

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

AUDITED FINANCIAL STATEMENTS

For the Years Ended September 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Board of Trustees and Officers are 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, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Fund as of September 30, 2012, were audited by other auditors whose report dated February 7, 2013, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note A, the financial statements present only the 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, 2013, 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 and required supplementary information listed in the 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 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 made 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 March 3, 2014, 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
March 3, 2014

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013

(Unaudited)

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, 2013, 2012 and 2011. 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 Plan Net Position, (2) Statements of Changes in Plan 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 Funding Progress, (2) Schedule of Contributions from the Employer and Others, and (3) Notes to the Schedule of Funding Progress and Schedule of Contributions from the Employer and Others.

Financial Statements

The financial statements contained in this report are described below.

The Statement of Plan 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 Statement of Changes in Fund 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 Statement of Plan 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 11-17 of this report).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013

(Unaudited)

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 Funding Progress (page 18) includes actuarial information about the status of the plan from an ongoing, long-term perspective and the progress made in accumulating sufficient assets to pay pension benefits when due. Expressing the actuarial value of the assets as a percentage of the actuarial accrued liability provides one indication as to whether sufficient assets exist to fund future pension benefits of the current members and benefit recipients.

The Schedule of Contributions from the Employer and Others (page 18) presents historical trend information regarding the value of total annual contributions required to be paid by the city and state and the actual performance of the city and state in meeting this requirement.

Notes to Required Supplementary Information

The Notes to the Schedule of Funding Progress and Schedule of Contributions from the Employer and Others 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, 2013 and 2012, with \$33,428,662 and \$28,095,169 in net position held in trust for pension benefits, respectively.
- Net position increased \$5,333,493 or 19% during 2013, and \$5,524,728 or 24% during 2012, primarily due to contributions and investment income.
- The Fund's objective is to meet long-term benefit obligations. As of October 1, 2013, the date of the latest actuarial valuation, the funded ratio of the Fund was 91.56%. In general, this means that for every dollar of pension benefits due, the Fund has \$0.9156 available for payment.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013

(Unaudited)

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 2013 and 2012 compared to 2011. Net position held in trust for pension benefits increased by \$5,333,493 in 2013, which was comparable to the increase of \$5,524,728 in 2012.

	Net Position						
	As of September 30, 2013, 2012 and 2011						
	2013	2012	2011	Increase (Decrease)			
2013 to 2012				2013 to 2011			
	\$	\$	\$	\$	%	\$	%
Current and other assets	320,684	409,162	545,291	(88,478)	-21.6%	(224,607)	-41.2%
Investments, at fair value	33,181,529	27,748,371	22,059,708	5,433,158	19.6%	11,121,821	50.4%
Total assets	33,502,213	28,157,533	22,604,999	5,344,680	19.0%	10,897,214	48.2%
Total liabilities	73,551	62,364	34,558	11,187	17.9%	38,993	112.8%
Net assets	\$ 33,428,662	28,095,169	22,570,441	5,333,493	19.0%	10,858,221	48.1%

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 2013, the Fund's investment portfolio returned gains of approximately 15%. 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, 2013, the Fund's actuarial accrued liability exceeds its actuarial value of assets by \$2.85 million, producing a funded ratio of 91.56%. 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.

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 2013 and 2012, the assets of the Fund exceeded its current liabilities by \$33,428,662 and \$28,095,169, 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2013

(Unaudited)

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, 2013, were comparable to 2012 and only increased \$22,338. The 2013 and 2012 additions were much higher than the 2011 additions primarily due to greater investment returns.

