

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**A PENSION TRUST FUND OF THE CITY OF POMPANO BEACH, FLORIDA**

**FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

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Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2020***

Presented to

***Pompano Beach Police and Firefighters  
Retirement System***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator

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**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Executive Director  
**Pompano Beach Police and Firefighters' Retirement System**

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Pompano Beach Police and Firefighters' Retirement System (the System), which comprise the statement of fiduciary net position as of September 30, 2020, and the statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 2020 financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of September 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Prior Year Comparative Information***

We have previously audited the Pompano Beach Police and Firefighters' Retirement System's 2019 financial statements, and our report dated January 22, 2020, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the employer net pension liability and related ratios, schedule of employer and other contributing entity contributions, and schedule of investment returns on pages 5–10 and 31-35 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedules of Administrative and Investment Expenses (the Schedules) are presented for purposes of additional analysis and are not a required part of the financial statements.

The Schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our

opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Other Information*

The Public Pension Standard Award is presented for purposes of additional analysis and is not a required part of the financial statements.

The Public Pension Standard Award has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2021 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

*Marcum LLP*

Fort Lauderdale, FL  
January 25, 2021

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial activities of the Pompano Beach Police and Firefighters' Retirement System (the System or the Plan) provides an overview of the financial statements by focusing on the System's financial performance during the years ended September 30, 2020 and 2019 and identifying significant changes in the financial position. Please read it in conjunction with the financial statements and notes to the financial statements which follow this discussion.

The System is responsible for administering a defined benefit public employee retirement system. It provides services to approximately 2 active police officers, 179 active firefighters and 408 benefit recipients.

### **Overview of Financial Statements**

#### ***Financial Statements***

The System presents financial statements as of and for the year ended September 30, 2020 with comparative totals for 2019. The financial statements are prepared using the accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB) pronouncements. The two financial statements are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

The Statement of Fiduciary Net Position presents information on all of the System's assets and deferred outflows, and liabilities and deferred inflows, with the difference between them reported as net position restricted for pension benefits. This represents the value of net position held in trust to pay pension benefits. The System did not have any deferred outflows or inflows as of September 30, 2020 or 2019.

By contrast, the Statement of Changes in Fiduciary Net Position presents information showing how the System's net position changed, on a comparative basis, with additions (revenues) and deductions (expenses) for the year.

#### ***Notes to Financial Statements***

The Notes to Financial Statements are an integral part of the financial statements and provide additional information and schedules that are essential for a full understanding of the financial statements. Among other things, information in the notes discloses the method used to value investments, a general description of the Plan, recent Plan amendments, contribution information and investment information.

#### ***Required Supplementary Information***

Because of the long-term nature of a defined benefit plan, the System provides two required schedules of historical trends based on the actuarial valuations performed by the System's actuary and an analysis of investment returns by the System's investment advisor.

## ***Other Supplementary Information***

The other schedules provided are the Schedule of Administrative and Investment Expenses (supplementary information). The schedules provide a detail of the composition of such expenses.

### **Financial Highlights**

#### Fiscal Year 2020

- Net position increased by \$7.5 million from \$245.1 million at September 30, 2019 to \$252.6 million at September 30, 2020, an increase of 3.0% primarily due to positive investment returns.
- The time-weighted rate of return on investments was 8.33%, net of fees, on a market value basis, which exceeded its assumed rate of investment return of 7.30%. The dollar-weighted net return is shown in Note 3 and the Required Supplementary Information.
- At September 30, 2020, the System's fiduciary net position as a percent of the total pension liability was 70.03%, representing an increase of 0.3% from the prior year.
- The assumed rate of investment return will be lowered from 7.5% to 7.0% in increments of 0.10% per year over the course of a five-year phase-in commencing on the October 1, 2018 actuarial valuation. Total Pension Liability at September 30, 2020 was calculated using a 7.30% assumed rate of investment return.
- The System received approximately \$2.0 million in member contributions, \$11.0 million in employer contributions and \$2.7 million in revenue from the State of Florida during 2020.
- At September 30, 2020, the net pension liability of the employer(s) was approximately \$108.0 million.

#### Fiscal Year 2019

- Net position decreased by \$1.2 million from \$246.3 million at September 30, 2018 to \$245.1 million at September 30, 2020, or -0.50%, primarily due to lower than expected investment returns as a result of volatile market conditions in the fourth quarter of calendar year 2018.
- The time-weighted rate of return on investments was 3.98%, net of fees, on a market value basis, which prevented the system from attaining its assumed rate of investment return of 7.40%. The dollar-weighted net return is shown in Note 3 and the Required Supplementary Information.
- At September 30, 2019, the System's fiduciary net position as a percent of the total pension liability was 69.73%, representing a decrease of 0.47% from the prior year.
- The assumed rate of investment return will be lowered from 7.5% to 7.0% in increments of 0.10% per year over the course of a five-year phase-in commencing on the October 1, 2018 actuarial valuation. Total Pension Liability at September 30, 2019 was calculated assuming a 7.40% assumed rate of investment return for rollforward consistency.
- The System received approximately \$1.9 million in member contributions, \$11.0 million in employer contributions and \$2.6 million in revenue from the State of Florida during 2019.
- At September 30, 2019, the net pension liability of the employer(s) was approximately \$106.3 million.

## Financial Analysis

### *Fiduciary Net Position*

The System's funding objective is to accumulate sufficient assets over time to meet long-term benefit obligations. To accumulate the funds needed to pay pension benefits, the System relies on contributions to the plan and investment earnings.

#### SUMMARY OF FIDUCIARY NET POSITION AS OF SEPTEMBER 30, 2020 AND 2019

	2020	2019	Increase (Decrease)	
			2019 to 2020	
			Amount	Percent
Assets other than investments	\$ 2,708,152	\$ 4,618,271	\$ (1,910,119)	-41.4%
Investments, at fair value	250,147,957	243,438,963	6,708,994	2.8%
<b>Total Assets</b>	252,856,109	248,057,234	4,798,875	1.9%
<b>Liabilities</b>	260,022	2,896,826	2,636,804	-91.0%
<b>Net Position</b>	<u>\$ 252,596,087</u>	<u>\$ 245,160,408</u>	<u>\$ 7,435,679</u>	3.0%

Net position restricted for pension benefits totaled \$252.6 million at September 30, 2020 compared to \$245.1 million at September 30, 2019. Current and other assets, reflecting cash, prepaid benefits, receivables, and property and equipment at September 30, 2020 were \$2.7 million. The significant reduction in current assets was due to the timing of the conversion to a new custodian which resulted in no pending trade activity at the time of reporting. Investments totaled \$250.1 million, which is an increase of \$6.7 million or 2.8% from 2019. The increase is primarily attributable to positive investment returns for the year.

The largest portion of the System's assets is invested in equities. At September 30, 2020, the System held \$125.0 million in equities, \$56.4 million in fixed income securities, \$58.1 million in hedge funds, private equity, real estate and infrastructure, and \$10.6 million in money market funds. Total liabilities as of September 30, 2020 were \$260,022 in accounts payable and accrued expenses. The significant reduction in current liabilities was due to the timing of the conversion to a new custodian which resulted in no pending trade activity at the time of reporting.

