

AGENDA



Date: October 4, 2018

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m. on Wednesday, October 10, 2018, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of September 13, 2018

2. Approval of Estate Settlements

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. 2017 Financial Audit

2. 2017 Comprehensive Annual Financial Report

3. Initial reading and discussion of the 2019 Supplemental Plan Budget

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.

**Dallas Police and Fire Pension System
Thursday, September 13, 2018
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX**

Supplemental meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 a.m. William F. Quinn, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia,
Tina Hernandez Patterson, Joseph P. Schutz, Kneeland Youngblood
Present at 8:33 a.m. Nicholas A. Merrick
Present at 8:36 a.m. Frederick E. Rowe
Present at 8:43 a.m. Blaine Dickens

Absent: Robert C. Walters

Staff

Kelly Gottschalk, Josh Mond, Kent F. Custer, Brenda K. Barnes, John
Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck,
Milissa Romero

* * * * *

The meeting was called to order and recessed at 8:31 a.m.

The meeting was reconvened at 12:50 p.m.

Mr. Nixon was not present when the meeting was reconvened.

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A. CONSENT AGENDA

Approval of Minutes

Regular meeting of August 9, 2018

Mr. Merrick made a motion to approve the minutes of August 9, 2018, subject to the final approval of the staff. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

**Supplemental Board Meeting
Thursday, September 13, 2018**

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**B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR
INDIVIDUAL CONSIDERATION**

January 1, 2018 Actuarial Valuation

Deborah Brigham and Jeff Williams of Segal Consulting, DFPF’s actuarial firm, presented the results of the January 1, 2018 actuarial valuation report, including the GASB No. 67 actuarial valuation.

After discussion, Ms. Hernandez Patterson made a motion to approve issuance of the January 1, 2018 actuarial valuation report, subject to final review and approval by the Executive Director. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Friar and a second by Mr. Dickens, the meeting was adjourned at 12:52 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

Supplemental

ITEM #B1

Topic: 2017 Financial Audit

Attendees: Jill Svoboda, BDO, Partner

Discussion: Representatives from BDO, DFPF's independent audit firm, will be present to discuss the results of their audit for the year ended December 31, 2017.

The Audit Committee will report findings from their meeting with BDO.

In addition, the Executive Director will present a draft of the 2017 audited financial statements.

Staff

Recommendation: **Approve** issuance of the 2017 audit report, subject to final review and approval by BDO and the Executive Director.

Supplemental Board Meeting – Wednesday, October 10, 2018



AUDIT WRAP-UP

DECEMBER 31, 2017

The following communication was prepared as part of our review, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and audit committee) and, if appropriate, management of the Company and is not intended and should not be used by anyone other than these specified parties.

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October 4, 2018

Board of Trustees and Audit Committee
Dallas Police and Fire Pension System

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On April 12, 2018 we presented an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ended December 31, 2017, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the System's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the System and to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP

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Discussion Outline

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Status of Our Audit

We have substantially completed our audit of the financial statements, including procedures applied to the supplemental schedules, of the System as of and for the year ended December 31, 2017, with the exception of the items noted below in "open items". Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and adheres to the guidelines established by the Governmental Accounting Standards Board. This audit of the financial statements does not relieve System management or those charged with governance of their responsibilities.

Discussion Point

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
 - ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
 - ▶ We expect to issue an unmodified opinion on the financial statements and release our report upon completion of our final audit procedures, as well as final approval of the Board and obtaining the final signed representation letters.
 - ▶ Our responsibility for other information in documents containing the System's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we will read the information included by the System and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
-

Status of Our Audit

Discussion Point

- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of the System personnel throughout the course of our work.

Open Items: As of October 4, 2018

Receipt of the signed management representation letter

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, AND ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the System's accounting practices, policies, and estimates:

The System's significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate; comply with generally accepted accounting principles, industry practice and governmental accounting standards. They were consistently applied, and are adequately described within Note 2 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 2 to the System's financial statements. GASB No. 82 *Pension Issues* and GASB No. 86 *Certain Debt Extinguishment Issues*, were adopted by the System in 2017 and appropriately disclosed on the financial statements.
- ▶ There were no changes in significant accounting policies and practices during 2017.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The System's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Notes 2, 4 and 5 of the financial statements. The significant estimates include the following:

- ▶ Actuarial estimates
- ▶ Fair value measurements

Due to House Bill 3158, Management and the Board did undertake a process to update significant actuarial assumptions which affect the actuarial valuation as presented in the funding disclosures to the financial statements in MD&A. The estimates are disclosed in Note 5 of the financial statements.



Results of Our Audit

Discussion Point

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected or uncorrected misstatements related to accounts and/or disclosures that we presented to management.

