

**CITY OF BOYNTON BEACH
FIREFIGHTERS' PENSION PLAN**

FINANCIAL STATEMENTS
September 30, 2019 and 2018

SALTMARSH, CLEVELAND & GUND, P.A.
Certified Public Accountants

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

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The Board of Trustees
City of Boynton Beach Firefighters'
Pension Plan
Boynton Beach, Florida

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of City of Boynton Beach Firefighters' Pension Fund (Plan), which comprise the statement of fiduciary net position as of September 30, 2019, 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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error, in making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Board of Trustees
City of Boynton Beach Firefighters'
Pension Plan
Boynton Beach, Florida

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Boynton Beach Firefighters' Pension Plan as of September 30, 2019, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of City of Boynton Beach Firefighters' Pension Plan as of September 30, 2018, were audited by other auditors whose report dated January 14, 2019, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1, these financial statements present only the City of Boynton Beach Firefighters' Pension Plan, a pension trust fund of the City of Boynton Beach (City), and are not intended to present fairly the financial position and changes in financial position of the City in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages 38 through 42 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.

The Board of Trustees
City of Boynton Beach Firefighters'
Pension Plan
Boynton Beach, Florida

The City of Boynton Beach Firefighters' Pension Plan has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The additional information on pages 43 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the above information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Tampa, Florida
December 28, 2019

**CITY OF BOYNTON BEACH
FIREFIGHTERS' PENSION PLAN**

STATEMENTS OF FIDUCIARY NET POSITION
September 30, 2019 and 2018

| | <u>Assets</u> | |
|---|----------------|----------------|
| | 2019 | 2018 |
| Receivables: | | |
| DROP loans | \$ 175,089 | \$ 111,751 |
| Interest and dividends | 141,809 | 136,055 |
| Broker-dealers | 10,800 | 12,179 |
| Chapter 175 state excise tax rebate | - | 789,121 |
| | 327,698 | 1,049,106 |
| Investments at fair value: | | |
| U.S. Government obligations | 7,418,900 | 11,479,916 |
| U.S. Government agency obligations | 2,245,837 | 218,021 |
| Domestic corporate obligations | 5,900,335 | 4,747,654 |
| Domestic fixed income investment funds | 12,968,755 | 12,527,623 |
| Domestic stocks | 33,918,890 | 32,003,933 |
| Domestic equity investment funds | 25,674,061 | 22,669,642 |
| Real estate investment funds | 10,820,467 | 10,229,669 |
| International equity investment funds | 21,014,778 | 18,061,651 |
| Temporary investments | 2,724,691 | 2,621,179 |
| | 122,686,714 | 114,559,288 |
| Prepaid expenses | 8,230 | 8,235 |
| | 123,022,642 | 115,616,629 |
| <u>Liabilities</u> | | |
| Accounts payable | 65,013 | 58,008 |
| Accounts payable, broker-dealers | 165,273 | 155,235 |
| | 230,286 | 213,243 |
| Net position restricted for pensions | \$ 122,792,356 | \$ 115,403,386 |

See Notes to Financial Statements.

**CITY OF BOYNTON BEACH
FIREFIGHTERS' PENSION PLAN**

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
Years ended September 30, 2019 and 2018

| | 2019 | 2018 |
|--|-----------------------|-----------------------|
| Additions: | | |
| Contributions: | | |
| Employer | \$ 5,627,597 | \$ 5,444,061 |
| Plan members | 1,458,781 | 1,336,051 |
| Plan members, buy-back | 65,616 | 137,465 |
| Rollover to DROP | <u>379,375</u> | <u>323,472</u> |
| Total contributions | 7,531,369 | 7,241,049 |
| Intergovernmental revenue: | | |
| Chapter 175 state excise tax rebate | <u>830,904</u> | <u>789,121</u> |
| Total intergovernmental revenue | 830,904 | 789,121 |
| Investment income: | | |
| Net appreciation (depreciation) in fair value of investments | 5,159,423 | 7,776,462 |
| Interest | 375,660 | 371,164 |
| Dividends | 1,643,349 | 1,461,537 |
| Cost calculation fee | 700 | - |
| Class action settlement | <u>7,258</u> | <u>32,015</u> |
| Total investment income | 7,186,390 | 9,641,178 |
| Less investment expenses | <u>350,840</u> | <u>367,634</u> |
| Net investment income | <u>6,835,550</u> | <u>9,273,544</u> |
| Total additions | 15,197,823 | 17,303,714 |
| Deductions: | | |
| Benefits: | | |
| Age and service | 5,412,222 | 4,800,042 |
| Disability | 114,587 | 114,519 |
| Beneficiaries | 270,067 | 278,694 |
| Drop payments | 1,800,310 | 829,266 |
| Refunds | 26,917 | 105,981 |
| Administrative expenses | <u>184,750</u> | <u>141,569</u> |
| Total deductions | <u>7,808,853</u> | <u>6,270,071</u> |
| Net increase in net position | 7,388,970 | 11,033,643 |
| Net position restricted for pensions: | | |
| Beginning of year | <u>115,403,386</u> | <u>104,369,743</u> |
| End of year | <u>\$ 122,792,356</u> | <u>\$ 115,403,386</u> |

See Notes to Financial Statements.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

1. Description of the Plan

The following brief description of the Boynton Beach Firefighters' Pension Plan (Plan) is provided for general information purposes only. Participants should refer to the Plan Agreement for more complete information.

General - The Plan was created in 1958 by Section 21-95 of an Ordinance adopted by the City of Boynton Beach, Florida. This Ordinance was substantively amended in 1983, 1993, 2000 and 2002.

The Plan is a defined benefit pension plan covering all full-time firefighters of the City of Boynton Beach, Florida (City). Participation in the Plan is required as a condition of employment. The Plan provides for pension, death and disability benefits. In addition, the Plan is a local law plan subject to provisions of Chapter 175 of the State of Florida Statutes.

The Plan, in accordance with the above statutes, is governed by a five member pension board. Two firefighters, two City residents and a fifth member elected by the other four members constitute the pension board. The Fire Chief occupies an exofficio, non-voting position on the board of trustees. The Chief shall have the opportunity to participate in all board discussions and activities but shall not be counted for the purpose of a quorum nor shall he be entitled to move or second the adoption of any issue or vote on any matter before the board. The City and the Plan participants are obligated to fund all Plan costs based upon actuarial valuations. The City establishes benefit levels while the board establishes the actuarial methods followed by the Plan.

During the fiscal year ended September 30, 2019 the Plan's membership consisted of:

Retirees and beneficiaries:

| | |
|--|----------|
| Currently receiving benefits | 103 |
| Drop Retirees | 48 |
| Terminated employees entitled to benefits but not yet receiving them | <u>1</u> |

Total 152

Current employees:

| | |
|-----------|-----------|
| Vested | 74 |
| Nonvested | <u>50</u> |

Total 124

At September 30, 2018, the date of the most recent actuarial valuation, there were 100 retirees and beneficiaries receiving benefits.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

1. Description of Plan (Continued)

Pension Benefits - The pension plan provides retirement, death and disability benefits for its participants. A participant may retire with normal benefits after reaching age 55 and accumulating 10 or more years of credited service or at 20 years of service without regard to age. Normal retirement benefits are based on 3.0% of the participant's final average salary times the number of his or her credited years of service. The final average salary for purposes of calculating benefits is the participant's average salary during the three highest years of the last ten years of creditable service prior to retirement. Salary excludes bonuses and incentive pay received by a firefighter during that three year period.