### *Revenues – Additions to Net Position Restricted for Pension Benefits*

Additions to the Plan Net Position are used to finance current and future retirement benefits. The primary sources of revenue include contributions from active members, employers, premium tax revenue from the State of Florida and net investment income.

ADDITIONS TO NET POSITION  
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019	Increase (Decrease)	
			2019 to 2020	
			Amount	Percent
Employer contributions	\$ 10,943,984	\$ 11,050,554	\$ (106,570)	-1.0%
Member contributions	1,995,263	1,857,469	137,794	7.4%
State of Florida contributions	2,750,611	2,559,937	190,674	7.4%
Net investment income	<u>15,331,990</u>	<u>9,722,774</u>	<u>5,609,216</u>	57.7%
<b>Total Additions</b>	<u>\$ 31,021,848</u>	<u>\$ 25,190,734</u>	<u>\$ 5,831,114</u>	23.1%

Contributions and net investment income totaled \$31.0 million in 2020, an increase of \$5.8 million from 2019. Employer contributions decreased \$106,570 in 2020 compared to 2019 as a result of implementing a 20-year amortization of unfunded liability on new bases which lowered the contribution rate by accelerating the amortization. Member contributions increased by \$137,794 in 2020 compared to the previous year primarily due to new-hires and salary increases. The State of Florida premium tax revenue increased \$190,674 compared to 2019.

The System incurred a positive return on the fair value of its investments in 2020. Net investment income of \$15.3 million was recognized in 2020, compared with net investment income of \$9.7 million in 2019. The net appreciation in the fair value of investments was \$11.2 million for 2020 compared to a net appreciation of \$5.4 million in 2019. Interest, dividends and other investment income generated income of \$5.4 million for 2020, which was a -4.8% decrease from the previous year.

Investment management fees decreased \$26,674 from 2019 as a result of fee reductions in certain investment management agreements. Investment expenses are deducted from total investment income to determine the net investment income.

***Expenses – Deductions from Net Position Restricted for Pension Benefits***

The primary expenses for the System include benefit payments to retirees and beneficiaries plus cost-of-living adjustments, Deferred Retirement Option Plan (DROP) and Share Plan distributions. They also include refunds of contributions paid to members who terminated employment during the year and administrative expenses.

DEDUCTIONS FROM NET POSITION  
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019	Increase (Decrease)	
			2019 to 2020	
			Amount	Percent
Benefit payments	\$ 22,940,690	\$ 25,696,884	\$ (2,756,194)	-10.7%
Refund of contributions	40,676	61,994	(21,318)	-34.4%
Administrative expenses	604,803	623,074	(18,271)	-2.9%
<b>Total Deductions</b>	<b>\$ 23,586,169</b>	<b>\$ 26,381,952</b>	<b>\$ (2,795,783)</b>	<b>-10.6%</b>

The largest expense was for benefits paid to retirees and beneficiaries. Benefit payments totaled approximately \$23.0 million for fiscal year 2020, a decrease of \$2.8 million, or -10.7% from 2019, due to less distributions from the DROP and Share Plan accounts of retired members than the previous year. There were three refunds of contributions to terminating members in 2020, compared to three the previous year. Administrative expense totaled \$604,803 for fiscal year 2020, a decrease of \$18,271, or -2.9%. Total administrative expense (not including investment management fees) was 0.24% of the System's net position.

Further analysis of benefit payments follows:

BENEFIT PAYMENTS  
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019	Increase (Decrease)	
			2019 to 2020	
			Amount	Percent
Normal retirement payments	\$ 17,767,845	\$ 17,250,779	\$ 517,066	3.0%
Disability pension payments	2,093,389	2,047,073	46,316	2.3%
Beneficiary payments	1,059,701	1,114,991	(55,290)	-5.0%
Share plan payments	354,751	909,422	(554,671)	-61.0%
DROP account withdrawals	1,665,004	4,374,619	(2,709,615)	-61.9%
<b>Total Benefit Payments</b>	<b>\$ 22,940,690</b>	<b>\$ 25,696,884</b>	<b>\$ (2,756,194)</b>	<b>-10.7%</b>

***Funding***

An actuarial valuation of the System's assets and benefit obligations is performed annually. The latest actuarial valuation dated October 1, 2019, showed the System had a ratio of actuarially determined pension asset-to-liabilities or funded ratio of 70.0%, up 1.0% from 69.0% on October 1, 2018. The funded ratio is trending upward after a significant reduction resulting from adoption of the Florida Retirement System's (FRS) mortality assumption on October 1, 2016, as required by Florida statute. At October 1, 2019, the System's actuarial accrued liability exceeded the actuarial value of assets by \$100.8 million.

Commencing on the October 1, 2018 actuarial valuation, the amortization period for unfunded liability on future assumption and plan change bases was shortened from 30 years to 20 years. This serves to eliminate negative amortization and reduce overall interest cost.

### ***Investment Activity***

The Board of Trustees approved a five-year plan to lower the assumed rate of investment return from 7.5% to 7.0% commencing on October 1, 2018. On the October 1, 2019 actuarial valuation, the rate was lowered to 7.3% and will be lowered in 0.10% increments prospectively until the target is achieved.

The Board of Trustees oversees the System's investments, performance and investment managers. Long-term asset growth is essential to the System's current and continued financial stability. Therefore, the Board of Trustees has the fiduciary responsibility to act with prudence when making investment decisions. The foundation of all investment decisions is a realistic investment policy statement. The System's investment policy is continually monitored and revised to match the goals and risk tolerance of the System and provide enhanced criteria for measuring the performance of the investment managers. The current investment policy utilizes traditional asset classes such as Large Capitalization Value, Large Capitalization Growth, Mid Capitalization Value, Small/Mid Capitalization Growth, International Value, International Growth, Fixed Income, as well as alternative asset classes including Public and Private Real Estate, Funds of Hedge Funds, Private Equity and Infrastructure in an effort to enhance the expected return of the System's portfolio while reducing risk. Periodic rebalancing of the total portfolio to the targets is done to insure diversification among the various asset classes, which is the key to reaching long-term goals. In addition, the Board constantly monitors the performance of all the managers and replaces those that have long-term underperformance (or other appropriate reasons as determined by the Board of Trustees) with managers believed to provide a better opportunity for the System to meet its investment objectives.

### **Requests for Information**

This financial report is designed to provide Plan participants, employers and other interested parties a general overview of the System's finances and to show the System's accountability for the funding it receives. Questions concerning information in this report or requests for additional financial information should be addressed to the Pompano Beach Police and Firefighters' Retirement System, 2335 East Atlantic Boulevard, Suite 400, Pompano Beach, Florida 33062.

