

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
The City of Pompano Beach General Employees' Retirement System  
Pompano Beach, Florida

We have audited the accompanying financial statements of the City of Pompano Beach General Employees' Retirement System, which are comprised of the statements of fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years 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.

**Auditor's Responsibility**

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

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

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

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**INDEPENDENT AUDITOR'S REPORT** (Continued)

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Pompano Beach General Employees' Retirement System as of September 30, 2015 and 2014 and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplemental information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information in management's discussion and analysis or the supplemental schedules, the schedule of contributions from the employer and other contributors, the schedule of investment returns, or the schedule of changes in the employer's net pension liability and related ratios because the limited procedures we performed did not provide us with sufficient evidence to express an opinion or provide any assurance on them.

KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & Co.

Miami, Florida  
December 7, 2015

# THE CITY OF POMPANO BEACH

## GENERAL EMPLOYEES' RETIREMENT SYSTEM

### MANAGEMENT DISCUSSION AND ANALYSIS

This section of the annual financial report presents the Management Discussion and Analysis (MD&A) of the The City of Pompano Beach General Employees' Retirement System (Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal year ended September 30, 2015. Please read it in conjunction with the Plan financial statements, which immediately follow.

#### *General Overview of the Plan*

The Plan was first established December 8, 1972 and later amended to provide retirement, disability and death benefits for the employees of the City. The Plan is also governed by certain provisions of the Florida Statutes under Chapter 112. The City of Pompano Beach is the Plan Sponsor of this Plan.

There is a board of trustees in whom the general administration, management and responsibility for the proper operation of the Plan is vested.

#### *Overview of the Financial Statements*

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, notes to the financial statements and other required supplemental information.

The financial statements provide both long-term and short-term information about the Plan's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplemental information that further explains and supports the information in the financial statements.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred and appreciation (depreciation) of assets is recognized in the Statement of Changes in Fiduciary Net Position. All assets and liabilities associated with the operation of the Plan are included in the Statement of Fiduciary Net Position.

The Statement of Fiduciary Net Position reports fiduciary net position and how it has changed. A net asset is the difference between the asset and any related liabilities. It is one measurement of the financial health or current position of the Plan.

#### *Financial Highlights*

The Plan's financial statements net results from operations for fiscal year 2015 reflected the following financial activities:

- Total fiduciary net position was \$150,255,553 which was 3% lower than 2014 total fiduciary net position.
- Total contributions were \$9,232,033 which was 0% greater than the 2014 contributions.
- Total interest and dividend earnings were \$2,864,394 which was 12% greater than the 2014 earnings.
- Net investment loss was \$247,489 which was 102% lower than the 2014 income.
- Benefits paid were \$9,347,825 which was 10% greater than 2014.

# THE CITY OF POMPANO BEACH

## GENERAL EMPLOYEES' RETIREMENT SYSTEM

### MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

#### *Financial Highlights* (Continued)

Employer and employee contributions for the year were \$9,232,033 which was slightly greater than the 2014 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Employees' contributions are made by Tier One members, who contribute at 10% of pensionable gross wages and Tier Two members, who contribute at 7% of pensionable gross wages.

#### *Statement of Fiduciary Net Position*

The following condensed comparative Statement of Fiduciary Net Position is a snap shot of account balances at the fiscal year end of the Plan. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for pension benefits.

The Plan continues to be evaluated for actuarial soundness by the actuary of the Plan. It should be noted that retirement system funding is based on a long-term perspective and that temporary fluctuations in the market are to be expected.

- Fiduciary net position at September 30, 2015 was \$150,255,553 a 3% decrease from Fiduciary net position at September 30, 2014.
- Total investments at September 30, 2015 were \$145,337,031, a 4% decrease from the investments at September 30, 2014.

	2015	2014
Investments, at fair value	\$ 145,337,031	\$ 151,916,314
Cash and cash equivalents	2,797,361	2,966,729
Receivables	2,436,224	779,658
Other assets	2,978	2,978
Total assets	150,573,594	155,665,679
Accounts payable	158,912	163,101
Due for Securities purchased	159,129	1,188,944
Total liabilities	318,041	1,352,045
Net position	\$ 150,255,553	\$ 154,313,634

# THE CITY OF POMPANO BEACH

## GENERAL EMPLOYEES' RETIREMENT SYSTEM

### MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

#### *Statement of Changes in Fiduciary Net Position*

The Statement of Changes in Fiduciary net position presents the effect of pension fund transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the plan equal net increase or decrease in Fiduciary Net Position.