All new members hired on or after the effective date of the Ordinance classified as "Tier 2 members". All members hired before the effective date of the Ordinance are classified as "Tier 1 members". Tier 2 benefit provisions that differ from Tier 1 benefit provisions include the following:

- The normal retirement date will be the earlier of completion of 25 years of Credited Service regardless of age, or attainment of age 55 years with 10 years of Credited Service.
- Vested members terminating service with less than 25 years of Credited Service will be eligible for a deferred Normal Retirement benefit that begins at age 55.

A participant with 10 or more years of credited service is eligible for early retirement. These benefits begin upon application on or after reaching age 50 and are computed the same as normal retirement, based upon the participant's final average salary and credited service at the date of termination. Benefits are reduced 3% per year for each year by which the participant's age at retirement preceded the participant's normal retirement age.

There have been revisions in benefits since the 2012 valuation to reflect Senate Bill 1128. The definition of pensionable compensation has been changed to limit overtime pay to 300 hours per year effective September 27, 2013 and to limit the number of accumulated unused sick and vacation hours to the lesser of the number of hours accumulated as of September 27, 2013 and the number of hours cashed out at retirement. This change caused an initial increase in the employer contribution of 0.72% of covered payroll due to the fact the current average accumulated sick and vacation hours exceed the average amounts assumed for actuarial valuation purposes. Over time, however, this change will reduce the cost of the Plan.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

1. **Description of Plan (Continued)**

Cost of Living Adjustment - The Plan provides for a 2% annual cost-of-living adjustment (COLA) commencing five years after retirement from the City or entry into the DROP Plan. This becomes available effective December 1, 2011 for all members who retire or enter into the DROP on or after December 1, 2006; eligible members also includes all retirees electing early retirement and all disability retirees who enter pay status on or after December 1, 2006.

The actuarial cost of this benefit was financed by an increase in the participants contribution rate from 7% to 12%.

Ad Hoc Supplemental Benefits - Certain retirees are eligible to receive annual distributions funded exclusively with available Chapter 175 premium tax revenue. Terms of the benefit provide that each eligible retiree shall receive a distribution of available funds for up to five hundred dollars per year of credited service for each year of credited service in the Plan not to exceed twenty years.

Deferred Retirement Option Plan - Any Plan participant who is eligible to receive an early or normal retirement pension may elect to participate in a deferred retirement option plan (DROP) while continuing his or her active employment as a firefighter. Upon participation in the DROP, the participant becomes a retiree for all Plan purposes so that he or she ceases to accrue any further benefits under the pension plan. Normal retirement payments that would have been payable to the participant as a result of retirement are accumulated and invested in the DROP to be distributed to the participant upon his or her termination of employment. Participation in the DROP ceases for a Plan participant after the earlier of 5 years or the attainment of 30 years of service.

An employee's account in the DROP program shall earn interest in one of three ways. The selection of the earnings program may be changed each year in January. The options are summarized as follows:

- A. Gain or loss interest at the same rate as the Plan; or,
- B. At an annual fixed rate of seven percent (7%); or,
- C. A combination of the fixed and variable rates

Beginning with the fiscal year ended September 30, 2017, participants may borrow from their DROP accounts a minimum of \$5,000 up to a maximum equal to or lesser of \$50,000 or 50 percent of their DROP account balance. The loans are secured by the balance in the members' DROP account and bear interest at the lowest published prime rate at the issue date for the loan. Principal and interest is paid ratably through monthly payments.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

1. **Description of Plan (Continued)**

Supplemental Pension Distributions - The Board of Trustees each year may approve a supplemental distribution from a net actuarial gain as calculated by the Plan's actuary. The distribution shall be paid to the extent of the actuarial gains attributable to retirees and beneficiaries which have been set aside in a supplemental pension reserve. In years in which the Plan's actuarial gain is sufficient to support the payment of a thirteenth check, the payment shall be made in December. The Board did not approve a supplemental distribution for the fiscal years ended September 30, 2019 and 2018.

Disability Benefits - Disability benefits for service related disabilities are paid to a participant for life. Benefits are calculated as 66 2/3% of the participant's salary at the time of retirement. This amount is reduced by any social security and workers' compensation benefits received and will not be less than 42% of the participant's average monthly salary.

Disability benefits for non-service related disabilities are paid to a participant for life. Benefits are calculated using a 2 1/2% accrual rate with a minimum of 25% of the participant's final average salary.

Death Benefits - Preretirement death benefits for participants with at least 10 years of service are payable until the spouse's death or remarriage. Benefits are calculated at 2 1/2% of the participant's average final salary at the time of death. Beneficiaries of participants who die prior to vesting will receive a refund of the participants accumulated contributions.

Post retirement death benefits are payable to the participant's eligible widow depending on the survivor's benefit selected.

Refund of Participant Contributions - A participant who terminates employment and is ineligible for pension benefits is refunded his or her contribution without interest.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

2. Summary of Significant Accounting Policies

Basis of Accounting - Basis of accounting is the method by which revenues and expenses are recognized in the accounts and are reported in the financial statements. The accrual basis of accounting is used for the Plan. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Plan member contributions are recognized in the period in which the contributions are due. City contributions to the plan as calculated by the Plan's actuary, are recognized as revenue when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Basis of Presentation - The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement 67, *Financial Reporting for Defined Benefit Pension Plans* and the Codification of Governmental Accounting and Financial Reporting Standards which covers the reporting requirements for defined benefit pensions established by a governmental employer. The accompanying financial statements include solely the accounts of the Plan which include all programs, activities and functions relating to the accumulation and investment of the assets and related income necessary to provide the service, disability and death benefits required under the terms of the Plan Ordinance and the amendments thereto.

Valuation of Investments - Investments in common stock and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the mean between the past reported bid and asked prices; investments in securities not having an established market value are valued at fair value as determined by the Board of Trustees. The fair value of an investment is the amount that the Plan could reasonably expect to receive for it in a current sale between market participants, other than in a forced or liquidation sale. Purchases and sales of investments are recorded on a trade date basis.

The Plan's investments include an alternative investment in the U.S. Real Estate Investment Fund, the ASB Real Estate Fund, LBC Credit Partners Fund and Crescent Direct Lending Fund, and the Crescent Direct Lending Levered Fund II. These funds are privately placed and operates in a manner comparable to a mutual fund in many respects. The funds invest in a diverse portfolio of real estate, futures, options and certain other investments with varying market capitalizations.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The investments in the underlying funds are generally valued daily at fair value as determined by the management of the fund by reference to the value of the underlying securities, if available, or by the valuation of a security as provided by the general partner or investment manager, if the securities are not publicly traded. While the fund manager use its best judgment in estimating the fair values of underlying securities, there are inherent limitations in any estimation technique. Therefore, the values of such securities are not necessarily indicative of the amount that could be realized in a current transaction. The fair values may differ significantly from the values that would have been used had a ready market for the underlying securities existed, and the differences could be material. Future confirming events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

These alternative investment funds expose the Plan to certain risks, including liquidity risks, counterparty risks, foreign political, economic and governmental risks, and market risk. In addition, these investments may have initial lock-up periods, as well as restrictions for liquidating positions in these funds, that make the investments non-current and non-marketable.

