

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

**FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED  
SEPTEMBER 30, 2016 AND 2015**

**CITY OF NORTH PORT, FLORIDA,  
FIREFIGHTERS' PENSION-LOCAL OPTION TRUST FUND  
FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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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 years ended September 30, 2016 and 2015, 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, 2016 and 2015, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of 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, 2016 and 2015, and the changes in its financial position for the years 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 21-23 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 13, 2017, 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 13, 2017

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

(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, 2016 and 2015. 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 11-20 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, 2016

(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 21) 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 22) 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 23) 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, 2016 and 2015, with \$42,335,092 and \$38,757,157 in net position held in trust for pension benefits, respectively.
- Net position increased \$3,577,935 or 9.2% during 2016, and \$1,085,353 or 2.9% during 2015, primarily due to contributions and investment income.
- The Fund's objective is to meet long-term benefit obligations. As of October 1, 2016, the date of the latest actuarial valuation, the funded ratio of the Fund was 94.9%. In general, this means that for every dollar of pension benefits due, the Fund has \$0.94 available for payment.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2016  
(Unaudited)

**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 \$3,577,935 in 2016, compared to an increase of \$1,085,353 in 2015.

**Net Position**

As of September 30, 2016, 2015 and 2014

	2016	2015	2014	Increase (Decrease)			
				2016 to 2015		2015 to 2014	
				\$	%	\$	%
Current and other assets	\$ 247,466	\$ 364,150	\$ 405,721	\$ (116,684)	-32.0%	\$ (41,571)	-10.2%
Investments, at fair value	42,119,418	38,470,086	37,352,291	3,649,332	9.5%	1,117,795	3.0%
<b>Total assets</b>	<b>42,366,884</b>	<b>38,834,236</b>	<b>37,758,012</b>	<b>3,532,648</b>	<b>9.1%</b>	<b>1,076,224</b>	<b>2.9%</b>
Total liabilities	31,792	77,079	86,208	(45,287)	-58.8%	(9,129)	-10.6%
<b>Net assets</b>	<b>\$ 42,335,092</b>	<b>\$ 38,757,157</b>	<b>\$ 37,671,804</b>	<b>\$ 3,577,935</b>	<b>9.2%</b>	<b>\$ 1,085,353</b>	<b>2.9%</b>

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 2016, the Fund's investment portfolio returned gains of approximately 7.24%. 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, 2016, the Fund's actuarial accrued liability exceeds its actuarial value of assets by \$2.26 million, producing a funded ratio of 94.93%. 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, 2016

(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 2016 and 2015, the assets of the Fund exceeded its current liabilities by \$42,335,092 and \$38,757,157, 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, 2016, were \$4,769,409 compared to 2015 additions of \$2,440,212. The increase of \$2,329,197 in additions was primarily due to higher investment returns in 2016. The same can be said about the decrease in additions from 2014 to 2015.

**Additions to Net Position**

For the Years Ended September 30, 2016, 2015 and 2014

	2016	2015	2014	Increase (Decrease)			
				2016 to 2015		2015 to 2014	
				\$	%	\$	%
Employer contributions	\$ 1,000,835	\$ 1,079,568	\$ 1,250,193	\$ (78,733)	-7.3%	\$ (170,625)	-13.6%
Member contributions	529,101	554,392	585,968	(25,291)	-4.6%	(31,576)	-5.4%
State of Florida contributions	371,775	376,215	387,316	(4,440)	-1.2%	(11,101)	-2.9%
Net investment income	2,867,698	430,037	3,008,184	2,437,661	566.8%	(2,578,147)	85.7%
<b>Total additions</b>	<b>\$ 4,769,409</b>	<b>\$ 2,440,212</b>	<b>\$ 5,231,661</b>	<b>\$ 2,329,197</b>	<b>95.5%</b>	<b>\$ (2,791,449)</b>	<b>-53.4%</b>

