

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

FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2019**

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

**FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of North Port, Florida
Police Officers' 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, Police Officers' Pension—Local Option Trust Fund (the "Fund"), as of and for year ended September 30, 2019, 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, 2019, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the City of North Port, Florida Police Officers' 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, 2019, 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 Schedule of Changes in the City's Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Pension Investment Returns on pages 15-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental 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. Our opinion on the basic financial statements is not affected by this missing information.

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 17, 2020, 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 solely 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 the effectiveness of the Fund's 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.

Bradenton, Florida
February 17, 2020

Mauldin & Jenkins, LLC

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

**STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019**

Assets

| | |
|--|----------------------|
| Cash and equivalents | \$ 542,760 |
| Receivables | |
| Contributions | 492,397 |
| Interest and dividends | 117,856 |
| Total receivables | <u>610,253</u> |
| Investments, at fair market value | |
| U.S. Government and agency securities | 4,851,063 |
| Mortgage/Asset-backed securities | 235,198 |
| Corporate obligations | 3,301,869 |
| Fixed income mutual funds | 4,152,838 |
| Equity securities | 28,523,490 |
| International equity securities | 45,445 |
| Commingled real estate funds | 4,222,531 |
| Total investments | <u>45,332,434</u> |
| Total assets | <u>46,485,447</u> |
| Liabilities | |
| Accounts payable | 31,713 |
| Total liabilities | <u>31,713</u> |
| Net position restricted for pension benefits | <u>\$ 46,453,734</u> |

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

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

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Additions

| | |
|---|------------|
| Contributions | |
| Plan members | \$ 439,024 |
| State of Florida | 495,381 |
| City of North Port | 1,969,588 |
| Total contributions | 2,903,993 |
| | |
| Investment income | |
| Net change in fair value of investments | 221,130 |
| Interest and dividends | 1,099,581 |
| Investment income | 1,320,711 |
| | |
| Less investment expenses | 168,005 |
| Net investment income | 1,152,706 |
| Total additions | 4,056,699 |

Deductions

| | |
|--------------------------------------|-----------|
| Benefits to participants | 2,722,216 |
| Refunds of participant contributions | 71,259 |
| Administrative expenses | 109,655 |
| Total deductions | 2,903,130 |

Change in net position 1,153,569

| | |
|--|---------------|
| Net position restricted for pension benefits | |
| Beginning of year | 45,300,165 |
| End of year | \$ 46,453,734 |

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The City of North Port, Florida, Police Officers' Pension-Local Option Trust Fund (the "Fund"), was established to account for the financial activity of the City of North Port, Florida, Police Officers' 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 police officers 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.

Cash and Cash Equivalents: The Fund recognizes mutual funds that are invested in money market funds as cash equivalents for financial reporting purposes.

Method Used to Value Investments: Investments are reported at 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. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

Plan Description: Full-time police officers of the City of North Port Police Department participate in either the Florida Retirement System (FRS) or the Fund. Per Resolution passed by the City, effective July 1, 2016, Police officers hired on or after this date 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 plan that was established December 14, 1979, pursuant to Florida Statutes, Chapter 185 and City Ordinance. Benefit provisions are established and may be amended by the City Commission.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

The plan provides retirement, death and disability benefits for its members. A member may retire with normal benefits after the earlier of age 55 with ten years of credited service, or completion of 25 years of credited service, regardless of age. Normal retirement benefits for members hired prior to May 27, 2014, are 3.5% of the member's average final compensation times credited service years, plus a \$165 monthly benefit supplement. For members hired after May 27, 2014, the normal retirement benefit is 3.15% of average final compensation times credited service years, plus a \$165 monthly benefit supplement. Early retirement benefits are available for members who are age 45 and have ten years of credited service. For members hired prior to May 27, 2014, the monthly pension benefit calculated as of the date of early retirement is reduced 3% per year for each year prior to normal retirement and the member has less than 15 years of credited service, 2% per year for members with at least 15 years of service but less than 20 years of service, and 1% per year for members with more than 20 years of service. For members hired after May 27, 2014, the monthly pension benefit calculated as of the date of early retirement is reduced 3% per year which the commencement of benefits proceeds the normal retirement date. Average final compensation for purposes of calculating benefits is the average annual salary for the highest five years of the last ten years of credited service. Salary means the total compensation for services rendered to the City as a police officer 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.