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# **FINANCIAL STATEMENTS**

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**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**STATEMENT OF FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2020**

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

	2020	2019
<b>Assets</b>		
Cash	\$ 2,655	\$ 115,062
Due from brokers	--	1,975,978
Receivables:		
Accrued interest and dividends	473,092	358,120
DROP Loans	290,085	221,493
<b>Total Receivables</b>	<b>763,177</b>	<b>579,613</b>
<b>Investments</b>		
Money market funds	10,597,766	7,432,835
U. S. Government agency obligations	13,549,867	17,614,712
Mortgage backed securities	17,869,310	19,922,348
Municipal obligations	335,098	425,182
Corporate obligations	24,634,711	17,568,256
Equity securities	125,033,111	128,011,413
Hedge funds and private equity	58,128,094	49,464,217
Pompano Beach Investors LLC	--	3,000,000
<b>Total Investments</b>	<b>250,147,957</b>	<b>243,438,963</b>
Prepayments	1,807,427	1,753,583
Property and equipment, net of accumulated depreciation of \$268,187 and \$212,876, respectively	134,893	194,035
<b>Total Assets</b>	<b>252,856,109</b>	<b>248,057,234</b>
<b>Liabilities</b>		
Accounts payable and accrued expenses	260,022	255,759
Due to brokers	--	2,641,067
<b>Total Liabilities</b>	<b>260,022</b>	<b>2,896,826</b>
<b>Net Position Restricted for Pension Benefits</b>	<b>\$ 252,596,087</b>	<b>\$ 245,160,408</b>

*The accompanying notes are an integral part of these financial statements.*

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

	2020	2019
<b>Additions</b>		
Contributions:		
City of Pompano Beach	\$ 6,019,899	\$ 6,082,680
Broward Sheriff's Office	4,924,085	4,967,874
Members	1,995,263	1,857,469
State of Florida	2,750,611	2,559,937
<b>Total Contributions</b>	<b>15,689,858</b>	<b>15,467,960</b>
<b>Investment Income</b>		
Net appreciation in fair value of investments	11,249,831	5,394,048
Interest and dividends	5,364,132	5,611,510
Miscellaneous investment income	66,752	92,615
	16,680,715	11,098,173
Less: investment expenses	(1,348,725)	(1,375,399)
<b>Net Investment Income</b>	<b>15,331,990</b>	<b>9,722,774</b>
<b>Total Additions</b>	<b>31,021,848</b>	<b>25,190,734</b>
<b>Deductions</b>		
Benefit payments	22,940,690	25,696,884
Refund of participant contributions	40,676	61,994
Administrative expenses	604,803	623,074
<b>Total Deductions</b>	<b>23,586,169</b>	<b>26,381,952</b>
<b>Net Increase (Decrease)</b>	<b>7,435,679</b>	<b>(1,191,218)</b>
<b>Net Position Restricted for Pension Benefits</b>		
Beginning of year	245,160,408	246,351,626
End of year	<b>\$ 252,596,087</b>	<b>\$ 245,160,408</b>

*The accompanying notes are an integral part of these financial statements.*

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## **NOTES TO FINANCIAL STATEMENTS**

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**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***BASIS OF ACCOUNTING***

The accompanying financial statements of the Pompano Beach Police and Firefighters' Retirement System (the System or the Plan) 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 of Pompano Beach (the City) and the Broward Sheriff's Office (BSO), as calculated by the System's actuary, are recognized as revenue when due and when the entities have 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.

***METHOD USED TO VALUE INVESTMENTS AND INVESTMENT INCOME RECOGNITION***

Investments are reported at fair value except for the money market funds which are reported at amortized cost. 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. Net appreciation in fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost. Interest and dividends are recorded as earned. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. For more detail regarding the methods used to measure the fair value of investments refer to the fair value hierarchy in Note 3.

***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

***COMPARATIVE INFORMATION***

The financial statements include certain prior-year comparative information. Such summarized information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2019, from which the information was derived.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION**

*PLAN DESCRIPTION*

The following brief description of the System is provided for general information purposes only. Participants should refer to City ordinances for more complete information.

The Pompano Beach Police and Firefighters' Retirement System was established by ordinance of the City of Pompano Beach to account for the financial activity of the System. The System is administered by a nine-member Board of Trustees comprised of three members appointed by the City Commission, three members elected by/from the Firefighter members, and three members elected by/from the Police members. The System is included as a pension trust fund in the City's financial statements.

The System is a defined benefit pension plan that covers all of the City's employees that are full-time sworn police officers and firefighters. In August 1999, the City contracted with the Broward Sheriff's Office whereby BSO would provide policing services in Pompano Beach. As a result, all of the City's police officers are employed by BSO. Participating police officers were given the option to either remain in the System or switch to BSO's retirement plan and the System was closed to new police officers.

The System provides retirement, death and disability benefits for its members. Benefit provisions are established and may be amended by the City of Pompano Beach, in conjunction with the members' collective bargaining units. A member may retire with normal benefits after reaching age 47 and accumulating 20 or more years of credited service or age 55 and accumulating 10 or more years of credited service. Pursuant to Ordinance 2014-61, firefighters hired on or after May 27, 2014, may retire with normal benefits after reaching age 50 and accumulating 20 or more years of credited service or age 55 and accumulating 10 or more years of credited service. Pursuant to Ordinance 2008-54, a police officer with 25 years of credited service may elect to purchase unreduced normal retirement benefits regardless of age. Normal retirement benefits are stipulated in Section 34.055 of the City's Code of Ordinances and are contingent upon a member's employment classification, separation date, length of service and average monthly earnings. In general, normal retirement benefits are the member's average monthly earnings times the number of years of service multiplied by a factor ranging from 2.0% to 4.0%. Members with 20 or more years of service may receive an early retirement benefit at age 47 or an immediate benefit at a reduced amount. Members who have attained age 50 and have completed 10 years of service are also eligible for an early retirement benefit.

Each October 1st, an automatic cost of living adjustment (COLA) of 2% is provided to those retirees who have been retired at least 5 years. An additional increase of up to 1% may be paid to those same retirees under certain circumstances.

# POMPANO BEACH POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2020

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### NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

#### *PLAN DESCRIPTION (CONTINUED)*

A member attaining age 47 with 20 or more years of credited service is eligible for delayed retirement. These benefits begin upon application and are computed in the same manner as the normal retirement benefit.

Disability benefits for service related disabilities are paid to the member for at least 10 years or until recovery. Benefits are calculated as 75% of the member's final earnings in effect at the date the benefit is approved.

Disability benefits for non-service related disabilities for members with 10 or more years of credited service are paid to a member for at least 10 years or until recovery. Benefits are calculated as 3% of the member's average monthly earnings times the number of credited service years, up to a maximum of 60% of the member's salary, plus 2% of average monthly earnings times the number of credited service years in excess of 25 years.

Pre-retirement death benefits for service related deaths are payable to the member's surviving spouse until death or remarriage (for life if the member was killed in the line of duty). Benefits are calculated as a \$5,000 lump sum payment plus 75% of the member's final earnings. In addition, eligible children each receive 7.5% of the member's final earnings. If no eligible surviving spouse exists, eligible children each receive 15% of the member's final earnings not to exceed 50%.

