

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-  
LOCAL OPTION TRUST FUND**

**FINANCIAL STATEMENTS**

**For the Fiscal Years Ended September 30, 2014 and 2013**

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2014**

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
City of North Port, Florida  
Firefighters' Pension—Local Option Trust Fund  
North Port, Florida

**Report on the Financial Statements**

We have audited the accompanying financial statements of the City of North Port, Florida, Firefighters' Pension—Local Option Trust Fund (the "Fund"), as of and for year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, as listed in the table of contents.

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

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

**Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of September 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, effective October 1, 2013, the Plan adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB No. 25*. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the financial statements present only the Firefighters' Pension–Local Option Trust Fund and do not purport to, and do not present fairly, the financial position of the City of North Port, Florida, as of September 30, 2014, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-8 and the Schedule of Changes in the City's Net Pension Liability and Related Ratios, Schedule of Contributions and Schedule of Investment Returns on pages 19-21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Bradenton, Florida  
February 18, 2015

CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

(Unaudited)

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As management of the City of North Port, Florida, Firefighters' Pension-Local Option Trust Fund (the "Fund"), we offer readers of the financial statements this narrative overview of the financial activities of the Fund for the years ended September 30, 2014, 2013 and 2012. This narrative is intended to supplement the Fund's financial statements.

### **Overview of the Financial Statements**

The following discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The financial statements are the: (1) Statements of Fiduciary Net Position, (2) Statements of Changes in Fiduciary Net Position, and (3) notes to financial statements.

This report also contains the following "Required Supplementary Information" in addition to the financial statements: (1) Schedule of Changes in the City's Net Pension Liability and Related Ratios, (2) Schedule of Contributions, (3) Schedule of Investment Return, and (4) Notes to the Schedule of Changes in the City's Net Pension Liability and Related Ratios, Schedule of Contributions and Schedule of Investment Return.

### **Financial Statements**

The financial statements contained in this report are described below.

The Statements of Fiduciary Net Position (page 9) is a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the statement date. The resulting net position represents the value of assets held in trust for pension benefits.

The Statements of Changes in Fiduciary Net Position (page 10) displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (Decrease) in Net Position. This Net Increase (Decrease) in Net Position reflects the change in the net asset value of the Statements of Fiduciary Net Position from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements.

### **Notes to Financial Statements**

The Notes to Financial Statements are an integral part of the financial statements and provide additional information that is essential to the comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Fund operates and provide additional levels of detail for select financial statement items (see Notes to Financial Statements on pages 11-18 of this report).

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CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

(Unaudited)

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**Required Supplementary Information**

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this financial report includes two additional "Required Supplementary Information" schedules with historical trend information.

The Schedule of Changes in the City's Net Pension Liability and Related Ratios (page 19) includes sources of changes in the City's net pension liability and information about the components of the net pension liability and related ratios, including the City's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

The Schedule of Contributions (page 20) compares the actuarially determined contribution to the contributions made by the City and determines the ratio of contributions made as a percentage of the covered-employee payroll.

The Schedule of Investment Return (page 21) represents the annual money-weighted rate of return, net of investment expenses for the Fund.

**Notes to Required Supplementary Information**

The Notes to the Schedule of Changes in the City's Net Pension Liability and Related Ratios, the Schedule of Contributions and the Schedule of Investment Return provide background information and explanatory detail to aid in understanding the required supplementary schedules.

**Financial Highlights**

- The net position of the Fund exceeded its liabilities at the close of the fiscal years ended September 30, 2014 and 2013, with \$37,671,804 and \$33,428,493 in net position held in trust for pension benefits, respectively.
- Net position increased \$4,243,142 or 12.7% during 2014, and \$5,333,493 or 19% during 2013, primarily due to contributions and investment income.
- The Fund's objective is to meet long-term benefit obligations. As of October 1, 2014, the date of the latest actuarial valuation, the funded ratio of the Fund was 93.93%. In general, this means that for every dollar of pension benefits due, the Fund has \$0.9393 available for payment.

CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2014  
(Unaudited)

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**Analysis of Financial Activities**

The Fund's objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions and the income from investments provide the reserves needed to finance future retirement benefits.

