Audited Financial Statements
and Supplementary Information

Delray Beach Police Officers' Retirement System

September 30, 2017

Caler, Donten, Levine,
Cohen, Porter & Veil, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

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

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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 were engaged to audit the accompanying financial statements of the Delray Beach Police Officers' Retirement System (the "Plan"), which comprise the statement of fiduciary net position as of September 30, 2017 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 as of September 30, 2017, and the respective changes in fiduciary net position for the year then ended in conformity 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 and required supplementary information listed on the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed on the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information 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 other supplementary information 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 July 20, 2018 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 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.

Caler, Donten, Levine,
Cohen, Porter & Veil, P.A.

West Palm Beach, Florida
July 20, 2018

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, 2017. 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 are intended to serve as an introduction to the Plan's financial statements. The financial statements are:

- 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 value (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 23 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 (page 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 covered employee payroll 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 the Required Supplementary Information (page 27) 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. For analysis purposes, the combined financial position and operating results of the Legacy Plan as of and for the year ended September 30, 2016 have been allocated based on 47.431%.

- The net position of the Plan exceeded its liabilities at the close of the fiscal years ended September 30, 2017 and 2016 with $96,698,659 and $88,175,767 in net position restricted for pension benefits, respectively.

- Net position increased by $8,522,892 or 9.7% during 2017 (excluding the allocation from the Legacy Plan), primarily due to the current year's contributions and investment income.

- For the year ended September 30, 2017 Plan net position was 68.6% of the total pension liability of $128,155,303. The net pension liability was $40,299,990 at September 30, 2017, which was 375.3% of covered payroll.

- Additions to fiduciary net position for the year ended September 30, 2017 were $17,429,405 which includes City, Police Officer and State contributions totaling $7,931,032 and net income from investment activities totaling $9,498,373.

- Deductions from fiduciary net position increased $1,523,560 to $8,906,513 in 2017. Most of the increase relates to increased participant benefit payments made in 2017.

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 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 $8,522,892 in 2017.

Fiduciary Net Position
Table 1

	2017	2016	Increase (Decrease) 2017 - 2016
Assets			
Current and other assets	$ 444,193	$ 452,118	$ (7,925)
Investments	96,506,517	87,820,681	8,685,836
Total Assets	96,950,710	88,272,799	8,677,911
Liabilities	252,051	97,032	155,019
Fiduciary Net Position	$ 96,698,659	$ 88,175,767	$ 8,522,892

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 2017, the Plan's investment portfolio returned income of approximately 10.74%. 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 earnings yield of 8.0% annual return on investments.

Based on the latest actuarial analysis for the year ended September 30, 2017, the Plan's total pension liability exceeds its Plan net position by $40.3 million, producing a plan net position as a percent of total pension liability of 68.6%.

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 2017, the assets of the Plan exceeded its current liabilities by $96,698,659, shown as net position restricted for pensions. 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 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 and member contributions and through investment earnings (net of investment expenses.) The additions totaled $17,429,405 for the year ended September 30, 2017. This was $3,703,473 more than the prior year, primarily due to increased investment returns.

Additions to Fiduciary Net Position
Table 2

	2017	2016	Increase 2017 - 2016
Contributions			
City	$ 6,130,418	$ 5,117,547	$ 1,012,871
Police officers	1,058,195	856,614	201,581
State of Florida	742,419	716,218	26,201
Total Contributions	7,931,032	6,690,379	1,240,653
Net Investment Income	9,498,373	6,947,695	2,550,678
Total Additions	$ 17,429,405	$ 13,638,074	$ 3,791,331

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

	2017	2016	Increase 2017 - 2016
Benefit Payments			
Retirement and disability payments	$ 6,079,009	$ 5,193,430	$ 885,579
DROP withdrawals	2,557,219	2,016,884	540,335
Refunds of participant contributions	113,885	56,329	57,556
Total Benefit Payments	8,750,113	7,266,643	1,483,470
Administrative Expenses	156,400	116,310	40,090
Total Deductions	$ 8,906,513	$ 7,382,953	$ 1,523,560

Total expenses for the year ended September 30, 2017 totaled $8,906,513, an increase of 20.6% from 2016. The increase was primarily due to increased benefit payments in 2017. Expenses for the year ended September 30, 2016 totaled $7,382,953.