Pre-retirement death benefits for non-service related deaths of members with more than 10 years of credited service are payable to a designated beneficiary. The designated beneficiary may elect to receive a return of the member's contribution plus interest or an accrued benefit payable at normal retirement or early retirement. In addition, the designated beneficiary may elect the pre-retirement death benefit for non-service related deaths of members with 5 to 10 years of credited service. Pre-retirement death benefits for non-service related deaths of members with 5 to 10 years of credited service are paid to the member's surviving spouse for life. Benefits are computed as a \$5,000 lump sum plus 65% of the member's accrued benefits at the date of death, subject to a minimum of 20% of the member's average monthly salary. In addition, eligible children each receive 7.5% of the member's final earnings. If no eligible surviving spouse exists, eligible children each receive 15% of the member's final earnings. The pre-retirement death benefit for members with 1 to 5 years of credited service is a \$5,000 lump sum payment to the member's designated beneficiary.

Post retirement death benefits are payable to the member's beneficiary in accordance with the terms of the payment method selected.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)**

*PLAN DESCRIPTION (CONTINUED)*

A member with less than 10 years of credited service who terminates employment is refunded his or her contributions, plus interest of 3%. A member with 10 or more years who terminates employment may receive his or her accrued benefit payable at normal retirement date or early retirement date or a refund of contributions plus 3% interest.

Membership consisted of the following as of October 1, 2019, the date of the latest actuarial valuation:

Inactive plan members and beneficiaries currently receiving benefits	402
Inactive plan members entitled but not yet receiving benefits	3
Active plan members	<u>186</u>
<b>Total Members</b>	<u><u>591</u></u>

*DROP PROGRAM*

Any member who is eligible to receive a normal retirement pension, prior to attaining 25 years of service, may elect to participate in a deferred retirement option program (DROP) while continuing his or her active employment as a police officer or firefighter. The maximum DROP participation period is five years for police officers and eight years for firefighters. A member with 25 years of credited service who is not yet eligible for normal retirement may elect to participate in the DROP upon reaching normal retirement. Upon participation in the DROP, the member 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 member are accumulated and invested in the DROP program to be distributed to the member upon his or her termination of employment.

At September 30, 2020 and 2019, there were 47 and 54, respectively, DROP participants at the end of each year.

At September 30, 2020 and 2019, the balance in the DROP account was \$15,058,744 and \$14,097,667, respectively. These amounts are included in the total investment balance presented on the statement of fiduciary net position.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)**

***DROP LOAN PROGRAM***

The Plan allows participants to borrow from their DROP account. The loan limit is up to 50% of participant's account balance, subject to a minimum of \$5,000 and a maximum of \$50,000. The interest rate charged is the "prime rate" in effect on the day of loan application; repayment schedule and maturity date are not to exceed five years. On September 30, 2020, the balance of DROP loans outstanding was \$290,085.

***SHARE PLANS***

A Supplemental Retirement Benefit Plan was established for firefighter members who were employed on October 1, 2010. Firefighters who were actively employed on that date were given a share, based on completed months of service, of the existing Chapter 175 reserves. Annually thereafter, Chapter 175 contributions exceeding \$821,230 are also allocated to members who are employed at the end of each fiscal year. In addition, earnings are posted to the Share Plan accounts each January 1. Firefighters become vested in their accounts at the rate of 50% after 10 years of service, 75% after 15 years of service and 100% after 20 years of service. As of September 30, 2020, the balance in the firefighters' Share Plan account was \$6,447,404. This amount is included in the total investment balance presented on the statement of fiduciary net position.

Effective February 28, 2017, a Supplemental Retirement Benefit Plan (Share Plan) for police officer members was established in accordance with Chapter 185, Florida statutes. Under this Plan, a portion of monies received from the Chapter 185 contributions is set aside to provide special benefits to eligible police officer members. Annually, Chapter 185 contributions exceeding \$876,088 are allocated 50% to a police Share Plan and 50% to reduce the unfunded actuarial liability of the Plan. In accordance with a policy adopted on July 10, 2018, police officer members who were vested with a minimum of ten years of service as of February 28, 2017 were each given a share. The Share Plan funds are allocated to all eligible police members at the end of each fiscal year and distributed to retired police officers annually on December 1. Share Plan funds are held in an account with posted earnings for the remaining active police members until retirement pay status is attained. As of September 30, 2020, the balance in the police officers' Share Plan account was \$287,189. This amount is included in the total investment balance presented on the statement of fiduciary net position.

***CONTRIBUTIONS***

Police officers are required to contribute 8.6% and firefighters 11.6% of their annual covered salary. Pursuant to Chapters 175 and 185 of the Florida Statutes, a premium tax on certain

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)**

*CONTRIBUTIONS (CONTINUED)*

property and casualty insurance contracts written on Pompano Beach properties is collected by the State and is remitted to the System. The City and BSO are required to contribute the remaining amounts necessary to fund the benefits through periodic contributions at actuarially determined rates. Administrative costs are funded through investment earnings.

In accordance with Florida Statutes, and in the absence of mutual consent, additional premium tax revenues in excess of a base amount are reserved 50%, to fund minimum benefits or benefits in excess of minimums, and 50% to fund a Share Plan. As of the October 1, 2019 actuarial valuation, the cumulative balance of additional premium tax revenues reserved to provide Share Plan benefits to firefighter members (Chapter 175 funds) totaled \$459,331 and was allocated to the members' Share Plan accounts on January 1, 2020. As of the October 1, 2019 actuarial valuation, the cumulative balance of additional premium tax revenues used to provide Share Plan benefits to police officer members (Chapter 185 funds) totaled \$201,642. Chapter 185 premium tax funds in excess of the minimum received in 2020 totaled \$552,325 of which \$276,163 was allocated to reduce the unfunded actuarial liability of the Plan and \$276,162 was allocated to the police officers' Share Plan accounts on September 30, 2020.

**NOTE 3 – INVESTMENTS**

Investment authorization – The System's investment practices are governed by Chapters 175 (Firefighter Pensions), 185 (Municipal Police Pensions), 280 (Florida Security for Public Deposits Act) and 112 (Local Retirement Plan Investment Policies), Florida Statutes, City Code of Ordinances and the System's adopted investment policy. In addition to complying with System policy, the System applies the "Prudent Person Rule" when executing investment strategies. Investments are made with judgment and care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income derived.

Types of investments – Florida Statutes and Plan policy authorize the Board of Trustees to invest in marketable debt securities issued or guaranteed by either the United States Government or its agencies, domestic corporations (including industrial and utilities), Israeli bonds, asset backed and commercial mortgage backed securities, domestic banks and other financial institutions, exchange traded funds, equity securities listed on the New York,

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 3 – INVESTMENTS (CONTINUED)**

American and principal regional and foreign (for foreign securities) exchanges, over the counter securities for which there is an active market maker regulated by National Association of Securities Dealers, American Depository Receipts, and real estate investment trusts (REIT) listed on the New York, American, and principal regional and foreign exchanges, Funds of Hedge Funds, and private real estate through institution vehicles or direct ownership.