Investment income is recognized on the accrual basis as earned. Unrealized appreciation in fair value of investments includes the difference between cost and fair value of investments held. The net realized and unrealized investment appreciation or depreciation for the year is reflected in the Statement of Changes in Fiduciary Net Position.

Custody of Assets - Custodial and investment services are provided to the Plan under contract with a national trust company having trust powers. The Plan's investment policies are governed by Florida State Statutes and ordinances of the City of Boynton Beach, Florida.

Authorized Plan Investments - The Board recognizes that the obligations of the Plan are long-term and that its investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return defined as interest and dividend income plus realized and unrealized capital gains or losses commensurate with the prudent investor rule and Chapter 175 of the Florida Statutes.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, high capitalization common or preferred stocks, pooled equity funds, high quality bonds or notes, foreign securities and fixed income funds. In addition, the Board requires that Plan assets be invested with no more than 70% in stocks and convertible securities measured at cost at the end of each reporting period. Further information regarding the permissible investments from the Plan can be found in the Statement of Investment Policies and Objectives.

Actuarial Cost Method - The Plan changed its actuarial cost method from the Frozen Entry Age to the Entry Age Normal Method for funding purposes. This method allocates the actuarial present value of each participant's projected benefit on a level basis over the participant's earnings from the date of entry into the Plan through the date of retirement.

Reporting Entity - The financial statements presented are only for the Plan and are not intended to present the basic financial statements of the City of Boynton Beach, Florida.

The Plan is included in the City's Comprehensive Annual Financial Report (CAFR) for the years ended September 30, 2019 and 2018, which are separately issued documents. Anyone wishing further information about the City is referred to the City's CAFR.

The Plan is a pension trust fund (fiduciary fund type) of the City which accounts for the single employer defined benefit pension plan for all City Firefighters. The provisions of the Plan provide for retirement, disability, and survivor benefits.

Funding Policy - Participants are required to contribute 12.0% of their annual earnings to the Plan. Prior to 1986, contributions to the Plan were made on an after-tax basis. Subsequent to this date, contributions are made on a pre-tax basis pursuant to an amendment to the Plan. These contributions are designated as employee contributions under Section 414(h)(2) of the Internal Revenue Code. Contribution requirements of the Plan's participants are established and may be amended by the City of Boynton Beach, Florida.

A rehired member may buy back one or more years of continuous past service by paying into the Plan the amount of contributions that the participant would otherwise have paid for such continuous past service, plus the interest that would have been earned had such funds been invested by the Plan during that time.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (Continued)

The City's funding policy is to make actuarially computed monthly contributions to the Plan in amounts, such that when combined with participants' contributions and the State insurance excise tax rebate, all participants' benefits will be fully provided for by the time that they retire.

The City's contribution rate for the year ended September 30, 2019 was 46.01%. The amount paid was \$5,627,597.

Administrative Costs - All administrative costs of the Plan are financed through employee contributions and charges against the DROP accounts and supplemental distributions.

Cash - The Plan considers money market and demand account bank and broker-dealer deposits as cash. Temporary investments, shown on the balance sheet are composed of investments in short-term custodial proprietary money market funds.

Federal Income Taxes - A favorable determination letter indicating that the Plan is qualified and exempt from Federal income taxes was not issued by the Internal Revenue Service. The Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - Management has adopted the provisions set forth in GASB Statement No. 56, *Subsequent Events* and considered subsequent events through December 28, 2019, which is the date that the financial statements were available to be issued.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

2. **Summary of Significant Accounting Policies (Continued)**

GASB 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

3. Deposits and Investments

Deposits

Salem Trust Company (Salem) periodically holds uninvested cash in its capacity as custodian for the Plan. These funds exist temporarily as cash in the process of collection from the sale of securities or mutual funds.

Investments

Investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended mutual or alternative investment funds.

The Plan's investments other than cash held by its administrative manager, are segregated into a separate account and managed under separate investment agreements with Schroder Management, Ltd., Anchor Capital Advisors, L.L.C., and DSM Capital Partners, L.L.C. All of these accounts give Salem the custodianship, but give Schroder Management, Ltd, Anchor Capital Advisors, L.L.C., and DSM Capital Partners the authority to manage the investments.

The Vanguard 500 Index Fund and the Vanguard MidCap Fund are open-ended exchange traded funds and PIMCO Diversified Domestic Fixed Income Fund, the American Funds Europacific Fund, and the WCM Focused International Growth Fund are mutual funds.

These assets are invested in accordance with the specific investment guidelines as set forth in the Statement of Investment Policies and Objectives. Investment management fees are calculated quarterly as a percentage of the fair market value of the Plan's assets managed.

The Plan's investments are uninsured and unregistered and are held in custodians' or the Bank's accounts in the Plan's name. The U.S. Real Estate Investment fund, the ASB Real Estate Fund (held by the Chevy Chase Trust), the LBC Credit Partners Investment Fund, and the Crescent Direct Lending Fund and the Crescent Direct Lending Fund II are privately placed funds, which operate as alternative investment funds which offers their shares at the net asset value (NAV) of the fund. The NAV is based on the value of the underlying assets owned by the fund minus its liabilities and then divided by the number of shares or percentage of ownership outstanding.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

3. Deposits and Investments (Continued)

Investments (Continued)

The exchange traded funds are commonly referred to as “ETFs”. ETFs are funds that trade like other publicly-traded securities and are designed to track an index. Similar to shares of an index mutual fund, each share of the Fund represents a partial ownership in an underlying portfolio of securities intended to track a market index. Unlike shares of a mutual fund, which can be bought and redeemed from the issuing fund by all shareholders at a price based on NAV, only authorized participants may purchase or redeem shares directly from the Fund at NAV. Also, unlike shares of a mutual fund, the shares of the Fund are listed on a national securities exchange and trade in the secondary market at market prices that change throughout the day.

The Fund invests in a particular segment of the securities market and seeks to track the performance of a securities index that generally is not representative of the market as a whole.

The Plan had no stock or bond investments that individually represented 5% or more of the Plan’s net assets available for benefits as of September 30, 2019.

Further, the Plan has no instrument that, in whole or in part, is accounted for as a derivative instrument under GASB 53, *Accounting and Financial Reporting for Derivative Instruments* during the current Plan year.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

3. Deposits and Investments (Continued)

Investments (Continued)

The Plan held the following fixed income investments as of September 30, 2019:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Rating</u> | |
|--|----------------------|------------------------------|-----------------------------------|
| | | <u>Standard & Poor's</u> | <u>Effective Duration (Years)</u> |
| U.S. Government obligations | \$ 7,418,900 | AA | 5.2 |
| U.S. Government agency obligations | 2,245,837 | AA | 4.1 |
| Domestic corporate obligations | 5,900,335 | BBB - AA | 6.2 |
| Domestic fixed income investment funds | 12,968,755 | - | - |
| Temporary investment funds | <u>2,724,691</u> | AA | Daily |
| Total | <u>\$ 31,258,518</u> | | |

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. Through its investment policies the Plan manages its exposure to fair value losses arising from increasing interest rates. The Plan limits the effective duration of its investment portfolio through the adoption of nationally accepted risk measure bench marks.