The funding objective is to meet long-term obligations and fund all pension benefits.

- Revenues (additions to the fiduciary net position) for the Plan were \$9,232,033 which was made up of employer and employee contributions of \$8,996,994 minus net investment loss of \$247,489 plus miscellaneous income of \$12,450.
- Expenses (deductions from the fiduciary net position) increased from \$10,901,488 during 2014 to \$13,055,075 during 2015.

	2015	2014
Total contributions	\$ 9,232,033	\$ 9,213,527
Other income	12,450	7,848
Net investment (loss) income	(247,489)	12,471,017
Total additions	8,996,994	21,692,392
Total deductions	13,055,075	10,901,488
Net (decrease) increase	(4,058,081)	10,790,904
Net position – beginning	154,313,634	138,735,030
Prior period adjustment	-	4,787,700
Net position – ending	\$ 150,255,553	\$ 154,313,634

#### *Asset Allocation*

The table below indicates the Plan investment policy limitations and actual asset allocations as of September 30, 2015:

Type of Investment	Investment policy	Actual Allocation
Domestic equities	35% -60%	52%
International equities	10% -25%	10%
Fixed income	10% -35%	15%
Real estate	5% -15%	11%
Alternatives	5% -20%	10%
Cash and cash equivalents	0% -10%	2%

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

The Board recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's financial condition enables the Board to adopt long-term investment perspective.

# **THE CITY OF POMPANO BEACH**

## **GENERAL EMPLOYEES' RETIREMENT SYSTEM**

### MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

#### ***Investment Activities***

Investment income is vital to the Plan for current and future financial stability. Therefore, the Trustees have a fiduciary responsibility to act prudently when making plan investment decisions. To assist the Board of Trustees in this area, the Board retains investment managers who supervise and direct the investment of the assets. The Board also retains an investment monitor to evaluate and report on quarterly basis compliance by the investment managers with the investment policy of the Board and investment performance of the Plan. The investment policy statement was last amended on November 19, 2013.

The Board and its investment consultant review portfolio performance in compliance with the investment policy statement quarterly. Performance is evaluated both individually by money manager style and collectively by investment type and for the aggregate portfolio.

#### ***Financial Analysis Summary***

The investment activities, for the fiscal year ended September 30, 2015 are a function of the underlying market, money managers' performance and the investment policy's asset allocation model. The Plan has consistently implemented a high quality, conservative approach.

#### ***Contacting the Plan's Financial Management***

This financial analysis is designed to provide the Board of Trustees, plan participants and the marketplace credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or you need additional financial information, please contact the administrator of the City of Pompano Beach General Employees' Retirement System, Madelene L Klein, Executive Director, 555 S. Andrews Avenue, Suite 106 Pompano Beach, FL 33069.



**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

STATEMENTS OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
<b>CASH AND CASH EQUIVALENTS</b>	\$ 2,797,361	\$ 2,966,729
<b>RECEIVABLES:</b>		
Due for securities sold	2,192,701	500,840
Accrued investment income	<u>243,523</u>	<u>278,818</u>
<b>TOTAL RECEIVABLES</b>	<u>2,436,224</u>	<u>779,658</u>
<b>INVESTMENTS, AT FAIR VALUE:</b>		
Common stock	52,608,549	53,993,562
Corporate bonds	10,205,951	13,465,995
Government securities	8,056,766	10,632,378
Real estate	17,025,816	14,388,810
Mutual funds	43,109,444	44,313,680
Private equity	14,330,505	14,660,577
Unit investment trusts	-	348,666
ETF - equity	<u>-</u>	<u>112,646</u>
<b>TOTAL INVESTMENTS, AT FAIR VALUE</b>	<u>145,337,031</u>	<u>151,916,314</u>
<b>OTHER ASSETS</b>	<u>2,978</u>	<u>2,978</u>
<b>TOTAL ASSETS</b>	<u>150,573,594</u>	<u>155,665,679</u>
<b>LIABILITIES</b>		
<b>ACCOUNTS PAYABLE</b>	158,912	163,101
<b>DUE FOR SECURITIES PURCHASED</b>	<u>159,129</u>	<u>1,188,944</u>
<b>TOTAL LIABILITIES</b>	<u>318,041</u>	<u>1,352,045</u>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>		
<b>NET POSITION RESTRICTED FOR PENSIONS:</b>		
Net position restricted for DROP Benefits	4,431,456	5,310,631
Net position restricted for Defined Benefits	<u>145,824,097</u>	<u>149,003,003</u>
<b>TOTAL NET POSITION RESTRICTED FOR PENSIONS</b>	<u>\$ 150,255,553</u>	<u>\$ 154,313,634</u>