**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, 2016, deductions totaled \$1,191,474, a decrease of -12.1% from 2015 and 37.1% from 2014. The decrease was primarily due to the decrease in the refunds of contributions paid out for the year ended September 30, 2016.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

(Unaudited)

**Deductions From Net Position**

For the Years Ended September 30, 2016, 2015 and 2014

	2016	2015	2014	Increase (Decrease)			
				2016 to 2015		2015 to 2014	
				\$	%	\$	%
Benefit payments	\$ 727,866	\$ 651,830	\$ 665,014	\$ 76,036	11.7%	\$ (13,184)	-2.0%
Share account distributions	101,113	178,129	34,668	(77,016)	100.0%	143,461	100.0%
Refunds of contributions	279,124	458,847	224,765	(179,723)	-39.2%	234,082	104.1%
Administrative expenses	83,371	66,053	64,072	17,318	26.2%	1,981	3.1%
<b>Total deductions</b>	<b>\$ 1,191,474</b>	<b>\$ 1,354,859</b>	<b>\$ 988,519</b>	<b>\$ (163,385)</b>	<b>-12.1%</b>	<b>\$ 366,340</b>	<b>37.1%</b>

**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, 2016 AND 2015**

	2016	2015
<b>Assets</b>		
Cash and equivalents	\$ -	\$ -
Receivables		
Contributions	194,461	292,355
Interest and dividends	53,005	71,795
Total receivables	247,466	364,150
Investments, at fair market value		
Money market funds	1,060,511	916,539
U.S. Government and agency securities	3,799,042	2,065,648
Mortgage/Asset-backed securities	3,100,286	4,620,841
Corporate obligations	1,988,844	2,409,205
Municipal obligations	79,830	325,765
Fixed income mutual funds	3,857,671	3,653,913
Equity securities	23,228,812	19,272,087
International equity securities	554,527	1,698,095
International bond obligations	-	146,787
Commingled real estate funds	4,449,895	3,361,206
Total investments	42,119,418	38,470,086
Total assets	42,366,884	38,834,236
<b>Liabilities</b>		
Accounts payable and accrued expenses	31,792	77,079
Total liabilities	31,792	77,079
Net position held in trust for pension benefits	\$ 42,335,092	\$ 38,757,157

The notes to financial statements are an integral part of this statement.

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

**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	2016	2015
<b>Additions</b>		
Contributions		
Plan members	\$ 529,101	\$ 554,392
State of Florida	371,775	376,215
City of North Port	1,000,835	1,079,568
Total contributions	<u>1,901,711</u>	<u>2,010,175</u>
Investment income		
Net change in fair value of investments	2,377,949	(178,373)
Interest and dividends	769,925	878,697
Investment income	<u>3,147,874</u>	<u>700,324</u>
Less investment expenses	280,176	270,287
Net investment income	<u>2,867,698</u>	<u>430,037</u>
Total additions	<u>4,769,409</u>	<u>2,440,212</u>
<b>Deductions</b>		
Benefits to participants	727,866	651,830
Refunds of participant contributions	279,124	458,847
Share account distributions	101,113	178,129
Administrative expenses	83,371	66,053
Total deductions	<u>1,191,474</u>	<u>1,354,859</u>
<b>Change in net position</b>	3,577,935	1,085,353
Net position held in trust for pension benefits		
Beginning of year	<u>38,757,157</u>	<u>37,671,804</u>
End of year	<u>\$ 42,335,092</u>	<u>\$ 38,757,157</u>

The notes to financial statements are an integral part of this statement.

**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 Fund 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 Fund.

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.

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

Fund Description: Full-time firefighters of the City of North Port Fire Department participate in either the Florida Retirement System (FRS) or the Fund. Firefighters hired after July 1, 2016, participate solely in the FRS. Members active on July 1, 2016, had the option of participating prospectively in the FRS. The Fund is a single employer defined benefit pension Fund that was established November 5, 1974, pursuant to Florida Statutes, Chapter 175, and City Ordinance 74-13. The Fund was amended most recently by Ordinance 2012-18. Benefit provisions are established and may be amended by the City Commission.