Contributions from the City of North Port, Florida (the "City"), are made at levels determined by the Fund's actuary. Because of higher than expected investment returns, the City's contributions are gradually declining. The Fund's investment portfolio produced good returns in the last three years. Net position held in trust for pension benefits increased by \$4,243,142 in 2014, compared to an increase of \$5,333,493 in 2013.

		<b>Net Position</b>						
		As of September 30, 2014, 2013 and 2012						
				Increase (Decrease)				
		2014	2013	2012	2014 to 2013		2014 to 2012	
					\$	%	\$	%
Current and other assets	\$	405,721	320,684	409,162	85,037	26.5%	(3,441)	-0.8%
Investments, at fair value		37,352,291	33,181,529	27,748,371	4,170,762	12.6%	9,603,920	34.6%
Total assets		37,758,012	33,502,213	28,157,533	4,255,799	12.7%	9,600,479	34.1%
Total liabilities		86,208	73,551	62,364	12,657	17.2%	23,844	38.2%
Net assets	\$	37,671,804	33,428,662	28,095,169	4,243,142	12.7%	9,576,635	34.1%

As the years roll forward and total assets and liabilities grow, investment income will continue to play an important role in funding future retirement benefits. Therefore, investment return over the long term is critical to the funding status of the Fund.

During 2014, the Fund's investment portfolio returned gains of approximately 12.7%. It is important to remember that a retirement plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Fund be able to meet an expected earnings yield of 8% annual return on investments.

Based on our latest actuarial valuation as of October 1, 2014, the Fund's actuarial accrued liability exceeds its actuarial value of assets by \$2.26 million, producing a funded ratio of 93.93%. The funded ratio is a key indication of financial strength of the Fund and analyzing this percentage over time indicates whether the Fund is becoming stronger or weaker. Investment and experience gains incurred in previous years have caused an upward trend in the funded ratio.

CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

(Unaudited)

**Financial Analysis Summary**

As previously noted, net position viewed over time may serve as a useful indication of the Fund's financial position (See Net Position Table above). At the close of fiscal years 2014 and 2013, the assets of the Fund exceeded its current liabilities by \$37,671,804 and \$33,428,662, respectively, shown as net position held in trust for pension benefits. The net position is available to meet the Fund's ongoing obligation to plan participants and their beneficiaries.

**Net Position**

The Fund's net position is established from employer and member contributions, and the accumulation of investment income, net of investment and administrative expenses and benefit payments.

**Additions to Plan Net Position**

As noted above, the net position needed to finance retirement benefits are accumulated through collecting employer and member contributions and through investment earnings (net of investment expenses). The additions for the year ended September 30, were \$5,231,661 compared to 2013 additions of \$6,398,350. The decrease of \$1,166,689 in additions was primarily due to lower investment returns in 2014.

	<b>Additions to Net Position</b>							
	For the Years Ended September 30, 2014, 2013 and 2012							
		2014	2013	2012	Increase (Decrease)			
					2014 to 2013		2014 to 2012	
	\$	%	\$	%	\$	%		
Employer contributions	\$ 1,250,193	1,291,204	1,286,150	(41,011)	-3.2%	(35,957)	-2.8%	
Member contributions	585,968	602,216	604,349	(16,248)	-2.7%	(18,381)	-3.0%	
State of Florida contributions	387,316	403,183	425,380	(15,867)	-3.9%	(38,064)	-8.9%	
Net investment income (loss)	<u>3,008,184</u>	<u>4,101,747</u>	<u>4,060,133</u>	<u>(1,093,563)</u>	-26.7%	<u>(1,051,949)</u>	25.9%	
Total additions	<u>\$ 5,231,661</u>	<u>6,398,350</u>	<u>6,376,012</u>	<u>(1,166,689)</u>	-18.2%	<u>(1,144,351)</u>	-17.9%	

**Deductions from Plan Net Position**

The Fund was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to employees who terminate employment and the cost of administering the Fund. For the year ended September 30, 2014, deductions totaled \$988,519, a decrease of -7.2% from 2013 and 16.1% from 2012. The decrease was primarily due to the new share account distributions that became effective in fiscal year 2013.

CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2014

(Unaudited)

**Deductions From Net Position**

For the Years Ended September 30, 2014, 2013 and 2012

	2014	2013	2012	Increase (Decrease)			
				2014 to 2013		2014 to 2012	
				\$	%	\$	%
Benefit payments	\$ 665,014	664,131	651,960	883	0.1%	13,054	2.0%
DROP expenses	-	-	-	-	0.0%	-	0.0%
Share account distributions	34,668	279,157	-	(244,489)	100.0%	34,668	100.0%
Refunds of contributions	224,765	54,637	109,491	170,128	311.4%	115,274	105.3%
Administrative expenses	64,072	66,932	89,833	(2,860)	-4.3%	(25,761)	-28.7%
Total deductions	<u>\$ 988,519</u>	<u>1,064,857</u>	<u>851,284</u>	<u>(76,338)</u>	-7.2%	<u>137,235</u>	16.1%

**Fiduciary Responsibilities**

The Board of Trustees is the fiduciary of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of the Fund are used exclusively for the benefit of plan participants and their beneficiaries and defraying reasonable expenses of administering the Fund.

**Requests for Information**

This financial report is designed to provide the Board of Trustees, our membership, taxpayers and investment managers with an overview of the Fund's finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to David A. Carroll, Administrator, City of North Port, Florida Firefighters' Pension-Local Option Trust Fund at 492 River Hills Drive, Max Meadows, Virginia 24360.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
STATEMENTS OF FIDUCIARY NET POSITION  
September 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Cash and equivalents	\$ 8,582	\$ 13,525
Receivables		
Contributions	329,459	244,499
Due from brokers	10,335	-
Interest and dividends	57,345	62,660
Total receivables	<u>397,139</u>	<u>307,159</u>
Investments, at fair market value		
Money market funds	947,042	1,030,173
U.S. Government and agency securities	1,521,943	2,872,367
Mortgage/Asset-backed securities	2,543,808	2,541,712
Corporate obligations	2,149,032	1,289,314
Municipal obligations	266,121	327,822
Fixed income mutual funds	2,016,128	1,488,656
Equity securities	22,333,376	18,187,892
International equity securities	2,379,136	2,508,643
International bond obligations	214,567	255,197
Commingled real estate funds	2,981,138	2,679,753
Total investments	<u>37,352,291</u>	<u>33,181,529</u>
Total assets	<u>37,758,012</u>	<u>33,502,213</u>
<b>Liabilities</b>		
Accounts payable and accrued expenses	<u>86,208</u>	<u>73,551</u>
Total liabilities	<u>86,208</u>	<u>73,551</u>
Net position held in trust for pension benefits	<u>\$ 37,671,804</u>	<u>\$ 33,428,662</u>

See accompanying notes to financial statements.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
For the Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Additions</b>		
Contributions		
Plan members	\$ 585,968	\$ 602,216
State of Florida	387,316	403,183
City of North Port	1,250,193	1,291,204
Total contributions	<u>2,223,477</u>	<u>2,296,603</u>
Investment income		
Net change in fair value of investments	2,581,158	3,748,866
Interest and dividends	693,424	522,339
Miscellaneous income	-	59,985
Investment income	<u>3,274,582</u>	<u>4,331,190</u>
Less investment expenses	266,398	229,443
Net investment income	<u>3,008,184</u>	<u>4,101,747</u>
Total additions	<u>5,231,661</u>	<u>6,398,350</u>
<b>Deductions</b>		
Benefits to participants	665,014	664,131
Refunds of participant contributions	224,765	54,637
Share account distributions	34,668	279,157
Administrative expenses	64,072	66,932
Total deductions	<u>988,519</u>	<u>1,064,857</u>
<b>Change in net position</b>	4,243,142	5,333,493
Net position held in trust for pension benefits		
Beginning of year	<u>33,428,662</u>	<u>28,095,169</u>
End of year	<u>\$ 37,671,804</u>	<u>\$ 33,428,662</u>

See accompanying notes to financial statements.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The City of North Port, Florida, Firefighters' Pension-Local Option Trust Fund (the "Fund"), was established to account for the financial activity of the City of North Port, Florida, Firefighters' Pension Fund. The Fund is managed by a five member Board of Trustees comprised of two members appointed by the Commission of the City of North Port, Florida (the "City"), two members elected by the plan membership and one member elected by the other four members and subsequently appointed, as a ministerial duty, by the City Commission. The financial statements are only for the Fund and are not intended to present the basic financial statements of the City. The Fund is reported in the fiduciary funds (pension trust) of the City's basic financial statements.