QUALITY OF THE SYSTEM'S FINANCIAL REPORTING

A discussion was held regarding the quality of the System's financial reporting, which included the following:

- ▶ Qualitative aspects of significant accounting policies and practices
 - BDO has no issues with the quality of the System's accounting policies and practices.
 - ▶ Our conclusions regarding significant accounting estimates
 - BDO concurs with the System's critical accounting policies and practices with respect to significant estimates.
 - ▶ Financial statement presentation
 - BDO does not note exceptions to the System's financial statements
 - ▶ New accounting pronouncements
 - BDO notes *GASB No. 82 Pension Issues* was the only new accounting pronouncement adopted by the System during the year.
 - ▶ Alternative accounting treatments
 - BDO notes that there are no alternative accounting treatments adopted by the System during the year.
-

Results of Our Audit

Discussion Point

Below is a summary of select policies, areas and findings -

Internal Controls

Summary of procedures:

- Reviewed internal controls in place over financial reporting, distributions, payroll data, investments, system expenses, and system obligations.
- Obtained and reviewed the Service Organization Controls reports for JPMorgan, the System's Custodian, and STP Investment Services, LLP, the System's investment accounting service provider.

Findings:

- No issues were noted during our review of internal controls which caused us to adjust planned audit procedures.
-

Results of Our Audit

Discussion Point

Actuarial Valuation

Summary of procedures:

- Obtained actuarial reports and related requested data directly from the actuary.
- Ensured the census information provided was complete, accurate, and as of benefit information date.
- Tested census information in correlation with eligibility testing.
- Considered full text of H.B. No. 3158 and summary of Plan Changes table illustrating the impact of H.B. No. 3158.
- Considered cash flow projections and determination of GASB 67 discount rates.
- Reviewed the actuarial valuation reports and utilized BDO's Actuarial Managing Director to perform an independent review of the reports and assumptions used. Primary areas of focus included demographic assumptions (mortality, termination prior to retirement, retirement and DROP participation eligibility which affect DROP utilization and retirement rates, disability) and economic assumptions (discount rate, inflation rate, investment rate of return, salary scale, administrative expenses, interest on DROP accounts) as well as the actuarial methods used (asset smoothing, actuarial cost method, amortization of unfunded actuarial accrued liability).
- Reviewed actuarial disclosures for completeness and accuracy during the review of the financial statements.

Findings:

- Based on the review by BDO and BDO's experts, the actuarial methods employed by the System meet the requirements under GASB and Actuarial Standards of Practice.
 - The valuation reports as of January 1, 2018, and analysis considered during our audit recognize the adoption of H.B. No. 3158. Many of the assumptions that were adopted based on the most recent experience review have been subsequently updated due to the plan changes effective January 1, 2017, as well as the Meet and Confer Agreement for salary scale purposes through 2019. Since actual plan experience under the plan modifications does not exist yet, these assumptions should be actively monitored in the period leading up to the next experience review.
-

Results of Our Audit

Discussion Point

Eligibility

Summary of procedures:

- Agreed demographic information to the census data used by the actuary.
- Ensured members were properly included or excluded from the system or census based on system requirements.

Findings:

- No issues were identified in our testing.

Contributions

Summary of procedures:

- Obtained and reviewed a reconciliation of all contributions reported.
- Confirmed the contributions made during 2017 directly with the City.
- Tested a sample of participant contributions and recalculated amounts based on the System provisions.

Findings:

- No issues were identified in our testing.

Benefit Payments

Summary of procedures:

- Reviewed reconciliation of annuity and lump sum payments.
- Tested a sample of participants receiving benefits and ensured the participants selected were eligible to receive payment.
- For sample selected, traced amounts of benefit payments to the actual payments recorded per the payment register. Additionally, ensured proper tax was withheld and proper authorization of benefit payments was made.
- For each selection, obtained the calculation of benefits and recomputed the benefit amount based upon the participant data and ensured it was in accordance with the System documents.
- Reviewed annuity payments by month for any unusual variations.

Findings:

- No issues were identified in our testing.
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Results of Our Audit

Discussion Point

Investments

Summary of procedures:

- Tested investments by selecting a sample using statistical sampling techniques.
- Obtained confirmations from investment managers and reviewed audited financial statements for investments selected. Reviewed confirmations for unusual items and misclassifications. Additionally, performed recalculations based on the unit values in the audited financials.
- A majority of the real estate investments have audited financial statements. Consideration of those internally managed real estate investments included review of appraisals by BDO Valuation Real Estate Specialists.
- Reviewed all complex investment valuation techniques and approach.
- Reviewed purchase agreements and letters of intent for properties sold or currently for sale.
- Reviewed Management's valuation memos in obtaining an understanding of the supporting process for establishing fair value.
- Confirmed all cash balances.
- Reconciled unit information recorded by the System to JPMorgan and to the fund's financial statements.
- Selected a sample of transactions for investment transaction testing and agreed the purchase/sales price to approved pricing sources.
- Recalculated the exchange rate used for certain investments by comparing the rate to a third party source such as Oanda.com.
- Reviewed the investment policy and reviewed for deviations from policy.
- Reviewed Management's fair value considerations and fair value hierarchy by investment in correlation with GASB No. 72.