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

**NOTES TO FINANCIAL STATEMENTS**

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NOTE 2 – FUND DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

The Fund 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, 2016 and 2015, were \$753,148 and \$412,163, respectively.

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 – FUND 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, 2016, the date of the latest actuarial valuation, membership consisted of:

Retirees and beneficiaries receiving benefits	19
Terminated employees entitled to benefits, but not yet receiving them	39
Members in DROP	4
Active members	<u>49</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 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.

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

**NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – FUND 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, 2016 and 2015, the date of the latest actuarial valuations, the balance of member share accounts was \$1,689,185 and \$1,563,225, respectively.

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. Effective March 1, 2016, members of the plan are now required to contribute 10.6% 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.

Investment Policy: The following was the Board's adopted asset allocation policy as of September 30, 2016:

Asset Class	Target Allocation
Domestic Equity	47.50%
International Equity	10.00%
Domestic Core Fixed Income	22.50%
Global Fixed Income	5.00%
Real Estate	10.00%
GTAA	5.00%
	100.00%

Rate of return - For the years ended September 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.24% and 1.09%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.



**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, 2016, 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	\$ 1,060,511	1,060,511	-	-	-
U.S. Government and agency securities	Aaa	AA+	3,799,042	-	2,534,655	1,264,387	-
Mortgage/Asset-backed securities	Aaa...Aa1	AAA...AA	3,100,286	56,276	1,096,422	2,420	1,945,168
Corporate obligations	Aaa...Baa3	AAA...BBB+	1,988,844	-	1,070,314	896,872	21,658
Municipal obligations	Aaa...Aa3	AAA...A	79,830	-	-	79,830	-
			10,028,513	<u>\$ 1,116,787</u>	<u>4,701,391</u>	<u>2,243,509</u>	<u>1,966,826</u>
Fixed income mutual funds	Not rated	Not rated	3,857,671				
Equity securities	Not rated	Not rated	23,228,812				
International equity securities	Not rated	Not rated	554,527				
Commingled real estate funds	Not rated	Not rated	4,449,895				
Total investments			<u>\$ 42,119,418</u>				

At September 30, 2015, 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	\$ 916,539	916,539	-	-	-
U.S. Government and agency securities	Aaa	AA+	2,065,648	-	1,440,271	625,377	-
Mortgage/Asset-backed securities	Aaa...Aa1	AAA...AA	4,620,841	24,257	1,705,021	221,102	2,670,461
Corporate obligations	Aaa...Baa3	AAA...BBB+	2,409,205	-	1,101,559	1,307,646	-
Municipal obligations	Aaa...Aa3	AAA...A	325,765	-	123,899	201,866	-
International bond obligations	A1...A3	AA...A-	146,787	-	146,787	-	-
			10,484,785	<u>\$ 940,796</u>	<u>4,517,537</u>	<u>2,355,991</u>	<u>2,670,461</u>
Fixed income mutual funds	Not rated	Not rated	3,653,913				
Equity securities	Not rated	Not rated	19,272,087				
International equity securities	Not rated	Not rated	1,698,095				
Commingled real estate funds	Not rated	Not rated	3,361,206				
Total investments			<u>\$ 38,470,086</u>				

There was \$1,771,270 and \$3,004,337 in mortgage/asset-backed securities that were unrated at September 30, 2016 and 2015, respectively.

**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)

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.