Credit Risk - Credit risk is the risk that a debt issuer will not fulfill its obligations. Consistent with state law the Plan's investment guidelines limit its fixed income investment to a quality rating of 'A' or equivalent as rated by one or more recognized bond rating service at the time of purchase. The Plan's fixed income portfolio may not include more than 10% of its investments in securities having a quality rating of Baa.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

3. **Deposits and Investments (Continued)**

Investments (Continued)

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 a financial failure. The Plan requires all securities to be held by a third party custodian in the name of the Plan. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a "delivery vs. payment" basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in mutual funds and investment partnerships are considered *unclassified* pursuant to the custodial credit risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book-entry form.

Investing in Foreign Markets - Investing in foreign markets may involve special risks and considerations not typically associated with investing in companies in the United States of America. These risks include 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 or unrealized gains, and their prices are more volatile than those of comparable securities in U.S. companies.

Foreign Tax Withholdings and Reclaims - Withholding taxes on dividends from foreign securities are provided for based on rates established via treaty between the United States of America and the applicable foreign jurisdiction, or where no treaty exists at the prevailing rate established by the foreign country. Foreign tax withholdings are reflected as a reduction of dividend income in the statement of operations. Where treaties allow for a reclaim of taxes, the Fund will make a formal application for refund. Such reclaims are included as an addition to dividend income.

Investing in Real Estate - The Plan is subject to the risks inherent in the ownership and operation of real estate. These risks include, among others, those normally associated with changes in general economic climate, trends in the industry including creditworthiness of tenants, competition for tenants, changes in tax laws, interest rate levels, the availability of financing and potential liability under environmental and other laws.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

3. Deposits and Investments (Continued)

Investments (Continued)

Investment Asset Allocation - The Plan's adopted asset allocation policy as of September 30, 2019 is as follows:

In order to provide for a diversified portfolio, the Board has engaged investment professional(s) to manage and administer the fund. The investment manager(s) are responsible for the assets and allocation of their mandate only and may be provided as an addendum to this policy with their specific performance objectives and investment criteria. The Board has established the following asset allocation targets for the total Plan:

| <u>Asset Class</u> | <u>Target</u> | <u>Range</u> | <u>Benchmark Index</u> |
|-------------------------------|---------------|--------------|---------------------------|
| Broad Cap Value Equity | 20% | 15%-25% | Russell 3000 Value |
| Broad Large Cap Growth Equity | 20% | 15%-25% | Russell 1000 Growth |
| Large Cap Core Equity | 5% | 0% - 10% | S&P 500 |
| International Equity | 15% | 10%-20% | MSCI -World x-U.S. |
| Broad Market Fixed Income | 10% | 15%-25% | Barclays Int. Aggregate |
| TIPS* | 5% | 0%-7.5% | Barclays TIPS |
| Non-Core Global Bond | 5% | .0%-7% | MS Global Brd Mkt x USD |
| Real Estate* | 10% | 0%-15% | NCREIF Property |
| Alternative Investment* | 10% | 0%-20% | TBD (mandate appropriate) |

*Benchmark will default to "broad market fixed income" if these portfolios are not funded. Targets and ranges above are based on market value of total Plan assets.

The investment consultant will monitor the aggregate asset allocation of the portfolio, and will rebalance to the target asset allocation based on market conditions. If at the end of any calendar quarter, the allocation of an asset class falls outside of its allowable range, barring extenuating circumstances such as pending cash flows or allocation levels viewed as temporary, the asset allocation will be rebalanced into the allowable range. To the extent possible, contributions and withdrawals from the portfolio will be executed proportionally based on the most current market value available. The Board does not intend to exercise short-term changes to the target allocation.

Rate of Return - For the years ended September 30, 2019 and 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.36 percent and 8.78 percent, respectively. The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts for the changing amounts actually invested.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

4. Net Increase (Decrease) in Realized and Unrealized Appreciation (Depreciation) of Investments

The Plan's investments appreciated (depreciated) in value during the years ended September 30, 2019 and 2018 as follows:

| | 2019 | | | 2018 | | |
|---|--|--|---------------------|--|--|---------------------|
| | Realized Appreciation (Depreciation) | Unrealized Appreciation (Depreciation) | Total | Realized Appreciation (Depreciation) | Unrealized Appreciation (Depreciation) | Total |
| Investments at fair value as determined | | | | | | |
| by quoted market price: | | | | | | |
| U.S. Government obligations | \$ 22,242 | \$ 514,500 | \$ 536,742 | \$ (80,797) | \$ (253,520) | \$ (334,317) |
| U.S. Government agency obligations | (7,930) | 42,260 | 34,330 | (878) | (4,955) | (5,833) |
| Municipal obligations | - | -- | - | (246,787) | - | (246,787) |
| Domestic corporate obligations | 236 | 276,328 | 276,564 | 5,422 | (201,293) | (195,871) |
| Domestic fixed income investment funds | - | 935,034 | 935,034 | - | (95,452) | (95,452) |
| Domestic stocks | 1,010,550 | 625,037 | 1,635,587 | 1,634,540 | 2,924,067 | 4,558,607 |
| Domestic equity investment funds | - | 564,080 | 564,080 | 1,147,199 | 1,803,956 | 2,951,155 |
| Real estate investment funds | 20,559 | 402,680 | 423,239 | 17,367 | 681,060 | 698,427 |
| International equity investment funds | 425,108 | 328,739 | 753,847 | - | 446,533 | 446,533 |
| Net increase (decrease) in realized and unrealized appreciation (depreciation) of investments | <u>\$ 1,470,765</u> | <u>\$ 3,688,658</u> | <u>\$ 5,159,423</u> | <u>\$ 2,476,066</u> | <u>\$ 5,300,396</u> | <u>\$ 7,776,462</u> |

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments.

Unrealized gains and losses on investments sold in 2019 that had been held for more than one year were included in net appreciation (depreciation) reported in the prior year.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

5. Investments

The Plan's investments at both carrying value and cost or adjusted cost as of September 30, 2019 and 2018 are summarized as follows:

| Investment | 2019 | | 2018 | |
|--|----------------------|-----------------------|----------------------|-----------------------|
| | Cost | Market Value | Cost | Market Value |
| U.S. Government obligations | \$ 7,186,765 | \$ 7,418,900 | \$ 11,762,281 | \$ 11,479,916 |
| U.S. Government agency obligations | 2,207,453 | 2,245,837 | 221,898 | 218,021 |
| Domestic corporate obligations | 5,723,265 | 5,900,335 | 4,846,912 | 4,747,654 |
| Domestic fixed income investment funds | 10,910,718 | 12,968,755 | 11,404,620 | 12,527,623 |
| Domestic stocks | 23,410,004 | 33,918,890 | 22,120,084 | 32,003,933 |
| Domestic equity investment funds | 16,462,167 | 25,674,061 | 14,021,828 | 22,669,642 |
| Real estate investment funds | 5,895,354 | 10,820,467 | 5,707,236 | 10,229,669 |
| International equity investment funds | 17,623,971 | 21,014,778 | 14,999,584 | 18,061,651 |
| Temporary investments | 2,724,691 | 2,724,691 | 2,621,179 | 2,621,179 |
| Total investments | <u>\$ 92,144,388</u> | <u>\$ 122,686,714</u> | <u>\$ 87,705,622</u> | <u>\$ 114,559,288</u> |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