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

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ADDITIONS:</b>		
Contributions:		
City	\$ 6,259,058	\$ 6,288,467
Employees	2,562,901	2,515,665
Broward County- sheriff's office	386,265	385,789
Broward County- library	<u>23,809</u>	<u>23,606</u>
Total contributions	<u>9,232,033</u>	<u>9,213,527</u>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(2,296,081)	10,740,905
Interest and dividend income	<u>2,864,394</u>	<u>2,563,933</u>
Total investment income	568,313	13,304,838
Less: Investment expenses	<u>815,802</u>	<u>833,821</u>
Net investment (loss) income	<u>(247,489)</u>	<u>12,471,017</u>
Other income	<u>12,450</u>	<u>7,848</u>
<b>TOTAL ADDITIONS</b>	<u>8,996,994</u>	<u>21,692,392</u>
<b>DEDUCTIONS:</b>		
Benefits paid directly to retirees	9,347,825	8,486,475
Benefits paid from DROP	2,938,247	1,560,804
Refund of contributions	238,755	362,250
Administrative expenses	<u>530,248</u>	<u>491,959</u>
<b>TOTAL DEDUCTIONS</b>	<u>13,055,075</u>	<u>10,901,488</u>
<b>NET (DECREASE) INCREASE IN NET POSITION</b>	(4,058,081)	10,790,904
<b>NET POSITION RESTRICTED FOR PENSIONS</b>		
Beginning of year	154,313,634	138,735,030
Prior period adjustment	<u>-</u>	<u>4,787,700</u>
End of year	<u>\$ 150,255,553</u>	<u>\$ 154,313,634</u>

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

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

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

*Investment Valuation and Income Recognition*

Investments are reported at fair value (see Note 3). 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.

Purchase and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

*Income Taxes*

The Plan is exempt from federal income taxes under the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Trustees believe it is no longer subject to income tax examinations for years prior to September 30, 2012.

*Basis of Accounting and Use of Estimates*

The accompanying financial statements have been prepared using the accrual basis of accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**NOTE 2. DESCRIPTION OF THE PLAN**

The following description of the The City of Pompano Beach General Employees' Retirement System (Plan) provides only general information. Participants should refer to the City's ordinance for more complete information.

*General*

The City of Pompano Beach General Employees' Retirement System (the "Plan") is a single employer defined benefit pension plan established by the City of Pompano Beach, Florida (the "City") on December 8, 1972. The Plan reflects the provisions and requirements of City Code Section No. 34.010 through 34.040, as amended. Since the Plan is sponsored by the City, the Plan is included as a pension trust fund in the City's comprehensive annual financial report as part of the City's financial reporting entity.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 2. DESCRIPTION OF THE PLAN** (Continued)

*General* (Continued)

The Plan is administered by a board of seven trustees comprised of three persons elected directly by the members, three persons who are not members appointed by the City Commission, and one person elected by the other six trustees.

*Plan Membership*

At September 30, 2015, pension plan membership consisted of the following:

Retirees and beneficiaries	402
Terminated employees entitled to benefits but not receiving them	24
Fully vested, partially vested and non-vested active employees covered by the Plan	<u>467</u>
	<u>893</u>

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for more detailed and comprehensive information.

*Eligibility*

Participants are all general employees with full-time status, elected officials, appointees and senior managers in the City of Pompano Beach, Florida who have met the requirements of the City's merit system. Members are further divided in the following two tiers:

Tier One members are those members hired prior to June 8, 2011.

Tier Two members are those members hired on or after June 8, 2011.