Foreign Currency Risk – At September 30, 2016, \$554,527 or 1% of the Fund's total assets had exposure of foreign currency risk through investments in foreign companies. These investments consisted of international equity securities. At September 30, 2015, \$1,844,882 or 5% of the Fund's total assets had exposure of foreign currency risk through investments in foreign companies. These investments consisted of \$146,787 of international bonds and \$1,698,095 of international equity securities.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements: The Fund has the following recurring fair value measurements, broken into the fair value hierarchy, as of September 30, 2016:

Investment	Fair Value	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Fixed income securities:				
U.S. Gov't Obligations	\$ 3,799,042	3,799,042	-	-
Mortgage/Asset Backed Sec	1,731,156	-	1,731,156	-
Collateralized Mortgage Obligations	1,369,130	-	1,369,130	-
Municipal Obligations	79,830	-	79,830	-
Mutual Funds - Fixed Income	3,857,671	-	3,857,671	-
Corporate Bonds	1,988,844	-	1,988,844	-
Total fixed income securities	12,825,673	3,799,042	9,026,631	-
Commingled real estate funds	4,449,894	-	-	4,449,894
Equity investments:				
Common Stock	19,202,874	19,202,874	-	-
Foreign Stock	554,527	554,527	-	-
Mutual Funds - Equity	4,025,939	4,025,939	-	-
Total equity investments	28,233,234	23,783,340	-	4,449,894
Money market funds	1,060,511	1,060,511	-	-
Total investments at fair value level	\$ 42,119,418	28,642,893	9,026,631	4,449,894

Fixed income securities and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The real estate funds classified in Level 3 are valued using discounted cash flow techniques.

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

**NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – FUND DISCLOSURES

Net Pension Liability of the City:

The components of the net pension liability of the City at September 30, 2016 and 2015, were as follows:

	2016	2015
Total pension liability	\$ 44,597,899	\$ 41,192,135
Fund fiduciary net position	(42,335,092)	(38,757,157)
City's net pension liability	\$ 2,262,807	\$ 2,434,978
Fund fiduciary net position as a percentage of the total pension liability	94.93%	94.09%

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.

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of October 1, 2014 and 2015, updated to September 30, 2015 and 2016, using the following actuarial assumptions applied to all measurement periods:

Inflation	2.50%
Salary increases	7.50%
Investment rate of return	8.00%

*Mortality Rate Healthy Lives:*

Female: RP2000 Generational, 100% Annuitant White Collar, Scale BB.

Male: RP2000 Generational, 10% Annuitant White Collar /90% Annuitant Blue Collar, Scale BB.

*Mortality Rate Disabled Lives:*

Female: 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale.

Male: 60% RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale.

The most recent actuarial experience study used to review the other significant assumptions was dated August 7, 2012.

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

**NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – FUND DISCLOSURES (CONTINUED)

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, 2016 and 2015, 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.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the City, calculated using the discount rate of 8.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
City's net pension liability - 2016	\$ 8,224,057	\$ 2,262,807	\$ (2,716,772)
City's net pension liability - 2015	7,738,376	2,434,978	(2,092,644)

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

**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 4 – FUND DISCLOSURES (CONTINUED)**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of September 30, 2016 and 2015, and the current sharing pattern of costs between employer and employee.

**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 \$18,527 was reported for the year ended September 30, 2016, and \$14,400 for the year ended September 30, 2015.

**NOTE 6 – SUBSEQUENT EVENTS**

The Fund has evaluated all subsequent events through February 13, 2017, the date the financial statements were available to be issued.