The additions to plan net position of $17,429,405 and deductions from Plan fiduciary net position of $8,906,513 resulted in an overall increase of $8,522,892 resulting from operations, before the transfer of $79,306,442 of assets from the Legacy Plan for the year ended September 30, 2017. The additions to plan net position of $13,638,074 and deductions from Plan fiduciary net position of $7,382,953 resulted in an overall increase of $6,255,121 in net position restricted for pension benefits for the year ended September 30, 2016.

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
609 Homewood Boulevard
Delray Beach, FL 33445

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

COMBINING STATEMENT OF FIDUCIARY NET POSITION

September 30, 2017

	Defined Benefit Pension Plan	Deferred Retirement Option (DROP) Pension Plan	Total Pension Trust Funds
ASSETS			
Cash	$ 3,986	$ -	$ 3,986
Receivables:			
Police officers' contributions	39,054	-	39,054
Interest and dividends	223,191	-	223,191
Pending trades receivable	174,409	-	174,409
Total Receivables	436,654	-	436,654
Investments:			
Money market mutual funds	1,815,867	-	1,815,867
U.S. Government securities	3,324,743	-	3,324,743
Mortgage and asset-backed securities	3,698,270	-	3,698,270
Collateralized mortgage obligations	387,473	-	387,473
Municipal obligations	105,378	-	105,378
Domestic corporate bonds	7,293,513	-	7,293,513
International fixed income investment fund	3,344,834	-	3,344,834
Domestic common stocks	30,820,028	-	30,820,028
Domestic equity mutual funds	4,074,166	-	4,074,166
Domestic equity index funds	4,152,169	-	4,152,169
International equity mutual funds	15,280,959	-	15,280,959
Foreign stocks	149,440	-	149,440
Timber investment funds	2,667,398	-	2,667,398
Real estate investment trusts	453,058	-	453,058
Real estate investment funds	7,080,655	-	7,080,655
Fixed income alternative investment fund	3,015,220	-	3,015,220
Participant directed pooled investment funds	-	8,843,346	8,843,346
Total Investments	87,663,171	8,843,346	96,506,517
Prepaid expenses	3,553	-	3,553
Total Assets	88,107,364	8,843,346	96,950,710
LIABILITIES			
Accounts payable	56,863	-	56,863
Pending trades payable	34,860	-	34,860
Due to Firefighters' Retirement System	160,328	-	160,328
Total Liabilities	252,051	-	252,051
NET POSITION			
Restricted for pension benefits	$ 87,855,313	$ 8,843,346	$ 96,698,659

See notes to financial statements.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended September 30, 2017

	Defined Benefit Pension Plan	Deferred Retirement Option (DROP) Pension Plan	Total Pension Trust Funds
ADDITIONS			
Contributions:			
City of Delray Beach	$ 5,162,290	$ 968,128	$ 6,130,418
Police officers	1,058,195	-	1,058,195
State of Florida	742,419	-	742,419
Total Contributions	6,962,904	968,128	7,931,032
Investment earnings:			
Net appreciation in fair value of investments	7,337,792	517,134	7,854,926
Interest, dividends and investment fund income	1,924,594	77,850	2,002,444
Other investment income	122,378	-	122,378
	9,384,764	594,984	9,979,748
Less investment expenses	(481,375)	-	(481,375)
Net Investment Earnings	8,903,389	594,984	9,498,373
Equity allocation from Legacy Plan	79,306,442	-	79,306,442
Total Additions	95,172,735	1,563,112	96,735,847
DEDUCTIONS			
Police officers benefits	6,079,009	-	6,079,009
Deferred retirement option (DROP) benefits	968,128	1,589,091	2,557,219
Refunds of participant contributions	113,885		113,885
Administrative expenses	156,400	-	156,400
Total Deductions	7,317,422	1,589,091	8,906,513
Increase (Decrease) in Plan Net Position	87,855,313	(25,979)	87,829,334
NET POSITION RESTRICTED FOR PENSIONS			
Beginning of year	-	8,869,325	8,869,325
End of year	$ 87,855,313	$ 8,843,346	$ 96,698,659

See notes to financial statements.