*Benefits*

➤ *All Members*

Normal retirement is at the earlier of attainment of age 55 and 20 completed years of credited service or age 62 and 3 completed years of credited service. Several benefit options are available to members that are elected at time of retirement. Early retirement, disability, death and other benefits are also provided. General employees have vested benefits after 7 years of creditable service in accordance with qualifications under the plan. Elected officials, appointees, and senior management have vested benefits after 5 years of creditable service in accordance with qualifications under the plan.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 2. DESCRIPTION OF THE PLAN (Continued)**

*Benefits (Continued)*

➤ *Normal Retirement Benefit*

• *Tier One Members*

The normal retirement benefit is calculated by multiplying 2.75% of the Average Monthly Salary by the years of credited service. Average Monthly Salary is the average of the highest completed 78 biweekly pay periods multiplied by 1.0048.

• *Tier Two Members*

The normal retirement benefit is calculated by multiplying 2.00% of the Average Monthly Salary by the years of credited service. Average Monthly Salary is the average of the highest completed 130 biweekly pay periods multiplied by 1.0048.

➤ *Maximum Benefit*

\$90,000 per year (indexed) at age 62, or 100% of Average Monthly Salary (such earnings to exclude picked-up employee contributions per Sec. 414(h)(2), deferred compensation per Sec 457, and amounts deferred under Sec 125).

➤ *Early Retirement Benefit*

• *Tier One Members*

Early retirement benefit is calculated using 2.75% of Average Monthly Salary multiplied by the years of service. Benefits are actuarially reduced for early retirement.

• *Tier Two Members*

Early retirement benefit is calculated using 2.00% of Average Monthly Salary multiplied by the years of service. Benefits are actuarially reduced for early retirement.

➤ *Delayed Retirement Benefit*

• *Tier One Members*

Delayed retirement benefit is calculated using 2.75% of Average Monthly Salary multiplied by the years of service.

• *Tier Two Members*

Delayed retirement benefit is calculated using 2.00% of Average Monthly Salary multiplied by the years of service.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 2. DESCRIPTION OF THE PLAN (Continued)**

*Benefits (Continued)*

➤ *Deferred Retirement Option Plan*

Any member who is eligible to receive a normal retirement pension may freeze their accrued benefits and elect to participate in a Deferred Retirement Option Plan (DROP) while continuing their active employment. For members electing participation in the DROP, an individual DROP account shall be created. Payment shall be made by the Plan into the employee's DROP account in an amount equal to the regular monthly retirement benefit which the participant would have received had the participant separated from service and commenced receipt of pension benefits plus interest. Interest shall be at the same rate as the investment earnings assumption for the Plan. Participation in the DROP is limited to 60 months.

➤ *Cost-of-Living Adjustment*

• *Tier One Members*

The Plan allows for an annual guaranteed Cost of Living Adjustment (COLA) equal to two percent (2%) payable on October 1, plus an additional variable COLA equal to up to one percent (1%) if Plan earnings are sufficient (as certified by the Plan's actuary). The COLA is payable to each Retiree who has been retired for at least one year at the time of COLA payment (October 1). All retirees and their beneficiaries are eligible for the COLA once they have been retired for one year.

• *Tier Two Members*

The Plan allows for an annual guaranteed Cost of Living Adjustment (COLA) for eligible Retirees over the age of 55, payable to each Retiree who has been retired for five years at the time of the COLA payment (October 1). The amount is determined by the Retiree's age on October 1. The COLA amount is one percent (1%) for Retirees between the ages of 55 and 64. For Retirees age 65 and older, the COLA amount is two percent (2%). In addition, eligible Retirees may receive an additional variable COLA equal to up to one percent (1%) if Plan earnings are sufficient (as certified by the Plan's actuary).

➤ *Funding*

Tier One members are required to contribute 10% of their earnings to the Plan. Tier Two members are required to contribute 7% of their earnings to the Plan. If a member terminates their employment before they become eligible to receive benefits, the accumulated contributions will be returned to the members plus interest at 3% per year.