	Additions to Net Position							
	For the Years Ended September 30, 2013, 2012 and 2011							
		2013	2012	2011	Increase (Decrease)			
					2013 to 2012		2013 to 2011	
				\$	%	\$	%	
Employer contributions	\$ 1,291,204	1,286,150	1,471,394	5,054	0.4%	(180,190)	-12.2%	
Member contributions	602,216	604,349	585,913	(2,133)	-0.4%	16,303	2.8%	
State of Florida contributions	403,183	425,380	399,175	(22,197)	-5.2%	4,008	1.0%	
Net investment income (loss)	4,101,747	4,060,133	(795,829)	41,614	1.0%	4,897,576	615.4%	
Total additions	\$ 6,398,350	6,376,012	1,660,653	22,338	0.4%	4,737,697	285.3%	

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, 2013, deductions totaled \$1,064,857, an increase of 25.1% from 2012 and 30.7% from 2011. The increase 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, 2013

(Unaudited)

Deductions From Net Position

For the Years Ended September 30, 2013, 2012 and 2011

	2013	2012	2011	Increase (Decrease)			
				2013 to 2012		2013 to 2011	
				\$	%	\$	%
Benefit payments	\$ 664,131	651,960	660,242	12,171	1.9%	3,889	0.6%
DROP expenses	-	-	9,233	-	0.0%	(9,233)	-100.0%
Share account distributions	279,157	-	-	279,157	100.0%	279,157	100.0%
Refunds of contributions	54,637	109,491	72,493	(54,854)	-50.1%	(17,856)	-24.6%
Administrative expenses	66,932	89,833	72,544	(22,901)	-25.5%	(5,612)	-7.7%
Total deductions	<u>\$ 1,064,857</u>	<u>851,284</u>	<u>814,512</u>	<u>213,573</u>	<u>25.1%</u>	<u>250,345</u>	<u>30.7%</u>

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
STATEMENT OF PLAN NET POSITION

	September 30,	
	2013	2012
Assets		
Cash and equivalents	\$ 13,525	-
Receivables		
Contributions	244,499	361,257
Interest and dividends	62,660	47,905
Total receivables	<u>307,159</u>	<u>409,162</u>
Investments, at fair market value		
Money market funds	1,030,173	1,873,227
U.S. Government and agency securities	2,872,367	2,448,851
Mortgage/Asset-backed securities	2,541,712	2,266,686
Corporate obligations	1,289,314	1,498,199
Municipal obligations	327,822	483,785
Fixed income mutual funds	1,488,656	1,245,703
Equity securities	18,187,892	14,117,936
International equity securities	2,508,643	845,708
International bond obligations	255,197	1,245,703
Commingled real estate funds	2,679,753	1,722,573
Total investments	<u>33,181,529</u>	<u>27,748,371</u>
Total assets	<u>33,502,213</u>	<u>28,157,533</u>
Liabilities		
Accounts payable and accrued expenses	<u>73,551</u>	<u>62,364</u>
Total liabilities	<u>73,551</u>	<u>62,364</u>
Net position held in trust for pension benefits (A schedule of funding progress is presented on page 18)	<u>\$ 33,428,662</u>	<u>28,095,169</u>

See accompanying notes to financial statements.

CITY OF NORTH PORT, FLORIDA,
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET POSITION

	Year Ended September 30,	
	2013	2012
Additions		
Contributions		
Plan members	\$ 602,216	604,349
State of Florida	403,183	425,380
City of North Port	1,291,204	1,286,150
Total contributions	<u>2,296,603</u>	<u>2,315,879</u>
Investment income		
Net change in fair value of investments	3,748,866	3,570,467
Interest and dividends	522,339	703,061
Miscellaneous income	59,985	-
Investment income	<u>4,331,190</u>	<u>4,273,528</u>
Less investment expenses	<u>229,443</u>	<u>213,395</u>
Net investment income	<u>4,101,747</u>	<u>4,060,133</u>
Total additions	<u>6,398,350</u>	<u>6,376,012</u>
Deductions		
Benefits to participants	664,131	651,960
Refunds of participant contributions	54,637	109,491
Share account distributions	279,157	-
Administrative expenses	66,932	89,833
Total deductions	<u>1,064,857</u>	<u>851,284</u>
Change in net position	5,333,493	5,524,728
Net position held in trust for pension benefits		
Beginning of year	<u>28,095,169</u>	<u>22,570,441</u>
End of year	<u>\$ 33,428,662</u>	<u>28,095,169</u>

See accompanying notes to financial statements.

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

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 or exchange rates. Net asset values of the commingled real estate funds are determined by the fund managers using the fair market values of the underlying investments of the Fund. The net appreciation (depreciation) in fair value of investments includes the difference between the cost and fair value of investments held, as well as the net realized gains and losses for securities sold. 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.