**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**

	2016	2015	2014
<b>Total pension liability</b>			
Service cost	\$ 1,693,631	\$ 1,716,153	\$ 1,686,083
Interest on total pension liability	3,400,658	3,048,515	2,767,378
Share plan allocation	121,775	126,215	137,316
Changes of benefit terms	174,592	-	-
Differences between expected and actual experience	(2,262,386)	555,367	-
Changes of assumptions	1,378,943	-	-
Contributions-buy back	2,808	-	-
Benefit payments, including refunds of employee contributions	(1,104,257)	(1,288,806)	(924,447)
<b>Net change in total pension liability</b>	<b>3,405,764</b>	<b>4,157,444</b>	<b>3,666,330</b>
<b>Total pension liability, beginning</b>	<b>41,192,135</b>	<b>37,034,691</b>	<b>33,368,361</b>
<b>Total pension liability, ending (a)</b>	<b>\$ 44,597,899</b>	<b>\$ 41,192,135</b>	<b>\$ 37,034,691</b>
<b>Plan fiduciary net position</b>			
Contributions, employer	\$ 1,000,835	\$ 1,079,568	\$ 1,250,193
Contributions, state	371,775	376,215	387,316
Contributions, employee	529,101	554,392	585,968
Net investment income	2,867,698	430,037	3,008,184
Benefit payments, including refunds of employee contributions	(1,108,103)	(1,288,806)	(924,447)
Administrative expenses	(83,371)	(66,053)	(64,072)
<b>Net change in plan fiduciary net position</b>	<b>3,577,935</b>	<b>1,085,353</b>	<b>4,243,142</b>
<b>Plan fiduciary net position, beginning</b>	<b>38,757,157</b>	<b>37,671,804</b>	<b>33,428,662</b>
<b>Plan fiduciary net position, ending (b)</b>	<b>\$ 42,335,092</b>	<b>\$ 38,757,157</b>	<b>\$ 37,671,804</b>
<b>Net pension liability, ending (a) - (b)</b>	<b>\$ 2,262,807</b>	<b>\$ 2,434,978</b>	<b>\$ (637,113)</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>94.93%</b>	<b>94.09%</b>	<b>101.72%</b>
<b>Covered employee payroll</b>	<b>\$ 5,136,900</b>	<b>\$ 5,806,134</b>	<b>\$ 5,689,014</b>
<b>City's net pension liability as a percentage of covered employee payroll</b>	<b>44.05%</b>	<b>41.94%</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**

	2016	2015	2014
Actuarially determined contribution	1,250,835	1,353,147	1,500,193
Contributions in relation to the actuarially determined contributions	1,269,928	1,353,147	1,500,193
	\$ (19,093)	\$ -	\$ -

Covered employee payroll	5,136,900	5,806,134	5,689,014
Contributions as a percentage of covered employee payroll	24.72%	23.31%	26.37%

Valuation Date 10/1/2014  
 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	27 years (as of 10/01/2014)
Mortality:	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).
Interest rate	8.0% per year compounded annually
Retirement age	Earlier of age 55 with 10 years credited service or age 52 with 25 years of credited service. Also, any active member who is eligible for normal retirement is assumed to continue employment for one additional year.
Early retirement	Commencing with the earliest early retirement age (50), members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.
Disability rates	See table below. It is assumed that 75% of disablements are service related.
Termination rates	See table below.
Salary increases	7.5% per year until the assumed retirement age. Projected salary at retirement is increased by the frozen dollar value of sick and annual leave as of July 5, 2012.
Post retirement COLA	3.0% from age 55 until 63
Payroll growth	5.0% per year
Asset valuation method	Each year, the prior actuarial value of assets is brought forward utilizing the historical geometric 4-year average market value return. It is possible that over time this technique will produce an insignificant bias above or below market value.

Termination and disability rate table:

Age	% Becoming Disabled During the Year	% Terminating During the Year
20	0.03%	6.00%
30	0.04%	5.00%
40	0.07%	2.60%
50	0.18%	0.80%

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

**SCHEDULE OF PENSION INVESTMENT RETURN**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	7.24%	1.09%	8.84%

**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, 2016 AND 2015**

	2016	2015
<b>Administrative Expenses</b>		
Accounting services	\$ 9,200	\$ 9,000
Actuarial services	28,468	22,786
Administrative services	18,527	12,300
Insurance	4,179	4,179
Legal services	11,110	14,643
Miscellaneous expenses	11,887	3,145
Total administrative expenses	\$ 83,371	\$ 66,053
 <b>Investment Expenses</b>		
Custodial fees	\$ 21,868	\$ 21,541
Investment management fees	235,600	232,712
Performance monitoring fees	22,500	15,500
ADR fees	208	534
Total investment expenses	\$ 280,176	\$ 270,287

**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 years ended September 30, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2017.

**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 13, 2017