The City is to contribute such amounts as are necessary to maintain the actuarial soundness of the Plan and to provide the Plan with assets sufficient to meet the benefits to be paid to the participants. The County is to contribute such amounts as determined by the actuary to cover Broward Sheriff's Office employees.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 3. INVESTMENTS**

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The investment policy statement was last amended on November 19, 2013. The following was the Board's adopted asset allocation policy as of September 30, 2015:

<u>Type of Investment</u>	<u>Target Allocation</u>
Domestic equities	35% -60%
International equities	10% -25%
Fixed income	10% -35%
Real estate	5% -15%
Alternatives	5% -20%
Cash and cash equivalents	0% -10%

During the year ended September 30, 2015 the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$2,296,081 (reported as Net depreciation in fair value of investments in the accompanying Statements of Changes in Fiduciary net position) as follows:

Common stock	\$ (1,501,961)
Unit investment trust	1,061
EFT	5,897
Private equity funds	(2,582,677)
Real estate	2,224,777
Mutual funds	(132,259)
Corporate bonds	(272,343)
Government securities	<u>(38,576)</u>
Total	<u>\$ (2,296,081)</u>

The term "interest risk" refers to the portfolio's exposure to fair value losses arising from increasing interest rates. Interest rate risk disclosures are required for all debt investments, as well as investments in mutual funds, external investment pools and other pooled investments that do not meet the definition of a 2a7-like pool.

The Fund's investment policy does not use limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Plan's investments in government securities, fixed income mutual funds and corporate bonds had maturities as follows:

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 3. INVESTMENTS** (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Corporate bonds	\$ 10,205,951	\$ 287,859	\$ 6,911,916	\$ 2,297,870	\$ 708,306
Fixed income					
mutual funds	4,015,255	105,610	1,847,665	2,061,980	-
U.S. treasuries	1,092,615	-	-	1,092,615	-
U.S. agencies	<u>6,964,151</u>	<u>698,881</u>	<u>-</u>	<u>59,650</u>	<u>6,205,620</u>
Totals	<u>\$ 22,277,972</u>	<u>\$ 1,092,350</u>	<u>\$ 8,759,581</u>	<u>\$ 5,512,115</u>	<u>\$ 6,913,926</u>

The term "credit risk" is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Plan's fixed income portfolio was rated by Moody's Investors Services as follows:

<u>Rating</u>	<u>Fair Value</u>
A1	\$ 840,995
A2	2,004,397
A3	2,514,970
AA2	175,600
AA3	151,814
AAA	1,701,390
B	2,363,627
BAA1	2,702,122
BAA2	480,732
BAA3	102,785
BB	1,209,955
BBB	98,962
CCC	188,293
D	18,075
WR	230,412
Unrated	136,343
Government Securities	<u>7,357,500</u>
Total	<u>\$ 22,277,972</u>

The Plan limits investment in the securities of any one issuer, other than the US Government and its agencies, to no more than 5% of Fiduciary net position. The Plan had no such investments as of September 30, 2015.



**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 3. INVESTMENTS (Continued)**

“Foreign currency risk” is the risk that fluctuations in currency exchange rate may affect transactions conducted in currencies other than US Dollars and the carrying value of foreign investments. The Plan’s exposure to foreign currency risk derives mainly from its investments in international equity funds. The Plan owns participation in international equity funds as well as individual securities. The investment policy limits the foreign investments to no more than 25% of the Plan’s investment balance. As of year-end, the foreign investments were 10% of total investments.

**NOTE 4. ACTUARIAL VALUATION**

The most recent actuarial valuation was done as of October 1, 2014. Entry age normal was used as the actuarial cost method. The amortization method used was the level percentage closed method and 30 years was used for the amortization period. The five year smoothed market value method was used for asset valuation. The mortality table used was the 1983 Group Annuity Mortality Table.

Principal assumptions used were 8.00% for the investment rate of return, 4.25% to 7.50% for projected salary increases and 3.5% for inflation.

They further determined that the required City contribution for the year ended September 30, 2015 was \$6,259,058, which was contributed in full.

**NOTE 5. RISKS AND UNCERTAINTIES**

The Plan 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 available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to 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 would be material to the financial statements.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 6. NET PENSION LIABILITY OF THE FUND**

The components of the net pension liability of the City at September 30, 2015 were as follows:

Total pension liability	\$ 208,070,480
Plan fiduciary net position	<u>150,255,553</u>
City's net pension liability	<u>\$ 57,814,927</u>
Plan fiduciary net position as a percentage of the total pension liability	72.21%

The total pension liability was determined by an actuarial valuation as of September 30, 2015 using certain actuarial assumptions, the most significant of which were 8.00% for the investment rate of return, 4.25% to 7.50% for projected salary increases and 3.50% for inflation.