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

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.

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.

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.

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

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

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.

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, 2013, the date of the latest actuarial valuation, membership consisted of:

Retirees and beneficiaries receiving benefits	16
Terminated employees entitled to benefits, but not yet receiving them	11
Members in DROP	2
Active members	<u>82</u>
Total	<u><u>111</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

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

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

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. 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, 2013, the date of the latest actuarial valuation, the balance of member share accounts was \$1,381,926.

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.

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

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).

At September 30, 2013, the Fund had the following investments:

Investment Type	Credit Rating (Moody's)	(S & P's)	Fair Market	Investment Maturity (in Years)			
				Less Than 1	1 - 5	6 - 10	More Than 10
Money market funds	Aaa-mf	AAAm	\$ 1,030,173	1,030,173	-	-	-
U.S. Government and agency securities	Aaa	AA+	2,872,367	-	1,516,897	1,355,470	-
Mortgage/Asset-backed securities	Aaa...Aa1	AAA...AA	2,541,712	-	420,472	166,734	1,954,506
Corporate obligations	Aa1...Baa2	AA+...BBB+	1,289,314	25,917	1,196,105	67,292	-
Municipal obligations	Aaa...A1	AAA...A	327,822	-	190,951	136,871	-
International bond obligations	Aa1...A3	AA...A-	255,197	-	255,197	-	-
			8,316,585	<u>\$ 1,056,090</u>	<u>3,579,622</u>	<u>1,726,367</u>	<u>1,954,506</u>
Fixed income mutual funds	Not rated	Not rated	1,488,656				
Equity securities	Not rated	Not rated	18,187,892				
International equity securities	Not rated	Not rated	2,508,643				
Commingled real estate funds	Not rated	Not rated	2,679,753				
Total investments			<u>\$ 33,181,529</u>				

There was \$1,575,682 in mortgage/asset-backed securities that were unrated at September 30, 2013.

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.

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

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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.

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 – FUNDING STATUS AND FUNDING PROGRESS

The funded status of the Fund as of October 1, 2013, the most recent actuarial valuation date, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAA) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/13	\$ 30,968,314	33,823,852	2,855,538	91.56%	5,943,257	48.05%

The schedule of funding progress presented as required supplementary information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal and contractual funding limitations.

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

NOTE 4 – FUNDING STATUS AND FUNDING PROGRESS (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Valuation date	10/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	28 years
Asset valuation method	4-year smooth
Actuarial assumptions	
Investment rate of return	8.0%
Projected salary increases	7.5%
Includes inflation at	3.0%
Cost of living adjustments	3.0% (Age 55-63)

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, 2013 and 2012. As of September 30, 2013 and 2012, amounts due to the Administrator for administrative expenses were \$3,600 for each respective year.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORTH PORT, FLORIDA,
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAA) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
10/01/13	\$ 30,968,314	33,823,852	2,855,538	91.56%	5,943,257	48.05%
10/01/12	27,237,526	31,447,123	4,209,597	86.61%	6,274,808	67.09%
10/01/11	24,360,212	29,723,236	5,363,024	81.96%	5,663,409	94.70%
10/01/10	23,177,547	27,975,235	4,797,688	82.85%	5,619,179	85.38%
10/01/09	21,121,683	28,697,959	7,576,276	73.60%	5,994,613	126.38%
10/01/08	19,258,324	24,075,558	4,817,234	79.99%	5,266,662	91.47%

Schedule of Contributions from the Employer and Others

Year Ended September 30,	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
2013	\$ 1,541,204	1,291,204	250,000 *	100.00%
2012	1,463,932	1,286,150	250,000 *	104.93%
2011	1,641,680	1,471,394	170,286 *	100.00%
2010	1,396,967	1,332,730	170,286 *	107.59%
2009	1,170,281	1,097,468	170,286 *	108.33%
2008	1,035,411	976,294	170,286 *	110.74%

* Frozen per Chapter 175, Florida Statutes, as amended.