Basis of Accounting: The Fund's financial statements are prepared using the accrual basis of accounting. Contributions from the Fund's members are recognized as additions in the period in which the contributions are due. Contributions from the City are recognized as additions when due and the City has made a formal commitment to provide the contributions. State contributions are recognized when received. Expenses are recognized in the accounting period incurred, if measurable. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments: Investments are reported at fair value. Money market mutual funds are reported at cost which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets. Interest and dividend income is recognized on the accrual basis when earned. Purchases and sales of investments are recorded on a trade date basis.

Estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassifications: Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation.

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan Description: All full-time firefighters of the City of North Port Fire Department are covered by the plan. The plan is a single employer defined benefit pension plan that was established November 5, 1974, pursuant to Florida Statutes, Chapter 175, and City Ordinance 74-13. The plan was amended most recently by Ordinance 2012-18. Benefit provisions are established and may be amended by the City Commission.

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**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

The plan provides retirement, death and disability benefits for its members. A member may retire with normal benefits after the earlier of age 55 with 10 years of credited service, or age 52 with 25 years of credited service. Reduced early retirement benefits are available once a member reaches age 50 and accumulates 10 years of credited service. Normal retirement benefits are 3.5% (3.0% for members hired on or after October 12, 2012) of the member's average final compensation times credited service years. Early retirement benefits are the same as normal retirement benefits, reduced by 3.0% for each year by which the commencement of benefits precedes the normal retirement date. Average final compensation for purposes of calculating benefits is the average annual salary for the highest 5 years of the last 10 years of credited service. Salary means the total compensation for services rendered to the City as a firefighter reportable on the member's W-2 form plus all tax- deferred or tax-sheltered items of income derived from elective employee payroll deduction or salary reduction. Effective July 5, 2012, salary shall include payment for up to 300 hours of overtime per fiscal year and exclude payments for accrued sick and annual leave accumulated after said date; however, salary for members who are employed on July 5, 2012, shall include payment for accrued sick and annual leave at termination of employment up to the dollar value of sick and annual leave accrued as of July 5, 2012.

Any member hired before October 1, 2012, who is eligible for normal retirement may elect to participate in a deferred retirement option plan (DROP) while continuing his or her active employment as a firefighter. Upon participation in the DROP, the member becomes a retiree for all plan purposes so that he or she ceases to accrue any further benefits under the plan. Normal retirement payments that would have been payable to the member as a result are accumulated and invested in the DROP plan to be distributed to the member upon his or her termination of employment. Participation in the DROP plan ceases for a member at termination of employment or 5 years of participation, whichever comes first. Members hired on or after October 1, 2012, are not eligible to participate in the DROP. The DROP balance as of September 30, 2014, is \$259,735.

Eligibility for disability benefits begins from the member's date of hire, if the disability is service connected, or after 10 years of credited service if non-service incurred. Disability benefits are 3.5% of the member's average final compensation, and not less than 42.0% of the member's average final compensation times his or her credited service years.

The death benefit for a member who is vested is a payment of the member's accrued pension benefit to the member's beneficiary for 10 years, beginning on the date that the deceased member would have been eligible for early or normal retirement, at the option of the beneficiary. The death benefit for a member who is not vested is a return of the member's contributions to the member's beneficiary.

Termination benefits for unvested members are the return of the member's contributions. For members who are vested when they terminate, their vested accrued pension benefit is payable at the early or normal retirement date. Full vesting occurs at the completion of 10 years of credited service.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Beginning retroactively on October 1, 1999, and on each October 1 thereafter, the monthly benefit amount of each retiree (except disability retirees) and each terminated vested person who has been retired or who has been receiving benefit payments at least one year and who has attained age 55 shall be increased by 3%. Cost of living allowances shall cease once the retiree reaches age 63. This increase shall also be applicable to the benefit payments of the beneficiaries and joint pensioners of deceased members of retirees, and eligibility for the allowance shall be based on the date that the deceased retiree or member would have been eligible.