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

Notes to Financial Statements

September 30, 2017

1. Summary of Significant Accounting Policies

Reporting Entity: The Delray Beach Police Officers' Retirement System (the "Plan") was established to account for the financial activity of the defined benefit pension plan and deferred retirement option plan (DROP) established by the City of Delray Beach for the retirement pensions of all City police officers. The Plan is reported as a fiduciary fund (pension trust) in the City's basic financial statements.

Basis of Accounting: The Plan's financial statements are prepared using the accrual basis of accounting. 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. Expenses are recognized in the accounting period incurred, if measurable. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments: Investments are reported at fair value or net asset value. Money market mutual funds 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.

Income Taxes: The Plan's legal counsel believes that the Plan is designed and is currently being operated in compliance with applicable requirements of the Internal Revenue Code and, therefore, the Plan continues to qualify as tax-exempt under Section 401(a) as of September 30, 2017. Therefore, no provision for income taxes is included in the Plan's financial statements.

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.

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.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles (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.

1. Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements: The following pronouncement of the Governmental Accounting Standards Board (GASB) was effective for the Plan's fiscal year ending September 30, 2017:

- GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of this GASB Statement modified certain note disclosures but had no effect on the Plan's financial statements.

The following GASB Statement will be effective for the Plan's fiscal year ending September 30, 2020:

- 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.

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 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 revised by ordinances passed by the City of Delray Beach City Commission. Additionally, the Fund is governed by Chapter 112, Part VII, of the Florida Statues. 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

2. Plan Description (Continued)

members. Each trustee serves for a term of four years, except for the fifth member, who serves for a two year term. Each trustee may serve successive terms.

Plan Membership: The Plan membership as of October 1, 2016, the date of the most recent actuarial valuation, is summarized as follows:

Retirees and Beneficiaries	
Retirees and beneficiaries receiving benefits	122
DROP retirees	11
Terminated employees entitled to benefits but not receiving them	3
Total Retirees and Beneficiaries	136
Active Members	
Vested	67
Nonvested	75
Total Active Members	142

On October 1, 2016, the effective date of Ordinance 17-16, all assets and liabilities of the Legacy Plan attributable to active, terminated and retired police officer members and their beneficiaries, became assets and liabilities of the Plan; and all active, terminated and retired police officer members of the Legacy Plan and their beneficiaries, became members and beneficiaries of the Plan. The allocable marketable investments and other assets and liabilities of the Legacy Plan were transferred to the Plan beginning in May 2017.

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

Normal Retirement - Police officers hired on or before July 7, 2015 may retire with normal benefits upon the earlier of: a) age 55 and 10 or more years of credited service; or b) 20 years of credited service regardless of age. For Police Officers hired after July 7, 2015, the earlier of: a) 25 years of credited service, regardless of age; or b) age 55 and the completion of 10 years of credited service. Retirement benefits are based on a multiplier of the participant's average final compensation, defined as the average compensation during the highest consecutive 3 years of a participant's employment for police officers hired on or before July 7, 2015, and the highest consecutive 5 years of the participant's last 10 years of employment for police officers hired after July 7, 2015.

The normal retirement benefit, for participants with less than 20 years of service, is based on 2.5% of the participant's average final compensation times the years of credited service. With more than 20 years of service, the benefit is based on 3.5% (if the enhanced multiplier is elected) or 3.0% (if the enhanced multiplier is not elected) of average final compensation with a maximum benefit of 87.5% of final average salary. Police officers hired on or after April 9, 2013 are not eligible to elect the enhanced multiplier.