6. Designations

A portion of the fiduciary net position is designated for benefits that accrue in relation to the DROP account as further described in Note 1. Allocations to the DROP plan account for the years ended September 30, 2019 and 2018 are presented below as determined in the TPA's most recent accounting and valuation available for the fiscal years ended September 30, 2019 and 2018:

| | 2019 | 2018 |
|--|----------------------------------|----------------------------------|
| | <u> </u> | <u> </u> |
| Designated for DROP accounts (fully funded) | \$ 18,367,811 | \$ 17,196,200 |
| Designated for the supplemental pension distribution reserve (13 th check) | <u> -</u> | <u> -</u> |
| Total designated net position | 18,367,811 | 17,196,200 |
| Undesignated net position | <u>104,424,545</u> | <u>98,207,186</u> |
| Total net position | <u><u>\$ 122,792,356</u></u> | <u><u>\$ 115,403,386</u></u> |

7. DROP Loans

During the fiscal years ended September 30, 2019 and 2018, certain DROP participants borrowed from their respective DROP accounts. These loans require repayment in sixty months at interest rates based on the lowest prime rate of interest listed in the Wall Street Journal at the time that the loan is issued (currently 3.50%).

A schedule of the changes of these loans is summarized as follows:

| | Balance | | | Balance |
|-----------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 9/30/18 | Additions | Repayments | 9/30/19 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| DROP Loans Receivable | | | | |
| September 30 | <u>\$ 111,751</u> | <u>\$ 112,000</u> | <u>\$ 48,662</u> | <u>\$ 175,089</u> |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

7. DROP Loans (Continued)

Future minimum annual principal payments on these loans are as follows:

| <u>September 30</u> | |
|---------------------|-------------------|
| 2020 | \$ 51,680 |
| 2021 | 53,751 |
| 2021 | 43,948 |
| 2022 | 24,356 |
| 2024 | <u>1,354</u> |
| Total | \$ <u>175,089</u> |

Loan interest income for the year ended September 30, 2019 was \$7,792.

8. Plan Amendments

The Plan was amended during the fiscal year ended September 30, 2019 as follows:

- A. Effective October 1, 2018 for all Firefighters who are not eligible for Normal Retirement as of October 1, 2018 the normal retirement benefit shall be limited to a “maximum benefit cap”, initially set at \$95,000 per year. The maximum benefit cap will be increased annually beginning on October 1, 2023 (and on each October 1st thereafter) by 1.5%. The maximum benefit cap shall also apply to early retirement deferred vested retirement and disability retirement benefits. For early retirement and deferred vested retirement, the maximum benefit cap shall be applied to the normal retirement benefit before reflecting any reductions for early retirement.

Based on the valuation census data as of October 1, 2018, there were no Firefighters who are not eligible for Normal Retirement as of October 1, 2018 with an accrued normal retirement benefit as of October 1, 2018 that exceeded \$95,000. Firefighters who are eligible for Normal Retirement as of October 1, 2018 are not subject to the maximum benefit cap.

- Further, all new members hired on or after the effective date of the Ordinance are classified as “Tier 2 members”. All members hired before the effective date of the Ordinance are classified as “Tier 1 members.” Tier 2 benefit provisions that differ from Tier 1 benefit provisions include the following:

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

8. Plan Amendments (Continued)

- The normal retirement date will be the earlier of completion of 25 years of Credited Service
- Vested members terminating service with less than 25 years of Credited Service will be eligible for a deferred Normal Retirement benefit that begins at age 55.

Summary of Findings

- If the proposed Plan changes had been recognized as of October 1, 2017, the actuarially determined employer contribution (ADEC) for the fiscal year ending September 30, 2019 would have decreased by \$180,420 (1.56% of covered payroll from 55.42% to 53.85%).
- If the proposed Plan changes had been recognized as of October 1, 2017, the funded ratio (actuarial value of assets divided by actuarial accrued liability) would have increased by 0.6% from 62.6% to 63.2%. The amount of the unfunded actuarial accrued liability would have decreased by \$1,358,526.

There were no Plan amendments during the fiscal year ended September 30, 2018.

9. Plan Termination

Although it has not expressed an intention to do so, the City may terminate the Plan at any time by a written ordinance of the City Commission of Boynton Beach, duly certified by an official of the City. In the event that the Plan is terminated or contributions to the Plan are permanently discontinued, the benefits of each firefighter in the Plan at such termination date would be non-forfeitable.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

10. Commitments and Contingencies

As described in Note 1, certain members of the Plan are entitled to refunds of their accumulated contributions, without interest, upon termination of employment with the City prior to being eligible for pension benefits. At September 30, 2019 and 2018, aggregate contributions from active members of the Plan were approximately \$14,500,000 and \$14,900,000, respectively. The portion of these contributions which are refundable to participants who may terminate with less than ten years of service has not been determined.

11. Risk and Uncertainties

The Plan invests in a variety of investment funds. Investments in general are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is 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 statements of net assets available for benefits.

12. Revisions in Actuarial Assumptions or Methods

The payroll growth assumption used for amortizing the unfunded actuarial accrued liability (UAAL) as a level percentage of pay has been decreased from 4.0%, limited to the actual 10-year historical average payroll growth rate to a forward-looking payroll growth rate of 2.5% per year. This rate is consistent with the underlying inflation assumption. In addition, the maximum amortization period for amortizing changes in the UAAL has been reduced from 30 years to 25 years. The net impact of these changes is a decrease in the annual required employer contribution of 4.67% of covered payroll, or \$497,929.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

13. Investment Measurement at Fair Value

Fair Value Hierarchy

The accounting standards break down the fair value hierarchy into three levels based on how observable the inputs are that make up the valuation. The most observable inputs are classified as Level 1 where the unobservable inputs are classified as Level 3.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

As a general rule, any asset that has a daily closing price and is actively traded will be classified as a Level 1 input.

Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly. Inputs to the valuation methodology include: (1) quoted market prices for similar assets or liabilities in active markets, (2) quoted prices for identical or similar assets or liabilities in active markets, (3) inputs other than quoted prices that are observable for the asset or liability, and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

As a general rule, if an asset or liability does not fall into the requirements of a Level 1 or Level 3 input, it would default to Level 2. With Level 2 inputs, there is usually data that can be easily obtained to support the valuation, even though it is not as easily obtained as a Level 1 input would be.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As a general rule, Level 3 inputs are those that are difficult to obtain on a regular basis and require verification from an outside party, such as an auditor or an appraisal, to validate the valuation.