The Plan's investment policy establishes asset classes and stipulates the following maximum portfolio percentages:

Authorized Investments	Effective July 16, 2020	
	Allowable Range %	Target %
Fixed income securities	17.5% - 30%	22.5%
Equity securities	40% - 60%	50.0%
Real estate	0% - 10%	7.5%
Funds of hedge funds	0% - 10%	10.0%
Infrastructure	0% - 7.5%	5.0%
Private equity	0% - 7.5%	5.0%

  

Authorized Investments	October 1, 2019 - July 15, 2020	
	Allowable Range %	Target %
Fixed income securities	17.5% - 27.5%	22.50%
Equity securities	42.5% - 57.5%	50.00%
Real estate	2.5% - 10%	7.50%
Funds of hedge funds	0% - 10%	10.00%
Master limited partnerships	0% - 7.5%	5.00%
Private equity	0% - 7.5%	5.00%

***RATE OF RETURN***

For the year ended September 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.69%. The money-weighted rate of return expresses investment performance, net of investment manager and consultant expenses adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculation are determined on a monthly basis.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 3 – INVESTMENTS (CONTINUED)**

***INTEREST RATE RISK***

As of September 30, 2020, the System had the following investments subject to interest rate risk in its portfolio:

	Fair Value	Remaining Maturity			
		Less Than 1 Year	1 - 5 Years	6-10 Years	Greater Than 10 Years
U.S. Treasuries, notes and bonds	\$ 12,008,890	\$ 894,973	\$ 6,569,849	\$ 576,263	\$ 3,967,805
U.S. Federal agencies	493,604	110,252	383,352	--	--
U.S. Treasury inflation protected securities	1,047,373	--	316,245	659,953	71,175
Total US government agency obligations	<u>13,549,867</u>	<u>1,005,225</u>	<u>7,269,446</u>	<u>1,236,216</u>	<u>4,038,980</u>
Mortgage backed securities	12,854,480	262	20,412	281,794	12,552,012
Collateralized mortgage obligations	5,014,830	--	--	1,487,829	3,527,001
Total mortgage backed securities	<u>17,869,310</u>	<u>262</u>	<u>20,412</u>	<u>1,769,623</u>	<u>16,079,013</u>
Municipal obligations	335,098	--	10,619	96,029	228,450
Corporate obligations	24,634,711	53,139	8,692,120	9,391,631	6,497,821
<b>Totals</b>	<u>\$ 56,388,986</u>	<u>\$ 1,058,626</u>	<u>\$ 15,992,597</u>	<u>\$ 12,493,499</u>	<u>\$ 26,844,264</u>

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. As a means of limiting its exposure to fair value losses, the investment guidelines look to control impacts from interest rate risk in both rising and declining interest rate environments considering such factors as credit quality and duration for losses in rising rate environments, and credit quality in declining rate environments. The benchmarks are monitored and changed when warranted by the investment market environment. Debt portfolios are structured and managed to produce returns based on risks inherent in the selected benchmarks.

***CREDIT RISK***

This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The System's investment policy requires all fixed income investments to hold a credit rating in one of the four highest classifications by a major rating service. Commercial paper, if used, must be of only the highest quality (rating of A-1 or P-1).

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 3 – INVESTMENTS (CONTINUED)**

***CREDIT RISK (CONTINUED)***

Investments in fixed income securities with a rating of Baa3 are limited to 15% of the fixed income portfolio. The fixed income investments credit ratings for the year ended September 30, 2020 ranged between AAA and Baa3 and below ratings. Positions rated below Baa3 by Moody's may hold a BBB equivalent rating by S&P or Fitch. All of the fixed income investments for the year ended September 30, 2020 met the ratings requirements of the investment policy or an approved exception thereto.

Credit Rating by Moody's Rating	Fair Value	Corporate	Municipal	U.S. Government
U.S. Government guaranteed*	\$ 29,146,248	\$ --	\$ --	\$ 29,146,248
Credit risk debt securities:				
Aaa	2,647,912	2,647,912	--	--
Aa1	509,695	424,514	85,181	--
Aa2	492,275	412,449	79,826	--
Aa3	672,600	572,864	99,736	--
A1	1,950,691	1,940,072	10,619	--
A2	3,797,252	3,797,252	--	--
A3	4,592,607	4,532,871	59,736	--
Baa1 and Below	11,019,415	11,019,415	--	--
Not Rated	1,560,291	1,560,291	--	--
Total credit risk debt securities	<u>27,242,738</u>	<u>26,907,640</u>	<u>335,098</u>	<u>--</u>
<b>Total Fixed Income Securities</b>	<u>\$ 56,388,986</u>	<u>\$ 26,907,640</u>	<u>\$ 335,098</u>	<u>\$ 29,146,248</u>

\*Obligations are backed by the full faith and credit of the U.S. Government.

***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. Investments in any one issuer that represent 5% or more of Plan net position require disclosure, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds. The System utilizes limitations on securities of a single issuer to manage this risk. The System's investment policy limits investments in the fixed income portion of the portfolio to 10% of a given issuer and limits equity investments in any one company to 10% of the equity portion of each portfolio manager (at market value).

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 3 – INVESTMENTS (CONTINUED)**

As of September 30, 2020, the Invesco Core Real Estate USA, LP investment was approximately 7.0% of the System's net position restricted for pension benefits and the Ironwood Institutional Ltd investments was approximately 5.2% of the System's net position restricted for pension benefits.

***CUSTODIAL CREDIT RISK***

This is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The System has third-party custodial arrangements with financial institutions to accept securities on a delivery versus payment basis for direct purchase agreements. All securities purchased by the System are designated as an asset of the System in the System's name and are held in safekeeping by the System's custodial bank or a third-party custodial institution.

***RISKS AND UNCERTAINTIES***

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position. The System, through its investment advisor, monitors the System's investment and the risks associated therewith on a regular basis, which the System believes minimizes these risks.

System contributions are made and the net pension liability of the Employer is reported based on certain assumptions pertaining to investment returns, interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

***FAIR VALUE HIERARCHY***

The Plan categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 – Investments' fair values based on prices quoted in active markets for identical assets

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 3 – INVESTMENTS (CONTINUED)**

***FAIR VALUE HIERARCHY (CONTINUED)***

Level 2 – Investments' fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.

Level 3 – Investments' fair values based upon unobservable inputs.

The following is a description of the fair value techniques for the Plan's investments:

Level 1 and 2 prices are obtained from various pricing sources by the Plan's custodian bank.

Money market funds are reported at amortized cost.

Equity securities traded on national or international exchanges are valued at the last reported sales price or current exchange rates (Level 1). This includes common stock, American Depository Receipts, foreign stock, mutual fund equities and REITs.

Debt securities are valued using pricing inputs that reflect the assumptions market participants would use to price an asset or liability and are developed based on market data obtained from sources independent of the reporting entity (Level 2). This includes U.S. Treasury bonds and notes, inflation-indexed bonds, U.S. federal agencies, mortgage backed and collateralized securities, municipal bonds, mutual bond funds and corporate obligations, foreign bonds and notes, and private placements.

The Plan has investments in alternative asset classes including funds of hedge funds, private equity fund of funds and a core real estate fund which hold a variety of investment vehicles that do not have readily available market quotations. These investments are measured at net asset value based on their proportionate share of the value of the investments as determined by the fund managers and are valued according to methodologies which include pricing models, discounted cash flow models and similar techniques.