Mortality rates were based on the 1983 Group Annuity Mortality Table for males and females.

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 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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	47.10%	7.60%
International equity	14.20%	8.10%
Fixed income	18.30%	4.08%
Real estate	9.30%	6.61%
Infrastructure	9.50%	7.47%
Cash	1.60%	2.00%

The discount rate used to measure the total pension liability was 8.00 percent. 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 County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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 was applied to all periods of projected benefit payments to determine the total pension liability.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

(Continued)

**NOTE 6. NET PENSION LIABILITY OF THE FUND (Continued)**

The sensitivity of the net pension liability to changes in the discount rate was measured as follows. The net pension liability of the City was calculated using the discount rate of 8.00 percent. It was also calculated using a discount rate that was 1-percentage-point lower (7.00 percent) and 1-percentage-point higher (9.00 percent) and the different computations were compared.

	1% decrease <u>(7.00%)</u>	Current discount rate <u>(8.00%)</u>	1% increase <u>(9.00%)</u>
Net pension liability	\$ 79,815,481	\$ 57,814,927	\$ 39,074,392

**NOTE 7. PRIOR PERIOD ADJUSTMENT**

In accordance with GASB 67, the DROP balances have been reclassified from liabilities to be included in the total net position restricted for pensions. The reclassification had the effect of increasing net position restricted for pensions as of September 30, 2013 by \$4,787,700.

Additionally, activity in the DROP accounts, including withdrawals by participants and investment earnings, are reflected in the Statement of Changes in Fiduciary Net Position.

**NOTE 8. LEASE COMMITMENT**

During 2012, the Plan entered into a lease agreement with 555 Andrews, LLC for rental of office space. The lease agreement is classified as an operating lease. For the years ended September 30, 2015 and 2014, rent expense was \$38,562 and \$37,968, respectively. The following is a schedule of approximate future minimum lease required under the agreement:

<u>Year</u>	<u>Amount</u>
2016	\$ 40,320
2017	40,947
2018	41,591
2019	<u>42,252</u>
	<u><u>\$ 165,110</u></u>

**NOTE 9. SUBSEQUENT EVENTS**

Management has evaluated subsequent events for the Plan through December 7, 2015, the date the financial statements were available to be issued.

**NOTE 10. PENSION PLANS**

The Plan's employees are covered under a 401(a) pension plan. Contributions were made to the pension plan at a 10% rate of gross payroll. For the years ended September 30, 2015 and 2014, the pension expense, which is included in employee benefits expense, was \$20,376 and \$19,601, respectively.

**THE CITY OF POMPANO BEACH  
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SUPPLEMENTAL INFORMATION

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>PERSONNEL SERVICES:</b>		
Salaries and payroll taxes	\$ 218,258	\$ 209,963
Employee benefits	<u>50,755</u>	<u>48,055</u>
TOTAL PERSONNEL SERVICES	<u>269,013</u>	<u>258,018</u>
<b>PROFESSIONAL SERVICES:</b>		
Legal	60,940	50,621
Actuarial	38,928	16,000
Audit	11,743	17,600
Medical fees	<u>-</u>	<u>3,270</u>
TOTAL PROFESSIONAL SERVICES	<u>111,611</u>	<u>87,491</u>
<b>OTHER EXPENSES:</b>		
Trustee expense	39,758	34,225
Rent	38,562	37,968
Insurance	30,787	30,369
Printing and office expense	14,385	10,146
Repairs & Maintenance	10,832	12,009
Staff Expense	7,962	8,642
Telephone	4,688	4,509
Miscellaneous	2,650	2,505
Participant Education	<u>-</u>	<u>6,077</u>
TOTAL OTHER EXPENSES	<u>149,624</u>	<u>146,450</u>
<b>TOTAL ADMINSTRATIVE EXPENSES</b>	<u><u>\$ 530,248</u></u>	<u><u>\$ 491,959</u></u>

The accompanying independent auditor's report should be read with this supplemental schedule.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTORS

AS OF SEPTEMBER 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarilly determined employer contribution	\$ 6,669,132	\$ 6,697,862	\$ 6,332,731	\$ 5,801,971	\$ 5,351,521	\$ 4,338,870	\$ 3,706,870	\$ 3,416,488	\$ 4,064,240	\$ 3,144,061
Actual employer contribution	<u>6,669,132</u>	<u>6,697,862</u>	<u>6,332,731</u>	<u>5,801,971</u>	<u>5,351,521</u>	<u>4,338,870</u>	<u>3,706,870</u>	<u>3,416,488</u>	<u>4,064,240</u>	<u>3,144,061</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	<u>\$27,015,680</u>	<u>\$26,048,410</u>	<u>\$25,922,708</u>	<u>\$25,833,472</u>	<u>\$26,238,403</u>	<u>\$26,596,532</u>	<u>\$27,477,396</u>	<u>\$27,611,132</u>	<u>\$26,825,168</u>	<u>\$25,183,705</u>
Actual contributions as a percentage of covered-employee payroll	24.69%	25.71%	24.43%	22.46%	20.40%	16.31%	13.49%	12.37%	15.15%	12.48%

The accompanying independent auditor's report should be read with this supplemental schedule.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

SCHEDULE OF INVESTMENT RETURNS  
(UNAUDITED)

AS OF SEPTEMBER 30, 2015

Year Ended <u>September 30</u>	Annual money- weighted rate of return net of investment <u>expense</u>
2015	(0.1%)
2014	10.4%
2013	16.5%
2012	16.9%
2011	2.0%
2010	6.9%
2009	(5.1%)
2008	(16.0%)
2007	16.1%

The accompanying independent auditor's report should be read with this supplemental schedule.

**THE CITY OF POMPANO BEACH**  
**GENERAL EMPLOYEES' RETIREMENT SYSTEM**

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

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>TOTAL PENSION LIABILITY:</b>		
Service Cost	\$ 3,971,996	\$ 4,002,187
Interest	15,876,511	15,228,081
Difference between actual and expected experience	372,468	-
Benefit Payments	(12,286,072)	(10,047,279)
Refunds	<u>(238,755)</u>	<u>(362,250)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	7,696,148	8,820,739
<b>TOTAL PENSION LIABILITY - BEGINNING</b>	<u>200,374,332</u>	<u>191,553,593</u>
<b>TOTAL PENSION LIABILITY - ENDING</b>	<u>208,070,480</u>	<u>200,374,332</u>
 <b>PLAN FIDUCIARY NET POSITION:</b>		
Contributions - Employer	\$ 6,669,132	\$ 6,697,862
Contributions- Member	2,562,901	2,515,665
Net investment (loss) income	(235,039)	12,478,865
Benefit Payments	(12,286,072)	(10,047,279)
Refunds of contributions	(238,755)	(362,250)
Administrative expenses	<u>(530,248)</u>	<u>(491,959)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(4,058,081)	10,790,904
<b>PLAN FIDUCIARY NET POSITION - BEGINNING</b>	<u>154,313,634</u>	<u>143,522,730</u>
<b>PLAN FIDUCIARY NET POSITION - ENDING</b>	<u>150,255,553</u>	<u>154,313,634</u>
 <b>NET PENSION LIABILITY - ENDING</b>	<u>\$ 57,814,927</u>	<u>\$ 46,060,698</u>
 <b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY</b>	72.21%	77.01%
 <b>COVERED EMPLOYEE PAYROLL</b>	\$ 27,015,680	\$ 26,048,410
 <b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL</b>	214.01%	176.83%

The accompanying independent auditor's report should be read with this supplemental schedule.



**THE CITY OF POMPANO BEACH  
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

COMPLIANCE REPORT

SEPTEMBER 30, 2015

KABAT · SCHERTZER  
DE LA TORRE · TARABOULOS  
&  
C O M P A N Y

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
The City of Pompano Beach General Employees' Retirement System  
Pompano Beach, Florida

We have audited the financial statements of The City of Pompano Beach General Employees' Retirement System, as of and for the year ended September 30, 2015, and have issued our report thereon dated December 7, 2015. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether The City of Pompano Beach General Employees' Retirement System financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The City of Pompano Beach General Employees' Retirement System internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

*KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & Co.*

Miami, Florida  
December 7, 2015