At October 1, 2014, the date of the latest actuarial valuation, membership consisted of:

Retirees and beneficiaries receiving benefits	17
Terminated employees entitled to benefits, but not yet receiving them	9
Members in DROP	5
Active members	<u>78</u>
Total	<u><u>109</u></u>

Effective September 1, 2012, a supplemental retirement benefit in the form of individual share accounts was created for each active firefighter, living retiree (including DROP participants) and disability benefit recipients and beneficiary survivors receiving a survivor retirement benefit. The total initial amount allocated to the share accounts was based on years of service of all active firefighters (including DROP participants) and retiree participants (including disability benefit recipients and beneficiary survivors) who were employees and members of the plan between December 1, 2005 and September 30, 2012, which included the accumulated excess premium tax revenues in the pension fund as of the October 1, 2011, actuarial valuation report, plus premium tax revenues received in excess of \$250,000 during 2012. For plan years beginning October 1, 2012, and later, all premium tax revenues received by the City in excess of \$250,000 will be allocated to the share accounts based on years of credited service. Effective December 31, 2013, and each December 31 thereafter, each share account will be credited or debited with earnings or losses based upon the amount in the share account at the close of the immediately preceding plan year at a rate equal to the pension plan's actual net rate of investment return for the preceding plan year. An active firefighter (including DROP participants) with 10 or more years of credited service upon termination of employment shall be eligible to receive a distribution of 100% of the balance in their respective share account, together with all earnings and losses and interest credited to the share account through the date of termination of employment. Retiree participants (including disability benefit recipients and beneficiary survivors) shall receive distribution of the annual share allocation in the form of a thirteenth monthly check equal to the annual crediting described above. Vested terminated members shall be entitled to participate in this supplemental retirement benefit upon commencing receipt of retirement benefits from the plan.

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**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

No benefit shall be payable to an active firefighter who terminates covered employment with less than 10 years of credited service. The share account balances of such non-vested terminated members shall be redistributed among all eligible participants' share accounts in the same manner as premium tax revenues in the following fiscal year. The designated beneficiary of a share plan member who dies shall receive the accumulated total of the share account balance at date of death, regardless of the member's length of service. A share plan member awarded a disability pension from the plan shall receive the accumulated total of the member's share account balance. As of October 1, 2014, the date of the latest actuarial valuation, the balance of member share accounts was \$1,600,029.

Contributions: Contribution requirements are established and may be amended by the City Commission and are based on the benefit structure established by the City. Members are required to contribute 10.3% of their salary. Pursuant to Chapter 175 Florida Statutes, a premium tax on certain casualty insurance contracts written on North Port properties is collected by the state and remitted to the Fund for the state's annual contribution amount. The City is required to contribute the remaining amounts necessary to finance the benefits through periodic contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

A rehired member may buy back years of past service by paying into the Fund the amount of contributions the employee would otherwise have paid for such service. The maximum credit for service other than with the City shall be 5 years of credited service and shall count for all purposes, except vesting and eligibility for non-service incurred disability benefits. There shall be no maximum purchase of credit for prior service with the City and such credit shall count for all purposes, including vesting.

NOTE 3 – CASH AND INVESTMENTS

Authorized Investments: Florida Statutes and the Fund's investment policy limit investments to annuity and life insurance contracts; time or savings accounts; obligations issued by the United States Government or by an agency of the United States Government; bonds issued by the State of Israel; corporate stocks and bonds; and pooled funds, including mutual funds, commingled funds, exchange-traded funds, limited partnerships, and private equity. Investments in illiquid investments, as described by Florida Statutes, are prohibited. Investments in companies identified as scrutinized companies by the Florida State Board of Administration (SBA) are prohibited, with the exception of investments in scrutinized companies that are held within commingled funds (if the commingled fund sponsor does not offer a similar fund that does not hold investments in scrutinized companies).