2. Plan Description (Continued)

Police officers employed on July 7, 2015 with less than 20 years of service on that date have the following benefit multiplier times the years of credited service:

a) 3.0% unless they previously elected the enhanced multiplier of 3.5%.
b) 3.5% for those electing the enhanced multiplier and retiring with 20 or more years of service.
c) 2.5% for those electing the enhanced multiplier and retiring with less than 20 years of service.
d) 3.0% for those not electing the enhanced multiplier and retiring with 20 or more years of service.
e) 2.5% for those not electing the enhanced multiplier and retiring with less than 20 years of service.
f) The maximum annual starting benefit is $108,000, but not less than a 2.0% multiplier.

Police officers hired after July 7, 2015 receive a benefit based on 2.75% times the years of credited service, subject to a maximum annual starting benefit of $108,000 (but not less than 2.0% times the years of credited service) and further subject to a maximum benefit of 68.75% of average compensation.

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 deceased police officer who had been an actively employed participant eligible for normal or deferred retirement, the benefit payable to the surviving spouse shall be at least equal to 50% of the participant's average final compensation, plus 5% of the participant's average final compensation for each unmarried child under age 18 (age 22 if a full-time student), up to a maximum of 60% of the participant's average final compensation.

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 25th anniversary of the retiree's hire date.

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 participants upon his or her request or as required by law.

2. Plan Description (Continued)

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 combining 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. The City and the police officers' union have further mutually agreed that all accumulated excess premium tax moneys held in reserve on September 8, 2016 will be used to pay down the unfunded liability attributable to police officers' pension benefits.

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 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.

Administrative Expenses: Administrative expenses of the Plan are financed through investment earnings.

3. Deposits and Investments

Cash: At September 30, 2017, the Plan's cash included deposits with the Plan's investment managers that were 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 and approved by the Board of Trustees.

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, 2017, are as follows:

3. Deposits and Investments (Continued)

	Target Allocation	Long-Term Expected Real Rate Of Return
Asset Class		
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 10.74% for the year ended September 30, 2017. 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

3. Deposits and Investments (Continued)

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.

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:

Domestic common stocks, domestic and international equity mutual funds and equity index funds and foreign stocks: Valued at the closing price reported on the active exchange on which the individual securities are actively traded.

U.S. Government securities, mortgage and asset-backed securities, collateralized mortgage obligations, municipal obligations, domestic corporate bonds and the international 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.

Investments measured at net asset value (NAV): Timber and real estate investment funds, real estate investment trusts, fixed income alternative investment funds, and participant directed pooled investment funds are valued at the unadjusted NAV per share at September 30, 2017, 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 annual 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 investment funds in fixed income and equity investments are not publicly traded and invest in various types of equity securities and fixed income securities.

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, 2017.

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, 2017.

3. Deposits and Investments (Continued)

The fair value of the Plan's investments at September 30, 2017 is summarized as follows:

	Fair Values at September 30, 2017			
	Level 1	Level 2	Level 3	Total
Fixed income investments				
U.S. Government	$ -	$ 3,324,743	$ -	$ 3,324,743
Mortgage and asset-backed	-	3,698,270	-	3,698,270
Collateralized mortgage obligations	-	387,473	-	387,473
Municipal obligations	-	105,378	-	105,378
Domestic corporate bonds	-	7,293,513	-	7,293,513
International fixed income investment fund	-	3,344,834	-	3,344,834
Total fixed income investments	-	18,154,211	-	18,154,211
Equity investments				
Domestic common stocks	30,820,028	-	-	30,820,028
Domestic equity mutual funds	4,074,166	-	-	4,074,166
Domestic equity index funds	4,152,169	-	-	4,152,169
International equity mutual funds	15,280,959	-	-	15,280,959
Foreign stocks	149,440	-	-	149,440
Total equity investments	54,476,762	-	-	54,476,762
Total investments at fair value	$ 54,476,762	$ 18,154,211	$ -	72,630,973
Investments measured at NAV				
Alternative investment funds				
Timber investment funds				2,667,398
Real estate investment funds				7,533,713
Fixed income investment fund				3,015,220
Total investments at NAV				13,216,331
Investments at amortized cost				
Money market mutual fund				1,815,867
Total Investments				$ 87,663,171

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.