The following is a summary of the fair value hierarchy of the fair value of investments as of September 30, 2020:

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 3 – INVESTMENTS (CONTINUED)**

***FAIR VALUE HIERARCHY (CONTINUED)***

	9/30/2020	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
Debt securities				
US Government agency obligations	\$ 13,549,867	\$ --	\$13,549,867	\$ --
Mortgage backed securities	17,869,310	--	17,869,310	--
Municipal obligations	335,098	--	335,098	--
Corporate obligations	24,634,711	--	24,634,711	--
Total debt securities	56,388,986	--	56,388,986	--
Equity securities				
Common stock	78,512,283	78,512,283	--	--
ADR's	30,706,077	30,706,077	--	--
Foreign stock	10,153,114	10,153,114	--	--
Mutual fund equities	3,670,744	3,670,744	--	--
Preferred stock	976,886	976,886	--	--
REITs	1,014,007	1,014,007	--	--
Total equity securities	125,033,111	125,033,111	--	--
Total Investments by fair value level	181,422,097	\$ 125,033,111	\$56,388,986	\$ -
<b>Investments measured at the net asset value (NAV)</b>				
Fund of hedge funds	19,875,904			
Real estate fund	17,601,424			
Infrastructure fund	12,246,804			
Private equity fund of funds	8,403,962			
Total investments measured at NAV	58,128,094			
Money market funds (exempt)	10,597,766			
Total investments	\$250,147,957			

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**NOTE 3 – INVESTMENTS (CONTINUED)**

***FAIR VALUE HIERARCHY (CONTINUED)***

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient, including their related unfunded commitments and redemption restrictions.

<b>Investments Measured at the NAV</b>	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Fund of Hedge Funds - Multi Strategy <sup>1</sup>	\$ 13,309,995	\$ --	Semi-Annual	95 Days
Fund of Hedge Funds - Multi Strategy <sup>2</sup>	478,045	--	Quarterly	95 Days
Core Real Estate Fund <sup>3</sup>	17,601,424	--	Quarterly	45 Days
Private Equity Fund of Funds <sup>4</sup>	3,490,229	1,725,000	N/A	N/A
Private Equity Fund of Funds <sup>4</sup>	3,117,726	870,000	N/A	N/A
Private Equity Fund of Funds <sup>5</sup>	1,180,696	340,190	N/A	N/A
Private Equity Fund of Funds <sup>6</sup>	615,311	713,638	N/A	N/A
Liquid Alternative - Multi Strategy <sup>7</sup>	3,053,917	--	N/A	N/A
Liquid Alternative - Global Long/Short Credit	3,033,947	--	N/A	N/A
Global Listed Infrastructure Fund <sup>8</sup>	12,246,804	--	N/A	N/A
Total investments measured at the NAV	<u>\$ 58,128,094</u>			

1 *Multi-strategy fund of hedge fund.* Aims to pursue varying strategies in order to diversify risks and reduce volatility. This fund is a diversified portfolio of relative value, equity market neutral and low net equity, event driven and distressed and credit securities.

2 *Multi-strategy fund of hedge fund.* Aims to pursue varying strategies in order to diversify risks and reduce volatility. This fund is a diversified portfolio of relative value and event driven hedge funds with a focus on credit strategies.

3 *Core real estate fund.* This fund is an open-end core real estate fund with a diversified portfolio of income producing institutional properties throughout the US.

4 *Private equity fund of funds.* These two funds are globally diversified private equity programs that invest in large, mid and small-cap buyouts, venture and growth capital, and special situations.

5 *Private equity fund of fund.* This fund seeks to find undervalued opportunities in a differentiated platform of private equity, real estate, credit, hedge fund solutions and secondary solutions.

6 *Private equity fund of fund.* The fund seeks to acquire and structure private equity portfolios of private equity partnerships and underlying portfolio companies across leveraged buyout, credit, distressed, growth capital, real assets and venture capital strategies.

7 *Liquid Alternative – Multi Strategy and Global Long/Short Credit Funds.* The multi-strategy fund is a multi-manager vehicle that seeks to provide a lower risk profile than traditional stock and bond markets by investing in hedged strategies including equity hedged, event driven, relative value, managed futures and global macro. The global long/short credit fund combines directional allocations to investment grade and high yield corporate bonds, bank loans, structured credit with tactical long/short strategies and may include smaller allocations to sovereign bonds, asset-backed securities and equities.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 3 – INVESTMENTS (CONTINUED)**

***FAIR VALUE HIERARCHY (CONTINUED)***

- 8 *Global Listed Infrastructure Fund*. The Fund seeks to achieve total return through investments in the US and non-US equity securities issued by infrastructure companies. Investments may include utilities, pipelines, toll roads, airports, railroads, marine ports and telecommunication companies.

**NOTE 4 – TAX STATUS**

The Plan complies with the Required Amendments List for Qualified Plans published annually by the Internal Revenue Service which sets forth mandatory and discretionary amendments. The Plan Administrator and tax counsel believe that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

**NOTE 5 – NET PENSION LIABILITY OF THE EMPLOYER**

The components of the net pension liability at September 30, 2020:

Total pension liability	\$ 360,679,005
Plan fiduciary net position*	<u>252,596,087</u>
<b>Net Pension Liability</b>	<b><u><u>\$ 108,082,918</u></u></b>
Plan fiduciary net position as a percent of the total pension liability	70.03%

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 5 – NET PENSION LIABILITY OF THE EMPLOYER (CONTINUED)**

***SIGNIFICANT ACTUARIAL ASSUMPTIONS***

The total pension liability was determined using the following actuarial assumptions based on a valuation date of 10/1/2019:

Actuarial Cost Method	Individual Entry Age Normal Cost Method. All new bases are to be amortized over 20 years from the date established using a level dollar for police and a level percentage of pay amortization, with a 2.75% payroll growth assumption, for firefighters.
Asset Valuation Method	20% (5-year) Phase-In Method with a 20% asset corridor.
Interest Rate	7.3% compounded annually, net of investment expenses. Nyhart's professional judgment is that the rate is reasonable and has no significant bias.
Annual Pay Increases	2.0% compounded annually for inflation plus a seniority/merit scale using representative rates 0.99% to 9.09%, updated based on a study of experience for the plan during 2012-2018, completed August 2019.
Expense and/or Contingency Loading	One year term cost method; average of prior two years' expenses.
Mortality Rate Pre-Retirement	Pub-2010 Generational using scale MP-2018, Females, Headcount Weighted Safety Employee Female Table, set forward 1 year; Males, Headcount Weighted Safety Below Median Employee Male Table, set forward 1 year.
Mortality Rate Post-Retirement	Pub-2010 Generational using scale MP-2018, Females, Headcount Weighted Safety Healthy Retiree Female Table, set forward 1 year; Males, Headcount Weighted Safety Below Median Health Retiree Male Table, set forward 1 year.
Mortality Rate Disability	Pub-2010 Generational using scale MP-2018, Females, 80% Headcount Weighted General Disabled Retiree Female Table / 20% Headcount Weighted Safety Disabled Retiree Female Table; Males, 80% Headcount Weighted General Disabled Retiree Male Table / 20% Headcount Weighted Safety Disabled Retiree Male Table.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 5 – NET PENSION LIABILITY OF THE EMPLOYER (CONTINUED)**

***LONG-TERM EXPECTED RATE OF RETURN***

The long-term expected rate of return on 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 expense 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 of September 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity securities	50.0%	6.4%
Fixed income securities	22.5%	1.6%
Real estate	7.5%	5.3%
Hedge funds and private equity	15.0%	3.8%
Infrastructure	5.0%	5.7%
Short-term investments	0.0%	1.3%
Cash	<u>0.0%</u>	0.9%
Total	<u>100.0%</u>	

Long-term expected rate of return is 7.30%.