Findings:

- No issues were identified in our testing.
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Results of Our Audit

Discussion Point

Other Receivables, Payables and System Expenses

Summary of procedures:

- Confirmed and reviewed contributions receivables.
- Reviewed the reasonableness of interest and dividend receivables.
- Reviewed management's policy for securities lending and the accounting treatment of such transactions.
- Reviewed the schedule of accrued expenses. Tested fund management fees payable and accrued uncompensated balances.
- Performed a search for unrecorded liabilities to ensure all subsequent payments after year end which related to 2017 were appropriately accrued.
- Confirmed all long term debt balances noting all balances had been paid prior to year end.
- Reviewed investment contracts in correlation with testing system expenses.
- Sampled administrative fees and selected individual transactions to test.
- Sampled management fee expenses and agreed the expense to confirmation received from investment managers where applicable. Reviewed and recalculated the breakout of fees and agreed amounts to actual invoices and payment support.

Findings:

- No issues were identified in our testing.

Investment Income

Summary of procedures:

- Selected a sample of dividends received and verified to an independent market source.
- Tested interest earned by recalculating individual transactions and performing a reasonableness test.
- Reconciled investment value and investment income to JPMorgan.
- Recalculated realized and unrealized gains and losses for a sample of transactions.

Findings:

- No issues were identified in our testing.
-

Results of Our Audit

Discussion Point

Fraud, Commitments and Contingencies and Subsequent Events

Fraud procedures:

- Performed interviews with a sample of members of the Board of Trustees, Management, and other individuals and considered responses received in determining necessary audit procedures.
- The nature, timing and extent of our procedures across areas of the audit were also varied, mainly by auditing items that would be considered below our normal vouching scope.
- Performed detailed journal entry testing to review for any potential unusual or fraudulent transactions.

Commitments and Contingencies:

- Due to the litigation in 2017 we expanded our legal expense testing and reviewed legal invoices carefully for any unusual matters that were not already disclosed to us. No such matters were identified.
- Based on the legal confirmation responses received the System is appropriately disclosing legal matters in the financial statements.

Subsequent Events:

- Reviewed Board Meeting Minutes related DROP Revocation policy and email from benefit team regarding to how many people elected to revoke their DROP election.
 - Reviewed Board Meeting Minutes related to the temporarily suspend portions of the Investment Policy Statement.
 - Reviewed Letters from Lone Star related to capital calls.
 - Obtained legal update letters prior to issuance.
 - Performed final subsequent event procedures, including inquiries of Management, prior to issuance.
-

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 our auditing procedures 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the System's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in 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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

Other Required Communications

The following is a summary of those required items, along with specific discussion points as they pertain to the System:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the System's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below: <ul style="list-style-type: none"> Utilized BDO's Actuarial Managing Director and Actuarial Manager to review the assumptions presented in the actuarial report. Utilized BDO Valuation Real Estate specialists for review of the appraisal for the internally managed asset selected for testing.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.

Other Required Communications

The following is a summary of those required items, along with specific discussion points as they pertain to the System:

Requirement	Discussion Points
Significant findings and issues arising during the audit in connection with the System's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the System's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
If applicable, other matters significant to the oversight of the System's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the System's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter to be provided upon issuance of the report.

Independence Communication

Our engagement letter to you dated November 8, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.



DISCUSSION SHEET

Supplemental

ITEM #B2

Topic: 2017 Comprehensive Annual Financial Report

Discussion: Staff will present a draft of the 2017 Comprehensive Annual Financial Report.

The report is scheduled to be completed following final approval by the Executive Director, as well as BDO. Upon completion, the report will be posted to the DPFP website and provided to the Pension Review Board and the City of Dallas.

Staff

Recommendation: **Authorize** the Executive Director to issue the 2017 Comprehensive Annual Financial Report upon finalization.

Supplemental Board Meeting – Wednesday, October 10, 2018



DISCUSSION SHEET

Supplemental

ITEM #B3

Topic: **Initial reading and discussion of the 2019 Supplemental Plan Budget**

Discussion: Attached is the budget proposal for Calendar Year 2019.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and/or projected 2018 actual expenses are explained in the comments accompanying the proposed budget.

Staff

Recommendation: **Direct** staff to reflect any proposed changes, present the amended budget to the Board at the November 8, 2018 Board meeting, and **authorize** the posting of the amended budget to www.dpfp.org for member review prior to the November meeting.

Supplemental Board Meeting – Wednesday, October 10, 2018