3. Deposits and Investments (Continued)

The fair value of the DROP investments at September 30, 2017 is summarized as follows:

DROP investments		
Domestic fixed income funds	$	529,849
Domestic equity funds		3,688,675
International equity funds		243,030
Real estate funds		285,492
Guaranteed income fund		4,096,300
Total DROP Investments	$	8,843,346

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, 2017, the Plan's alternative investments had future funding commitments of approximately $2,400,000, no lock-up periods and were generally redeemable monthly, quarterly or annually with 5 to 90 days' notice.

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 cash and investments to be fully insured or collateralized, or held in independent custodial safekeeping accounts in the name of the Plan. At September 30, 2017 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.

3. Deposits and 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, 2017.

	NRSRO Rating	Weighted Average Maturity	Fair Value
Money market mutual funds	Unrated	Under 90 days	$ 1,815,867
U.S. Government securities	AA	7.8 years	3,324,743
Mortgage and asset-backed securities	AAA	6.1 years	3,698,270
Collateralized mortgage obligations	AA	3.3 years	387,473
Municipal obligations	AA	3.6 years	105,378
Domestic corporate bonds	AA-BBB	3.6 years	7,293,513
International fixed income investment fund	Unrated	Not Available	3,344,834
Fixed income alternative investment fund	Unrated	Not Available	3,015,220
Participant directed pooled investment funds (DROP)	Unrated	Not Available	4,626,149

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, 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.

4. Net Pension Liability

The components of the net pension liability of the Plan at September 30, 2017, the measurement date for the Plan, were as follows:

Total pension liability	$ 128,155,303
Plan fiduciary net position	87,855,313
Net pension liability	$ 40,299,990
Plan fiduciary net position as a percentage of the total pension liability	68.6%

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of October 1, 2016, 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	5.0% - 6.25% including inflation
Investment rate of return	8.0% net of investment expense, including inflation
Mortality	RP-2000 Combined Healthy Annuitant Mortality Table for males and females, as appropriate, with adjustments for mortality improvements based on Scale BB. For males the base mortality rate includes a 90% blue collar and 10% white collar adjustment. For females, the base mortality rate is a 100% while collar adjustment.

The actuarial assumptions used in the October 1, 2016 valuation were based on an experience study issued October 28, 2013.

Discount Rate: The discount rate used to measure the total pension liability was 8.0%. 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

4. Net Pension Liability (Continued)

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 8.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's net pension liability	$ 55,560,325	$ 40,299,990	$ 28,063,675

5. Change in Reporting Entity

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 utilizing one of three methods: (1) the ratio of the present value of accrued benefits for each of the police officer and firefighter members (and beneficiaries of such members, if applicable) to the total present value of accrued benefits; (2) a methodology based on the funded ratio of the Legacy Plan, which shall be the same as the funded ratio of the Legacy Plan on the date of the most recent actuarial valuation; or (3) such other method as may be approved by the Board of Trustees of the Legacy Plan.

The Actuary prepared an actuarial impact statement dated September 6, 2016 that utilized method (1) the ratio of the present value of accrued benefits for each of the police officer and firefighter members (and beneficiaries of such members, if applicable) to the total present value of accrued benefits for the allocations to the police officers and firefighters separate pension plans. The 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 and 52.569% of the Legacy Plan assets to the new Delray Beach Firefighters' Retirement System. The allocation percentages were not applied to the Excess State Monies Reserves and DROP that were allocated to the new plans based on the actual reserves and balances held for the respective groups.