CITY OF NORTH PORT, FLORIDA,
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
NOTES TO SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHERS

NOTE 1 – REQUIRED INFORMATION

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	10/1/2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	28 years
Asset valuation method	4-year smooth
Actuarial assumptions	
Investment rate of return	8.0%
Projected salary increases	7.5%
Includes inflation at	3.0%
Cost of living adjustments	3.0% (Age 55-63)

NOTE 2– SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Actuarial Valuation dated October 1, 2013

Plan Changes: None
Actuarial Assumption/Method Changes: None

Actuarial Valuation dated October 1, 2012

Plan Changes:

- The Fund adopted a stop/restart ordinance, which increased the frozen state monies to \$250,000. The state monies above \$250,000 will go into the share plan that was established September 1, 2012.
- Effective July 5, 2012, salaries include payments for up to 300 hours of overtime per fiscal year and exclude payments for accrued sick and annual leave accumulated after this date. Salaries for members who are employed on July 2, 2012, 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 this date.
- The benefit multiplier of all members hired on or after October 12, 2012 was reduced from 3.5% to 3.0% of average final compensation for each year of credited service.

CITY OF NORTH PORT, FLORIDA,
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
NOTES TO SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHERS

NOTE 2- SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION
(CONTINUED)

Actuarial Assumption/Method Changes:

- The final salary load was changed from 20% to an amount individually determined based on the frozen dollar value of sick and annual leave as of July 5, 2012.

Actuarial Valuation dated October 1, 2011

Plan Changes:

- Amended the fixed interest option on the deferred retirement option plan (DROP) from 6.5% to 1.0%.

Actuarial Assumption/Method Changes: None

Actuarial Valuation dated October 1, 2010

Plan Changes: None

Actuarial Assumption/Method Changes: None

Actuarial Valuation dated October 1, 2009

Plan Changes: None

Actuarial Assumption/Method Changes: None

Actuarial Valuation dated October 1, 2008

Plan Changes: None

Actuarial Assumption/Method Changes:

- This plan utilizes an asset smoothing technique as allowed by IRC Section 412(c). In 2007, the Actuarial Standards Board adopted Actuarial Standard of Practice (ASOP) Number 44. This new standard requires the removal of any "bias" which would result in either an overstatement or understatement of actuarial assets relative to market value. For purposes of satisfying this requirement, the actuarial value of assets determined as of October 1, 2008, includes an adjustment of \$6,901. This one-time increase will ensure the removal of any differences between actuarial and market value, given hypothetical future investment returns of 8%.

CITY OF NORTH PORT, FLORIDA,
 FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
 NOTES TO SCHEDULE OF FUNDING PROGRESS AND
 SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHERS

NOTE 2- SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION
 (CONTINUED)

- Funding requirements for prior valuations disclosed a specific dollar amount. At the request of the Division of Retirement, the City is now required to fund the percentage of payroll (adjusted for allowable state contributions). This change is designed to avoid actuarial shortfalls associated with increasing liabilities.
- For the purpose of compliance with legislative intent (as described in Chapter 112, Part VII, Florida Statutes) and to maximize the likelihood of state acceptance, additions to the unfunded actuarial accrued liability will be amortized as follows:

	Existing Basis	Basis On and After October 1, 2008
Gains and losses	20	10
Methods/Assumptions	no change	20
Amendments	no change	30

OTHER SUPPLEMENTARY INFORMATION

CITY OF NORTH PORT, FLORIDA,
 FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND
 SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES

	Year Ended September 30,	
	2013	2012
Administrative Expenses		
Accounting services	\$ 12,000	7,500
Actuarial services	22,250	22,366
Administrative services	14,400	14,400
Insurance	3,573	3,573
Legal services	12,835	36,823
Miscellaneous expenses	1,874	5,171
Total administrative expenses	\$ 66,932	89,833
Investment Expenses		
Custodial fees	\$ 16,088	15,009
Investment management fees	197,654	182,752
Performance monitoring fees	15,500	15,500
ADR fees	201	134
Total investment expenses	\$ 229,443	213,395

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***

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, 2013, and the related notes to the financial statements, and have issued our report thereon dated March 3, 2014.

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
March 3, 2014