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

At September 30, 2014, the Fund had the following investments:

Investment Type	Credit Rating		Fair Market	Investment Maturity (in Years)			
	(Moody's)	(S & P's)		Less Than 1	1 - 5	6 - 10	More Than 10
Money market funds	Aaa-mf	AAA	\$ 947,042	947,042	-	-	-
U.S. Government and agency securities	Aaa	AA+	1,521,943	-	398,801	1,123,141	-
Mortgage/Asset-backed securities	Aaa...Aa1	AAA...AA	2,543,808	-	714,823	319,171	1,509,814
Corporate obligations	Aaa...Baa3	AAA...BBB+	2,149,032	40,082	1,139,172	920,335	49,443
Municipal obligations	Aaa...Aa3	AAA...A	266,121	-	125,678	140,443	-
International bond obligations	A1...A3	AA...A-	214,567	-	214,567	-	-
			7,642,513	\$ 987,124	2,593,041	2,503,090	1,559,257
Fixed income mutual funds	Not rated	Not rated	2,016,128				
Equity securities	Not rated	Not rated	22,333,376				
International equity securities	Not rated	Not rated	2,379,136				
Commingled real estate funds	Not rated	Not rated	2,981,138				
Total investments			\$ 37,352,291				

There was \$1,426,308 in mortgage/asset-backed securities that were unrated at September 30, 2014.

**Custodial Credit Risk:** This is the risk that in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments that are held by the counterparty. The Fund's policy is to maintain investments in custodial accounts that identify securities held as assets of the Fund by registering securities in the name of the Fund.

**Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. Although the Fund's investment policy does not provide limitations as to maturities, the Fund minimizes risk of fair value losses in its fixed income portfolio due to rising interest rates by structuring its investment portfolio so that securities mature to meet ongoing cash requirements, thereby avoiding the need to sell securities in the open market prior to maturity; and by investing operating funds primarily in shorter-term securities or by cash flow projections.

**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 such as Moody's or Standard & Poor's. The Fund's investment policy states that the Fund's fixed income portfolio must have a weighted average quality of AA or better as measured by Standard & Poor's or Moody's and all bonds shall hold a rating in one of the three highest classifications by a major rating service. Equity investments must be traded on one or more of the recognized national exchanges. Money market deposits must have a rating of A1/P1 or its equivalent by a major credit rating service.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Foreign Currency Risk – At September 30, 2014, \$2,593,703 or 7% of the Plan's total assets had exposure of foreign currency risk through investments in foreign companies. These investments consisted of \$214,567 of international bonds and \$2,379,136 of international equity securities.

Rate of return - For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.84%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Concentration of Credit Risk: This is the risk of loss attributable to the quantity of the Fund's investment in a single issuer. The Fund's investment policy limits investments in the stock of any one issuing company to 5% of the Fund's assets and to 5% of the outstanding capital stock of any issuing company. The Fund's investment policy limits investments in the bonds of any one issuing company to 3% of the Fund's assets. Furthermore, investments in corporate common stock and convertible bonds shall not exceed 60% of the Fund's investments at cost or 70% of the Fund's investments at market value; foreign securities shall not exceed 25% of the market value of the Fund's assets; and real estate investments shall not exceed 10% of the market value of the Fund's assets.

NOTE 4 – PLAN DISCLOSURES

Effective October 1, 2013, the Plan implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which significantly changed the disclosures required related to the Plan. The information disclosed below is presented in accordance with this new standard.

Net Pension Liability of the City:

The components of the net pension liability of the City at September 30, 2014, were as follows:

Total pension liability	\$ 37,034,691
Plan fiduciary net position	(37,671,804)
City's net pension liability	<u>\$ (637,113)</u>
Plan fiduciary net position as a percentage of the total pension liability	101.72%

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multi-year trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

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**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 4 – PLAN DISCLOSURES (CONTINUED)

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014, using the following actuarial assumptions applied to all measurement periods:

Inflation	3.00%
Salary increases	7.50%
Investment rate of return	8.00%

RP-2000 table with no projection-based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements. (Disabled lives set forward 5 years).

The actuarial assumptions used in the October 2013 valuation were based on the results of an actuarial experience study for the period 1988-2011.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce 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, 2014, are summarized in the following table:

Asset Class	Long Term Expected Real Rate of Return
Domestic Equity	7.5%
International Equity	8.5%
Domestic Core Fixed Income	2.5%
Global Fixed Income	3.5%
Real Estate	4.5%
GTAA	3.5%

*Discount rate.* The discount rate used to measure the total pension liability was 8.00%. 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 sponsor 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.