5. Change in Reporting Entity (Continued)

In addition to the division of the Legacy Plan into separate retirement systems for police officers and firefighters, Ordinance No. 17-16 also enacted the following changes for the Delray Beach Police Officers' Retirement System:

1. Effective as of the date of Ordinance 17-16, all annual premium tax monies received pursuant to Chapter 185 up to the amount received during the 2013 calendar year ($606,595) shall be used to offset the cost of the current benefits by reducing the City's annual contribution requirement to the retirement system.
2. By mutual consent of the City and the Police Officers' union, effective as of October 1, 2016, the effective date of Ordinance No. 17-16, all accumulated excess Chapter 185 premium tax revenues held in reserve and not allocated to pay for pension benefits must be used to pay down the unfunded actuarial accrued liability (UAAL) attributable to police officers. As of September 30, 2016 this amount was $2,417,285. This reduction in UAAL is set up as a 20-year amortization gain.
3. The current $108,000 cap on the normal retirement benefit shall in no event be less than 2% of average final compensation for each year of continuous service. This change had no impact on the present value of benefits under the Plan.

<u>Change in Actuarial Assumptions and Methods</u>: In addition to the changes related to the adoption of Ordinance No. 17-16, the following actuarial assumption was updated in the October 1, 2016 actuarial valuation:

- As mandated by Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed from the RP-2000 Combined Healthy Tables to the mortality tables for special risk employees used by the Florida Retirement System actuary in the July 1, 2015 actuarial valuation.

REQUIRED SUPPLEMENTARY INFORMATION

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

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

September 30, 2017

	Fiscal Year			
	2017	**2016**	**2015**	**2014**
Total Pension Liability				
Service cost	$ 2,257,858	$ 4,161,533	$ 4,116,670	$ 4,215,639
Interest	9,439,367	16,394,667	19,332,804	16,854,289
Changes in excess State contributions	-	(1,741,230)	659,168	1,406,983
Changes of benefit terms	-	(1,121,765)	(347,798)	-
Differences between expected and actual experience	4,431,186	1,568,118	(2,020,566)	-
Contributions - buyback	-	32,218	34,696	128,140
Changes of assumptions	-	7,407,717	-	-
Benefit payments, including refunds	(7,161,022)	(13,532,591)	(13,282,705)	(12,180,870)
Net change in total pension liability	8,967,389	13,168,667	8,492,269	10,424,181
Total pension liability, beginning of fiscal year	119,187,914	238,707,736	230,215,467	219,791,286
Total pension liability, end of fiscal year (a)	**$ 128,155,303**	**$ 251,876,403**	**$ 238,707,736**	**$ 230,215,467**
Plan Fiduciary Net Position				
Contributions				
Employer	$ 5,162,290	$ 10,789,457	$ 10,837,369	$ 9,057,075
Plan members	1,058,195	1,806,021	1,634,828	1,594,712
State	742,419	1,909,358	1,896,237	1,951,084
Net investment income (loss)	8,903,389	13,455,717	(1,922,565)	14,082,413
Other income	-	150,647	22,903	-
Equity allocation from Legacy Pension Fund	79,306,442	-	-	-
Benefit payments, including refunds	(7,161,022)	(13,532,591)	(13,282,705)	(12,180,870)
Administration expense	(156,400)	(245,221)	(231,434)	(232,362)
Net change in plan fiduciary net position	87,855,313	14,333,388	(1,045,367)	14,272,052
Plan fiduciary net position, beginning of fiscal year	-	153,260,618	154,305,985	140,033,933
Plan fiduciary net position, end of fiscal year (b)	**$ 87,855,313**	**$ 167,594,006**	**$ 153,260,618**	**$ 154,305,985**
Net Pension Liability, end of fiscal year [(a)-(b)]	**$ 40,299,990**	**$ 84,282,397**	**$ 85,447,118**	**$ 75,909,482**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	68.6%	66.5%	64.2%	67.0%
Covered Employee Payroll	$ 10,738,126	$ 19,643,308	$ 18,107,436	$ 16,474,658
Net Pension Liability as a Percentage of Covered Employee Payroll	375.3%	429.1%	471.9%	460.8%

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

Required Supplementary Information - Schedule of City Contributions

September 30, 2017

Fiscal Year Ended September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a Percentage of Covered Payroll
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%