***DISCOUNT RATE***

The discount rate used to measure the total pension liability was 7.30%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 5 – NET PENSION LIABILITY OF THE EMPLOYER (CONTINUED)**

***SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE***

The following presents the net pension liability, calculated using the discount rate of 7.30%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.30%) or 1-percentage-point higher (8.30%) than the current rate:

	1% Decrease 6.30%	Current Discount Rate 7.30%	1% Increase 8.30%
<b>Net Pension Liability</b>	<u>\$ 145,690,771</u>	<u>\$ 108,082,918</u>	<u>\$ 76,590,459</u>

**NOTE 6 – PLAN AMENDMENTS**

During the year ended September 30, 2020, the City Code of Ordinances providing for the creation and operation of the System was amended as follows:

Ordinance No. 2020-14

This ordinance amends Sections 34.057 and 34.058 to comply with Chapter 2019-21, Laws of Florida (firefighters cancer bill); and Section 34.045 to update the definition of actuarial equivalence.

Ordinance No. 2020-48

This ordinance amends Section 34.057 to provide for the conversion of a normal retirement to a service-incurred disability retirement for a member who is deemed disabled as a direct result of duty related service at the 9/11 Ground Zero site upon recognition of participation in the World Trade Center Federal Victim Compensation Fund for a period of at least two years.

Ordinance No. 2020-66

This ordinance amends Section 34.0571 to comply with the provisions of the Setting Every Community up for Retirement Enhancement Act (SECURE); and Section 34.0603 to lower the quarterly fee charged to DROP participant balances to cover administrative expenses.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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**NOTE 7 – INVESTMENT IN POMPANO BEACH INVESTORS, LLC**

The System owned a one-hundred percent ownership interest in Pompano Beach Investors, LLC, (the LLC) a Florida limited liability company. The LLC had entered into an agreement to purchase commercial real estate in Pompano Beach, Florida for operating facilities and investment purposes. The purchase price stated in the contract was \$4.4 million. The purchase agreement was completed in March 2007. The intent of the purchase was to generate rental income through leasing agreements for office space.

On February 29, 2015, the LLC sold the commercial real estate property in exchange for a purchase price of \$3.7 million and approximately \$486,000 in reimbursement fees. For value received, the LLC held a promissory note in the principal amount of \$3 million, which accrued interest at 4.25% per annum, and matured on March 1, 2020.

During the year ended September 30, 2020, the LLC received \$3 million in full payment and satisfaction of the promissory note and \$63,750 in interest income. These funds were transferred to the System. The LLC was voluntarily dissolved on April 27, 2020.

**NOTE 8 – DEFINED CONTRIBUTION PLAN**

The Plan, as a single-employer, contributed to the Pompano Beach Police/Fire Retirement Plan which is a defined contribution plan (DCP) created in accordance with Internal Revenue Code Section 401(a). The Plan is administered by a third-party administrator. The DCP is available to all full-time employees of the Plan. The Plan contributes 10% of the participant earnings and employees participating in the DCP are required to contribute 10% of their earnings, excluding bonuses.

Total employer contributions into the DCP were \$22,299 for the year ended September 30, 2020. Amendments to the DCP must be authorized by the Board of Trustees of the Plan.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**POMPAÑO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE  
EMPLOYER NET PENSION LIABILITY AND RELATED RATIOS**

September 30,	2020	2019	2018	2017	2016
<b>Total Pension Liability</b>					
Service cost	\$ 4,762,331	\$ 4,367,560	\$ 4,342,954	\$ 4,117,315	\$ 3,703,207
Interest	25,509,361	25,340,433	25,088,027	24,421,412	21,977,143
Changes of benefit terms	--	--	--	--	--
Differences between expected and actual experience	10,857,184 *	(3,449,843)	742,156	3,702,653	(983,846)
Changes of assumptions	(8,917,944)	--	3,537,718	--	29,606,755
Benefit payments, including refunds of member contributions	<u>(22,981,366)</u>	<u>(25,758,878)</u>	<u>(25,849,524)</u>	<u>(21,308,109)</u>	<u>(22,946,120)</u>
<b>Net Change in Total Pension Liability</b>	9,229,566	499,272	7,861,331	10,933,271	31,357,139
<b>Total Pension Liability - Beginning</b>	<u>351,449,439</u>	<u>350,950,167</u>	<u>343,088,836</u>	<u>332,155,565</u>	<u>300,798,426</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 360,679,005</u>	<u>\$ 351,449,439</u>	<u>\$ 350,950,167</u>	<u>\$ 343,088,836</u>	<u>\$ 332,155,565</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 10,943,984	\$ 11,050,554	\$ 10,775,021	\$ 8,142,644	\$ 8,154,934
Contributions - member	1,995,263	1,857,469	1,708,166	1,632,948	1,492,330
Contributions - nonemployer contributing member	2,750,611	2,559,937	2,501,946	2,336,040	2,273,774
Net investment income (loss)	15,361,708	9,533,689	19,886,454	23,717,202	16,233,979
Benefit payments, including refunds of member contributions	(22,981,366)	(25,758,878)	(25,849,524)	(21,308,109)	(22,946,120)
Administrative expenses	(604,803)	(623,074)	(626,768)	(530,291)	(604,460)
Other	<u>66,752</u>	<u>92,615</u>	<u>18,569</u>	<u>75,815</u>	<u>10,775</u>
<b>Net Change in Plan Fiduciary Net Position</b>	7,532,149	(1,287,688)	8,413,864	14,066,249	4,615,212
<b>Plan Fiduciary Net Position - Beginning</b>	<u>245,063,938</u>	<u>246,351,626</u>	<u>237,937,762</u>	<u>223,871,513</u>	<u>219,256,301</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 252,596,087</u>	<u>\$ 245,063,938</u>	<u>\$ 246,351,626</u>	<u>\$ 237,937,762</u>	<u>\$ 223,871,513</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 108,082,918	\$ 106,385,501	\$ 104,598,541	\$ 105,151,074	\$ 108,284,052
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.03%	69.73%	70.20%	69.35%	67.40%
Covered Payroll	\$ 16,107,844	\$ 14,705,355	\$ 14,353,623	\$ 13,527,197	\$ 13,061,612
Net Pension Liability as Percentage of Covered Payroll	671.00%	723.45%	728.73%	777.33%	829.03%

\*Differences between expected and actual experience in the year ending 9/30/2020 include an adjustment to reflect the liabilities associated with \$6,734,593 in allocated Share Plan balances as of 9/30/2020 (\$287,189 for the Police Share Plan and \$6,447,404 for the Fire Share Plan). This is considered to be an individually significant change, according to the language of GASB 67 paragraph 32 and GASB 68 paragraph 44.