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**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
NOTES TO FINANCIAL STATEMENTS**

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NOTE 4 – PLAN DISCLOSURES (CONTINUED)

	1% Decrease <u>7.00%</u>	Current Discount Rate <u>8.00%</u>	1% Increase <u>9.00%</u>
City's net pension liability	\$ 4,067,773	\$ (637,113)	\$ (4,740,116)

NOTE 5 – RELATED PARTY TRANSACTIONS

A retired member of the Fund currently receiving benefits serves as the Administrator. The Administrator is paid quarterly administrative fees. Management believes that these transactions were consummated on terms equivalent to those that prevail in arm's length transactions. Administrative services expense in the amount of \$14,400 was reported for each of the years ended September 30, 2014 and 2013.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY  
AND RELATED RATIOS**

	2014
<b>Total pension liability</b>	
Service cost	\$ 1,686,083
Interest on total pension liability	2,767,378
Change in excess state money	-
Share plan allocation	137,316
Changes of benefit terms	-
Benefit payments, including refunds of employee contributions	(924,447)
<b>Net change in total pension liability</b>	<b>3,666,330</b>
<b>Total pension liability, beginning</b>	<b>33,368,361</b>
<b>Total pension liability, ending (a)</b>	<b>\$ 37,034,691</b>
 <b>Plan fiduciary net position</b>	
Contributions, employer	\$ 1,250,193
Contributions, state	387,316
Contributions, employee	585,968
Net investment income	3,008,184
Benefit payments, including refunds of employee contributions	(924,447)
Administrative expenses	(64,072)
Other	-
<b>Net change in plan fiduciary net position</b>	<b>4,243,142</b>
 <b>Plan fiduciary net position, beginning</b>	<b>33,428,662</b>
<b>Plan fiduciary net position, ending (b)</b>	<b>\$ 37,671,804</b>
 <b>Net pension liability, ending (a) - (b)</b>	<b>\$ (637,113)</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>101.72%</b>
 <b>Covered employee payroll</b>	<b>\$ 5,689,014</b>
 <b>City's net pension liability as a percentage of covered employee payroll</b>	<b>-11.20%</b>

**Notes to the Schedule**

The schedule will present 10 years of information once it is accumulated.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
SCHEDULE OF CONTRIBUTIONS**

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	2014
Actuarially determined contribution	1,500,193
Contributions in relation to the actuarially determined contributions	1,500,193
	\$ -
Covered employee payroll	5,689,014
Contributions as a percentage of covered employee payroll	26.37%

**Notes to the Schedule**

Valuation Date 10/1/2012  
 Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding Method	Entry age normal actuarial cost method
Amortization Method	Level percentage of pay, closed
Remaining amortization period	29 years (as of 10/01/2012)
Asset valuation method	Historical geometric 4-year average market value return
Inflation	3.0% per year.
Salary increases	7.50%
Interest rate	8.0% per year compounded annually
Payroll growth	5.0% per year
Post retirement COLA	3.0% from age 55 until 63
Retirement age	Earlier of age 55 with 10 years credited service or age 52 with 25 years of credited service
Early retirement	Commencing with the earliest early retirement age (50)

The schedule will present 10 years of information once it is accumulated.

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
SCHEDULE OF PENSION INVESTMENT RETURN**

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	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses for the City's pension plan	8.84%

**Notes to the Schedule**

The schedule will present 10 years of information once it is accumulated.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES  
For the Years Ended September 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
<b>Administrative Expenses</b>		
Accounting services	\$ 9,000	\$ 12,000
Actuarial services	17,386	22,250
Administrative services	14,400	14,400
Insurance	4,179	3,573
Legal services	13,040	12,835
Miscellaneous expenses	<u>6,067</u>	<u>1,874</u>
 Total administrative expenses	 <u>\$ 64,072</u>	 <u>\$ 66,932</u>
 <b>Investment Expenses</b>		
Custodial fees	\$ 20,204	\$ 16,088
Investment management fees	230,400	197,654
Performance monitoring fees	15,500	15,500
ADR fees	<u>294</u>	<u>201</u>
 Total investment expenses	 <u>\$ 266,398</u>	 <u>\$ 229,443</u>

**OTHER AUDITOR'S REPORT**

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

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Board of Trustees  
City of North Port, Florida  
Firefighters' Pension–Local Option Trust Fund  
North Port, Florida

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 City of North Port, Florida, Firefighters' Pension–Local Option Trust Fund (the "Fund") as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 18, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Bradenton, Florida  
February 18, 2015