Net asset value (NAV) is a common measurement of fair value for Level 1, Level 2, and Level 3 investments. A fund's NAV is simply its assets less its liabilities, and is often reported as a per share amount for fair value measurement purposes. The Plan would multiply the NAV per share owned to arrive at fair value. Level 1 investment in funds such as mutual funds report at a daily NAV per share and are actively traded. NAV also comes in to play for Level 2 and 3 investments. As a matter of convenience (or referred to in accounting literature as a "practical expedient"), a Plan can use the NAV per share for investments in a nongovernmental entity that does not have a readily determined fair value, such as an alternative investment. Investments measured at NAV as a practical expedient would be excluded from the fair value hierarchy because the valuation is not based on actual market inputs but rather is quantified using the fund's reported NAV as a matter of convenience.

The Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The Plan has the following total recurring fair value measurements as of September 30, 2019 and 2018:

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

- *Debt securities* - Debt securities classified in Level 1 or Level 2 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used by International Data Pricing and Reference Data, LLC to value securities based on the securities' relationship to benchmark quoted prices.
- *Mutual funds* - The rationale for inclusion in Level 1 or Level 2 points to the unobservable inputs involved in mutual fund pricing. Mutual funds do not trade using bid and ask, as with ETF's or common stock. Instead, the prices are determined by the net asset value of the underlying investments at the close of business for the next day's open. The underlying assets themselves may include a variety of Level 1 and Level 2 securities and some may be valued using matrix pricing which interpolates the price of a security based on the price of similar securities.
- *Fixed income funds* - Valued using pricing models maximizing the use of observable input for similar securities. This includes basing value on yield currently available on comparable securities of issues with similar credit ratings.
- *Equity funds* - Valued at market prices for similar assets in active markets.
- *Common stock* - Valued at quoted market prices for identical assets in active markets.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

| Investments by fair value level | September 30, 2019 | Fair Value Measurements Using | | |
|--|------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. Government obligations | \$ 7,418,900 | \$ - | \$ 7,418,900 | \$ - |
| U.S. Government agency obligations | 2,245,837 | - | 2,245,837 | - |
| Domestic corporate obligations | 5,900,335 | - | 5,900,335 | - |
| Domestic fixed income investment funds | 8,343,746 | - | 7,338,146 | 1,005,600 ^(A) |
| Domestic stocks | 33,918,890 | 33,918,890 | - | - |
| Domestic equity investment funds | 25,674,061 | 25,674,061 | - | - |
| International equity investment funds | 21,014,778 | 21,014,778 | - | - |
| Temporary investments | <u>2,724,691</u> | <u>2,724,691</u> | - | - |
| Total investments by fair value level | \$ 107,241,238 | \$ <u>83,332,420</u> | \$ <u>22,903,218</u> | \$ <u>1,005,600</u> |
| Investment measured at the net asset value (NAV): | | | | |
| Real estate investment funds) | 10,820,467 | | | |
| Domestic fixed income investment funds | <u>4,625,009</u> | | | |
| Total investments measured at NAV | <u>15,445,476</u> | | | |
| Total investments measured at fair value | \$ <u><u>122,686,714</u></u> | | | |

^(A) Unfunded commitment at 9/30/19 is \$770,150.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Level 3 Investments

LBC Credit Partners III, L.P. invests in privately negotiated loans, actively rated corporate loans, and privately negotiated equity participations are carried at fair value. Changes in valuation of the privately negotiated corporate loans are calculated based on changes in the required yield of the investment. To calculate the changes in required yield, the partnership utilizes a pricing model that discounts the future expected cash flows of each loan at a rate equivalent to the sum of a minimum required spread, the risk premium applied, and the risk-free rate at the time of valuation. Fair value of each actively traded corporate loan is determined using available quoted prices. Fair value of privately negotiated equity participations is determined using a combination of market value comparables, acquisition purchase multiples, management projections, and internal assumptions on discount rates, growth rates, and other value drivers. There may be instances that necessitate the use of a different valuation approach as dictated by investment specific events.

In substantially all of the partnerships' model-derived valuations, the inputs used to measure fair value fall into different levels of the fair value hierarchy. In such case, the investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The General Partner's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investments.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

| Investments measured at NAV | 2019 Fair Value | Unfunded Commitment | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|-----------------------------|-----------------------------|--|--------------------------------|
| Real estate investment funds: | | | | |
| U.S. Real Estate Investment Fund, LLC. | \$ 7,319,971 | \$ - | Quarterly | 90 days |
| ASB Allegiance Real Estate Fund | <u>3,500,496</u> | <u>-</u> | Quarterly | 90 days |
| Total real estate investment funds | 10,820,467 | \$ <u><u> </u></u> | | |
| Domestic fixed income investment fund: | | | | |
| Crescent Direct Landing Levered Fund II | \$ 2,242,636 | \$ 2,052,830 | Indefinite | 90 days |
| Crescent Direct Landing Levered Fund | <u>2,382,373</u> | <u>565,351</u> | Indefinite | 90 days |
| Total investments measured at NAV | \$ <u><u>15,445,476</u></u> | \$ <u><u>2,618,181</u></u> | | |

1. The real estate investment funds are open end, commingled private real estate portfolios. These REIT-based funds are structured as Limited partnerships. Their primary focus is to invest in well-based income producing properties within major U.S. markets. The fair values of the investments in these funds have been determined using the NAV per unit of the Trusts ownership interest in partners' capital. The investments of the fund are valued quarterly. Withdrawal requests must be made 60 days in advance and may be paid in one or more installments.

2. The Crescent Direct Lending Levered Fund and Crescent Direct Lending Levered Fund II is intended
 - a) to generate high current income while preserving capital by investing all capital contributions in the master fund and participating in its indirect investments primarily in senior secured loans (including first lien, unitranche and second lien loans) of private U.S. lower middle-market companies and in other permitted investments, including swap and hedging transactions;

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

Investments measured at NAV (Continued)

- b) To enter into and perform any contracts and agreements, and carry on any activities, necessary in the fund for, or incidental to, the accomplishment of the foregoing purpose.
- c) Investments in the fund are valued at cost or fair market value on the most recent practicable date, less outstanding indebtedness incurred to acquire or for the purpose of acquiring the investments;
- d) For commodities, valuation is based on the initial margin or option premium deposited with the futures commission merchant. Swap agreements and similar financial contracts are valued at fair market value or cost (not notional amount).

“Fair Market Value” shall mean a) with respect to Securities (other than Marketable Securities) that are traded in the interdealer market, external pricing sources, to the extent available, including broker/dealer quotes or pricing services, as determined in good faith by the General Partner, b) with respect to Marketable Securities

- (i) that are primarily traded on a securities exchange, the closing sale price on the principal securities exchange on which they are traded on the date of determination or, if no sales occurred on such date, the mean between the closing “bid” and “asked” prices on such date and
- (ii) the principal market for which is or is deemed to be the over-the-counter market, the closing sales price on the date of determination as published by NASDAQ or any similar organization, or if such price is not so published on any such date, the mean between the closing “bid” and “asked” prices, if available, on such date, which prices may be obtained from any reputable pricing service broker or dealer.