*This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.* *(CONTINUED)*

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE  
EMPLOYER NET PENSION LIABILITY AND RELATED RATIOS (CONTINUED)**

September 30,	2015	2014
<b>Total Pension Liability</b>		
Service cost	\$ 3,645,948	\$ 3,645,948
Interest	21,555,235	21,340,649
Changes of benefit terms	(6,900)	--
Differences between expected and actual experience	2,419,307	(1,213,699)
Changes of assumptions	--	--
Benefit payments, including refunds of member contributions	<u>(21,144,686)</u>	<u>(20,678,837)</u>
<b>Net Change in Total Pension Liability</b>	6,468,904	3,094,061
<b>Total Pension Liability - Beginning</b>	<u>294,329,522</u>	<u>291,235,461</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 300,798,426</u>	<u>\$ 294,329,522</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 8,129,211	\$ 9,722,948
Contributions - member	1,453,342	1,422,685
Contributions - nonemployer contributing member	2,255,095	2,219,537
Net investment income (loss)	(3,955,004)	22,149,737
Benefit payments, including refunds of member contributions	(21,144,686)	(20,678,837)
Administrative expenses	(563,224)	(581,767)
Other	<u>43,955</u>	<u>17,738</u>
<b>Net Change in Plan Fiduciary Net Position</b>	(13,781,311)	14,272,041
<b>Plan Fiduciary Net Position - Beginning</b>	<u>233,037,612</u>	<u>218,765,571</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 219,256,301</u>	<u>\$ 233,037,612</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	\$ 81,542,125	\$ 61,291,910
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.89%	79.18%
Covered Payroll	\$ 13,065,752	\$ 12,948,557
Net Pension Liability as Percentage of Covered Payroll	624.09%	473.35%

*This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.*

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF EMPLOYER AND OTHER CONTRIBUTING ENTITY CONTRIBUTIONS**

September 30,	2020	2019	2018	2017	2016
Actuarially determined contribution	\$ 10,943,984	\$ 11,050,554	\$ 10,775,021	\$ 8,142,644	\$ 8,154,934
Contributions in relation to the actuarially determined contribution	<u>10,943,984</u>	<u>11,050,554</u>	<u>10,775,021</u>	<u>8,142,644</u>	<u>8,154,934</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered payroll	\$ 16,107,844	\$ 14,705,355	\$ 14,353,623	\$ 13,527,197	\$ 13,061,612
Contributions as a percentage of covered payroll	67.94%	75.15%	75.07%	60.19%	62.43%
 September 30,	 2015	 2014	 2013	 2012	 2011
Actuarially determined contribution	\$ 8,129,211	\$ 9,722,948	\$ 8,121,441	\$ 5,527,605	\$ 6,085,623
Contributions in relation to the actuarially determined contribution	<u>8,129,211</u>	<u>9,722,948</u>	<u>8,121,441</u>	<u>5,527,605</u>	<u>6,085,623</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Covered payroll	\$ 13,065,752	\$ 12,948,557	\$ 13,137,295	\$ 14,432,987	\$ 15,514,029
Contributions as a percentage of covered payroll	62.22%	75.09%	61.82%	38.30%	39.23%

See Notes to Schedule

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**NOTES TO THE SCHEDULE OF EMPLOYER AND  
OTHER CONTRIBUTING ENTITY CONTRIBUTIONS**

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Valuation Date: October 1, 2018

Actuarially determined contribution rates for the year ended September 30, are calculated as of October 1, two years prior to the end of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Cost Method	Individual Entry Age Normal Cost Method. All new bases are to be amortized over 20 years from the date established using a level dollar for police and a level percent of pay for firefighters.
Asset Valuation Method	20% Phase-In Method: Actuarial value of assets is equal to expected value phase in the difference between the expected investment earnings and actual investment earnings at the rate of 20% per year. The result cannot be greater than 120% of market value or less than 80% of market value.
Interest Rates	7.4% compounded annually, net of investment expenses. Nyhart's professional judgment is that the rate is reasonable and has no significant bias.
Annual Pay Increases	2.5% compounded annually for inflation plus a seniority/merit scale ranging from 0.5% to 8.5%.
Expense and/or Contingency Loading	One year term cost method; average of prior two years' expenses.
Mortality Rate Pre-Retirement	RP2000 Generational, Females, 100% Combined Healthy White Collar Scale BB; Males, 10% Combined Healthy White Collar / 90% Combined Healthy Blue Collar, Scale BB.
Mortality Rate Post-Retirement	RP2000 Generational, Females, 100% Annuitant White Collar, Scale BB; Males, 10% Annuitant White Collar / 90% Annuitant Blue Collar, Scale BB.
Mortality Rate Disability	RP2000, Females, 60% Disabled Female set forward two year / 50% Annuitant White Collar with no setback, no projection scale; Males, 60% Disabled Male set back four years / 40% Annuitant White Collar with no setback, no projection scale.

**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF INVESTMENT RETURNS**

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September 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	7.69%	4.02%	8.66%	10.90%	7.68%
September 30,	<u>2015</u>	<u>2014</u>			
Annual Money-Weighted Rate of Return, Net of Investment Expense	-1.48%	10.03%			

*This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.*

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**SUPPLEMENTARY INFORMATION**

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**POMPANO BEACH POLICE AND FIREFIGHTERS'  
RETIREMENT SYSTEM**

**SUPPLEMENTARY INFORMATION**

**SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

	2020	2019
<b>Administrative Expenses</b>		
Salaries	\$ 222,992	\$ 212,373
Legal fees	88,000	89,445
Depreciation	59,142	55,552
Insurance	45,964	35,841
Office lease	37,523	36,437
Actuarial fees	25,820	40,750
Accounting and payroll fees	25,765	24,936
Employee benefits	22,299	21,237
Payroll taxes	17,282	16,458
Computer support fees	14,779	6,424
Educational	13,604	43,823
Physical examinations	7,069	3,640
DROP administration fees	6,000	10,753
Office equipment	3,810	3,581
Telephone and internet	3,648	3,588
Memberships and publications	3,263	3,198
Miscellaneous	2,409	7,136
Repairs and maintenance	1,884	3,378
Office supplies	1,844	2,894
Postage	1,306	1,230
Death audits	400	400
	\$ 604,803	\$ 623,074
<b>Investment Expenses</b>		
Investment advisory fees	\$ 1,214,778	\$ 1,227,514
Custodial fees	68,947	67,078
Performance measurement	65,000	80,807
	\$ 1,348,725	\$ 1,375,399

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## **REPORTING SECTION**

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**INDEPENDENT AUDITORS' 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 and Executive Director  
**Pompano Beach Police and Firefighters' Retirement System**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Pompano Beach Police and Firefighters' Retirement System (the System), as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated January 25, 2021.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the financial statement. 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.

*Marcum LLP*

Fort Lauderdale, FL  
January 25, 2021