 6.75%. The rate of salary increase was increased from 5.0% - 6.25% to 5.25% - 6.75%. The mortality assumption was revised in accordance with the assumption used by FRS. Rates of retirement for employees hired after October 4, 2016 were added to be 20% of those members age 55+ with 10 - 24 years of service and 100% of members with 25+ years of service. Rates of termination were changed from 0% - 12% based on age to 1.0% - 6.5% based on years of service and/or age.

OTHER SUPPLEMENTARY INFORMATION

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES
Year Ended September 30, 2020

Investment Expenses

Custody fees	\$ 39,727
Investment manager fees	432,973
Performance monitor fees	46,388
	46,388
Total investment expenses	\$ 519,088

Administrative Expenses

Actuarial fees	\$ 42,990
Audit fees	20,200
City administration	35,403
Fiduciary liability insurance	14,707
Legal fees	27,790
Training and education	1,822
Travel	883
	883
Total administrative expenses	\$ 143,795

COMPLIANCE REPORT



CALER, DONTEN, LEVINE, COHEN, PORTER & VEIL, P.A.

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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
Delray Beach Police Officers' Retirement System
Delray Beach, Florida

We have audited, in accordance with U.S. generally accepted auditing standards 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 Delray Beach Police Officers' Retirement System (the "Plan"), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Plan, and have issued our report thereon dated April 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 entity'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 financial statements of the Plan 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Calu, Douten, Levine,
Cohen, Porter & Veil, P.A.*

West Palm Beach, Florida
April 26, 2021