The Plan understands that no market exists for this investment and it is not registered as an investment company under the investment company act of 1940.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

| Investments by fair value level | September 30, 2018 | Fair Value Measurements Using | | |
|--|-----------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. Government obligations | \$ 11,479,916 | \$ - | \$ 11,479,916 | \$ - |
| U.S. Government agency obligations | 218,021 | - | 218,021 | - |
| Domestic corporate obligations | 4,747,654 | - | 4,747,654 | - |
| Domestic fixed income investment funds | 8,180,050 | - | 6,697,654 | 1,482,396 ^(A) |
| Domestic stocks | 32,003,933 | 32,003,933 | - | - |
| Domestic equity investment funds | 22,669,642 | 22,669,642 | - | - |
| International equity investment funds | 18,061,651 | 18,061,651 | - | - |
| Temporary investments | <u>2,621,179</u> | <u>2,621,179</u> | - | - |
| Total investments by fair value level | \$ 99,982,046 | \$ <u>75,356,405</u> | \$ <u>23,143,245</u> | \$ <u>1,482,396</u> |
| Investment measured at the net asset value (NAV): | | | | |
| Real estate investment funds) | 10,229,669 | | | |
| Domestic fixed income investment fund | <u>4,347,573</u> | | | |
| Total investments measured at NAV | <u>14,577,242</u> | | | |
| Total investments measured at fair value | \$ <u>114,559,288</u> | | | |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

13. Investment Measurement at Fair Value (Continued)

Fair Value Hierarchy (Continued)

| Investments measured at NAV | 2018 Fair Value | Unfunded Commitment | Redemption Frequency (if currently eligible) | Redemption Notice Period |
|---|-----------------------------|-----------------------------|--|--------------------------------|
| Real estate investment funds: | | | | |
| U.S. Real Estate Investment Fund, LLC. | \$ 6,833,515 | \$ - | Quarterly | 90 days |
| ASB Allegiance Real Estate Fund | <u>3,396,154</u> | <u>-</u> | Quarterly | 90 days |
| Total real estate investment funds | \$ 10,229,669 | \$ <u><u> </u></u> | | |
| Domestic fixed income investment fund: | | | | |
| Crescent Direct Landing Levered Fund | \$ 1,269,736 | \$ 2,760,807 | Indefinite | 90 days |
| Crescent Direct Landing Levered Fund | <u>3,077,837</u> | <u>485,554</u> | Indefinite | 90 days |
| Total investments measured at NAV | \$ <u><u>14,577,242</u></u> | \$ <u><u>3,246,361</u></u> | | |

14. Net Pension Liability of the City

The components of net position liability of the City of Boynton Beach (City) as of September 30, 2019 were as follows:

| | |
|---|-----------------------------|
| Total Pension Liability | \$ 163,996,071 |
| Plan Fiduciary Net Position | <u>122,792,356</u> |
| City's Net Pension Liability | <u><u>\$ 41,203,715</u></u> |
| Plan fiduciary net position as a percentage of total pension liability | <u><u>74.88%</u></u> |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

14. Net Pension Liability of the City (Continued)

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of October 1, 2017 using the following actuarial assumptions applied to all measurement periods.

| | |
|---------------------------|---|
| Actuarial cost method | Entry age normal |
| Inflation | 2.50% |
| Salary increases | Varies by years of service from 3.5% to 14.5% |
| Investment rate of return | 7.50% |
| Retirement age | Rates vary by age and years of service |
| Mortality | RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates currently in use for Special Risk Class members of the Florida Retirement System (FRS), as mandated by Chapter 112.63, Florida Statutes. |
| Notes | See Discussion of Valuation Results in the October 1, 2018 Actuarial Valuation Report. |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

14. Net Pension Liability of the City (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation (as provided by the Fund's performance monitor) as of September 30, 2019 are summarized in the following table:

| <u>Asset Group</u> | <u>Target Allocation Proxy</u> | <u>Long-Term Real Return</u> |
|----------------------|--|----------------------------------|
| Domestic equity | 45.0% | 6.00% |
| International equity | 15.0% | 8.50% |
| Domestic bonds | 25.0% | 2.50% |
| International bonds | 5.00% | 3.50% |
| Real estate | 10.0% | 4.50% |

Discount Rate - A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the total actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was 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 (7.50%) was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO FINANCIAL STATEMENTS
September 30, 2019 and 2018

14. Net Pension Liability of the City (Continued)

Sensitivity of the Net Pension Disability to Changes in the Discount Rate - Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

**Sensitivity of the Net Pension Liability
to the Single Discount Rate Assumption**

| | 1% Decrease 6.50% | Current Single Discount Rate Assumption 7.50% | 1% Increase 8.50% |
|------------------------------|----------------------|--|----------------------|
| | <hr/> | <hr/> | <hr/> |
| City's net pension liability | \$ <u>59,536,531</u> | \$ <u>41,203,715</u> | \$ <u>26,191,801</u> |

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

September 30, 2019

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY

Last Six Fiscal Years

| | September 30, 2019 | September 30, 2018 | September 30, 2017 | September 30, 2016 | September 30, 2015 | September 30, 2014 |
|---|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| Total pension liability: | | | | | | |
| Service cost | \$ 3,403,511 | \$ 3,717,529 | \$ 3,330,443 | \$ 3,204,682 | \$ 2,988,536 | \$ 2,772,724 |
| Interest | 11,904,771 | 11,208,637 | 10,066,945 | 9,542,671 | 8,955,215 | 8,188,369 |
| Benefit changes | (1,384,791) | - | - | - | - | - |
| Difference between actual and expected experience | (1,516,079) | 1,224,054 | 668,799 | (498,197) | 708,071 | (28,363) |
| Assumption changes | - | - | 6,644,861 | - | 1,809,581 | - |
| Benefit payments | (7,597,186) | (5,970,713) | (5,456,760) | (5,176,836) | (4,304,149) | (4,292,070) |
| Refunds | (26,917) | (105,981) | (53,290) | - | (4,622) | (50,673) |
| Other (adjustments to excess state reserve) | (8,104) | (326,167) | (231,973) | (192,041) | 259,251 | 312,239 |
| Other (rollovers into DROP) | <u>379,375</u> | <u>323,472</u> | <u>70,279</u> | <u>271,411</u> | <u>139,860</u> | <u>343,843</u> |
| Net change in total pension liability | 5,154,580 | 10,070,831 | 15,039,304 | 7,151,690 | 10,551,743 | 7,246,069 |
| Total pension liability - beginning | <u>158,841,491</u> | <u>148,770,660</u> | <u>133,731,356</u> | <u>126,579,666</u> | <u>116,027,923</u> | <u>108,781,854</u> |
| Total pension liability ending (a) | \$ <u><u>163,996,071</u></u> | \$ <u><u>158,841,491</u></u> | \$ <u><u>148,770,660</u></u> | \$ <u><u>133,731,356</u></u> | \$ <u><u>126,579,666</u></u> | \$ <u><u>116,027,923</u></u> |
| Plan fiduciary net position: | | | | | | |
| Contributions - employer | \$ 5,627,597 | \$ 5,444,061 | \$ 4,293,563 | \$ 4,195,420 | \$ 3,930,996 | \$ 3,522,147 |
| Contributions - employer (from State) | 830,904 | 789,121 | 883,314 | 923,246 | 963,573 | 1,016,561 |
| Contributions - non-employer contribution entity | - | - | - | - | - | - |
| Contributions - members (including buyback contributions) | 1,524,397 | 1,473,516 | 1,477,115 | 1,485,128 | 1,251,530 | 1,291,773 |
| Net investment income | 6,835,550 | 9,221,736 | 12,165,106 | 9,197,486 | 282,853 | 7,187,580 |
| Benefit payments | (7,597,186) | (5,970,713) | (5,456,760) | (5,176,836) | (4,304,149) | (4,292,070) |
| Refunds | (26,917) | (105,981) | (53,290) | 0 | (4,622) | (50,673) |
| Administrative expense | (184,750) | (141,569) | (151,010) | (161,122) | (132,439) | (122,390) |
| Other | <u>379,375</u> | <u>323,472</u> | <u>70,279</u> | <u>271,411</u> | <u>139,860</u> | <u>343,843</u> |
| Net change in plan fiduciary net position | 7,388,970 | 11,033,643 | 13,228,317 | 10,734,733 | 2,127,602 | 8,896,771 |
| Plan fiduciary net position - beginning | <u>115,403,386</u> | <u>104,369,743</u> | <u>91,141,426</u> | <u>80,406,693</u> | <u>78,279,091</u> | <u>69,382,320</u> |
| Plan fiduciary net position - ending (b) | \$ <u><u>122,792,356</u></u> | \$ <u><u>115,403,386</u></u> | \$ <u><u>104,369,743</u></u> | \$ <u><u>91,141,426</u></u> | \$ <u><u>80,406,693</u></u> | \$ <u><u>78,279,091</u></u> |
| Net pension liability (asset) (a) - (b) | \$ <u><u>41,203,715</u></u> | \$ <u><u>43,438,105</u></u> | \$ <u><u>44,400,917</u></u> | \$ <u><u>42,589,930</u></u> | \$ <u><u>46,172,973</u></u> | \$ <u><u>37,748,832</u></u> |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