Note 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

Required Supplementary Information - Schedule of Investment Returns

September 30, 2017

Fiscal Year Ended September 30,	Annual money-weighted rate of return, net of investment expenses
2017	10.74%
2016	8.86 %
2015	(1.23)%
2014	9.32 %

Note 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, 2017

Actuarial valuation date	October 1, 2016
Measurement date	September 30, 2017
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)	6.25% per year for first 10 years and 5.0% per year thereafter
Investment rate of return	8.0% 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	25% retire on normal retirement date; 10% retire each of the next two years; 25% retire in each of the third and fourth years following normal retirement date; and 100% retire the fifth year following normal retirement date. This assumption is based on the results of an experience study issued on October 28, 2013. No Early Retirement is assumed.

Mortality

Healthy Lives:

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

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

Disabled Lives:

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale

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 outlined in the July 1, 2015 FRS actuarial valuation report. 75% of active deaths are assumed to happen in the line of duty.

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).
Married	85% are assumed married with the husband 3 years older than the wife, based on the results of an experience study issued on October 28, 2013.

Termination and Disability Rate

Age	Percentage Terminating During the Year	Percentage Disabled During the Year
20	12.0%	0.07%
30	10.0%	0.09%
40	2.0%	0.15%
50	0.0%	0.50%

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 68.76% 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.

OTHER SUPPLEMENTARY INFORMATION

DELRAY BEACH POLICE OFFICERS' RETIREMENT SYSTEM

SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES

Year Ended September 30, 2017

Investment Expenses		
Custody fees	$	33,850
Investment manager fees		411,661
Performance monitor fees		35,864
Total investment expenses	$	481,375
Administrative Expenses		
Actuarial fees		37,986
Administrator's fees		23,312
Audit fees		13,500
City administrator		17,681
Director's insurance		26,368
Legal fees		35,949
Office expenses		848
Telephone		756
Total administrative expenses	$	156,400

COMPLIANCE REPORT

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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 accompanying financial statements of the Delray Beach Police Officers' Retirement System (the "Plan"), as of and for the year ended September 30, 2017, 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 July 20, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified the following deficiency in internal control that we consider to be a material weakness.

2017-001 Investment Reconciliations

Criteria: Policies and procedures should be in place to ensure transactions are properly recorded on a timely basis and closing procedures should be performed each month sufficient to produce accurate and reliable financial information.

Condition: We noted that the investment accounts for the Plan were not reconciled by the City Finance Department staff during the year ended September 30, 2017 and the original trial balances provided to us for the 2017 audit of the Plan required significant adjustments.

In addition, the Deferred Retirement Option Plan (DROP) accounts for the Police Officers' Retirement System and Firefighters' Retirement System were not separated and reconciled during the year ended September 30, 2017.

Cause: There were no formal closing procedures or account reconciliations prepared for the Police Officers' Retirement System as of and for the year ended September 30, 2017.

Effect: Lack of monthly account reconciliations increases the risk that significant financial reporting errors or misstatements may not be identified and corrected in a timely manner.

Recommendation: We recommend that the City follow formal monthly closing procedures to ensure the investment activity for the Plan is accurately reconciled to the general ledger and that the reconciliations are reviewed and approved monthly by the Finance Director. In addition, the year-end reconciliations should include the market value adjustments necessary for the investments and related income accounts. We further recommend that the Plan Board of Trustees request that the City Finance Department provide a monthly financial report to the Board for review and comparison to the information provided by the investment managers.

Views of Responsible City Officials and Planned Corrective Actions: Management agrees with the finding. The City's Finance Department will revise current procedures to ensure that the transactions are recorded and reported at market value. The pension plan reconciliation schedules will be properly prepared in a timely manner by accounting staff. The reconciliations will be reviewed by management to ensure correct presentation in both the financial statements and the year-end schedules.

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Caler, Donten, Levine,
Cohen, Porter & Veil, P.A.

West Palm Beach, Florida
July 20, 2018