September 30, 2019

SCHEDULE OF RATIOS

Last Six Fiscal Years

| | <u>September 30, 2019</u> | <u>September 30, 2018</u> | <u>September 30, 2017</u> | <u>September 30, 2016</u> | <u>September 30, 2015</u> | <u>September 30, 2014</u> |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Plan fiduciary net position as a percentage of the total pension liability | <u>74.88%</u> | <u>72.65%</u> | <u>70.15%</u> | <u>68.15%</u> | <u>63.52%</u> | <u>67.47%</u> |
| Covered employee payroll | \$ <u>12,156,508</u> | \$ <u>11,133,758</u> | \$ <u>11,219,225</u> | \$ <u>10,906,700</u> | \$ <u>9,962,067</u> | \$ <u>9,925,925</u> |
| Net pension liability as a percentage of covered payroll | <u>338.94%</u> | <u>390.15%</u> | <u>395.76%</u> | <u>390.49%</u> | <u>463.49%</u> | <u>380.31%</u> |

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Last Six Fiscal Years

| <u>Fiscal Year Ended September 30,</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Contribution</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered Payroll*</u> | <u>Actual Contribution as a Percentage of Covered Payroll</u> |
|--|--|--------------------------------|---|-----------------------------|---|
| 2019 | \$ 6,409,551 | \$ 6,458,501 | \$ **(48,950) | \$ 12,156,508 | 53.13% |
| 2018 | 6,157,171 | 6,226,015 | **(68,844) | 11,133,758 | 55.92 |
| 2017 | 5,075,517 | 5,075,517 | - | 11,219,225 | 45.24% |
| 2016 | 4,899,742 | 4,977,374 | **(77,632) | 10,906,700 | 42.58% |
| 2015 | 4,635,318 | 4,635,318 | - | 9,962,067 | 39.33% |
| 2014 | 4,226,469 | 4,226,469 | - | 9,925,925 | 37.38% |
| | | | - | | |

*Covered Payroll was calculated based on actual member contributions for the fiscal year divided by the employee contribution rate.

**Prepaid contributions resulting from the previous years' excess contribution(s) will be applied toward the Actuarially Determined Contribution for Fiscal Year Ending December 30, 2020.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

NOTES TO THE SCHEDULE OF CONTRIBUTIONS

September 30, 2019

Valuation date: October 1, 2017
Actuarially determined contribution rates are calculated as of October 1, which is two year(s) prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 21 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.5% |
| Salary Increases | Varies by years of service from 3.5% to 14.5% |
| Investment Rate of Return | 7.50% |
| Retirement Age | Rates vary by age and years of service |
| Mortality | RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates currently in use for Special Risk Class members of the Florida Retirement System (FRS), as mandated by Chapter 112.63, Florida Statutes. |

Other Information:

Notes See discussion of Valuation Results on Page 1 of the October 1, 2017 Actuarial Valuation report.

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

September 30, 2019

SCHEDULE OF INVESTMENT RETURNS

Last Six Fiscal Years

| | <u>September 30, 2019</u> | <u>September 30, 2018</u> | <u>September 30, 2017</u> | <u>September 30, 2016</u> | <u>September 30, 2015</u> | <u>September 30, 2014</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Annual money-weighted rate of return, net of investment expense | <u>5.36%</u> | <u>8.78%</u> | <u>12.86%</u> | <u>11.07%</u> | <u>0.78%</u> | <u>9.54%</u> |

Note: Governmental Accounting Standards Board Statement No. 67 provides that changes in fair value should be included as a component of net investment income in the period in which they occur.

ADDITIONAL INFORMATION

CITY OF BOYNTON BEACH FIREFIGHTERS' PENSION PLAN

SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES

Years ended September 30, 2019 and 2018

| | 2019 | | 2018 | |
|------------------------------------|------------------------|----------------------------|------------------------|----------------------------|
| | Investment Expenses | Administrative Expenses | Investment Expenses | Administrative Expenses |
| Expenses: | | | | |
| Actuary fees | \$ - | \$ 40,242 | \$ - | \$ 25,822 |
| Administrator fees | - | 45,000 | - | 45,422 |
| Audit fees | - | 20,000 | - | 17,000 |
| Computer support | - | 2,820 | - | 2,520 |
| Custodial fees | 27,645 | - | 49,632 | - |
| Directors' insurance | - | 16,370 | - | 11,857 |
| DROP administration | - | - | - | - |
| Dues and subscriptions | - | 600 | - | 850 |
| Investment managers' fees: | | | | |
| ASB Allegiance | 50,072 | - | 35,839 | - |
| Anchor Capital | 70,095 | - | 74,491 | - |
| DSM Capital | 111,771 | - | 130,392 | - |
| Schroeder | 51,257 | - | 37,280 | - |
| Legal fees | - | 51,627 | - | 28,743 |
| IME fees | - | 4,050 | - | - |
| Office expenses | - | 1,017 | - | 792 |
| Performance monitor | 40,000 | - | 40,000 | - |
| Seminars and training | - | 3,024 | - | 8,563 |
| | (A) \$ <u>350,840</u> | \$ <u>184,750</u> | \$ <u>367,634</u> | \$ <u>141,569</u> |
| Percentage of plan net position | <u>0.28%</u> | <u>0.15%</u> | <u>0.31%</u> | <u>0.12%</u> |

(A) Investment fees do not include management fees withheld from investment funds.