Any member 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 police officer. 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 three years of participation, whichever comes first. At September 30, 2019, there were no members in the DROP and the DROP balance was \$0.

Eligibility for disability benefits begins from the member's date of hire, if the disability is service connected, or after ten years of credited service if non-service incurred. Disability benefits are 2% of the member's average final compensation multiplied by total years of credited service with a minimum amount of 60% of their salary at the time of disablement. Additionally, if determined by the Board that the duty-related disability was caused by an intended act of violence towards an officer, then the minimum compensation is 80% of their salary at the time of disablement. The monthly pension benefit of an off duty-related disability, with ten years of credited service, is 2% of the average final compensation multiplied by the total years of credited service with a minimum amount of 50% of their salary at the time of disbursement.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

The Fund provides death benefits for both duty-related and off duty-related deaths. The monthly benefit of a duty-related death is 60% of the member's monthly salary at the time of death. The monthly pension benefit of an off-duty related death, with five years of credited service, is 50% of the member's salary at the time of death. Both duty-related and off-duty related deaths are paid to the spouse for life or until remarriage for off-duty related deaths. If there is no surviving spouse, benefit is paid in equal shares to the surviving children who are under 18, or who are under 23 and pursuing a full-time education.

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 ten years of credited service.

At October 1, 2019, the date of the latest actuarial valuation, membership consisted of:

| | |
|---|-------------------|
| Retirees and beneficiaries receiving benefits | 44 |
| Terminated employees entitled to benefits, but not yet receiving them | 25 |
| Active members | <u>65</u> |
| Total | <u><u>134</u></u> |

Effective October 1, 2015, a supplemental retirement benefit in the form of individual share accounts was created for each active police officer (including DROP participants). The supplemental share plan retirement benefit is funded solely by premium tax revenues received by the City pursuant to Florida Statutes Chapter 185.

The total initial amount allocated to the individual share accounts was the premium tax revenues received in 2015 in excess of \$280,000. For plan years beginning October 1, 2015, and later, all premium tax revenues received during the preceding plan year in excess of \$280,000 shall be allocated to the eligible members' share accounts. On or before April 30, 2016, and each April 30 thereafter, the share account of each share member on the preceding September 30th shall be credited with one share of credited service earned during the plan year ending on the same September 30th. Effective December 31, 2016, and each December 31st thereafter, the share account of each share member or retiree shall be credited or debited with earnings or losses based upon the amount in the share account at the close of the immediately preceding calendar year at a rate equal to the pension plan's actual net rate of investment return for the preceding plan year.

A plan member with ten or more years of credited service upon termination of employment shall be eligible to receive a distribution of 100% of the balance in his or her share account, together with all earnings and losses and interest credited to the share account through date of termination of employment. No benefit shall be payable to a share plan member who terminates employment with less than ten years of credited service.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

The share account balances of such non-vested terminated members shall be redistributed among all eligible members' and retirees' share accounts in the same manner as the excess premium tax revenues in the following calendar year, or applied to pay administrative expenses of the system. The designated beneficiary of a share plan member who has died shall receive the accumulated total of the member's 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 pension plan shall receive the accumulated total of his or her share account balance. As of October 1, 2019, the date of the latest actuarial valuation, the balance of member share accounts was \$665,533.

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 8% of their annual covered salary. Pursuant to Chapter 185, *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 makes quarterly contributions to the Fund based on the greater of an actuarially determined employer contribution based on a percentage of covered payroll or the minimum percentage of 18% as specified by City Ordinance. Administrative costs of the Fund are financed through investment income.

The City may use up to \$280,000 in state monies annually, if received, to offset its funding obligation. Annual state monies in excess of \$280,000 are allocated to the share plan.

NOTE 3. CASH AND INVESTMENTS

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

At September 30, 2019, the Fund had the following investments:

| Investment Type | Credit Rating | | Fair Value | Investment Maturity (in Years) | | | |
|---------------------------------------|---------------|-----------|----------------------|--------------------------------|---------------------|---------------------|-------------------|
| | (Moody's) | (S & P) | | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 |
| U.S. Government and agency securities | Aaa | AA+ | \$ 4,851,063 | \$ - | \$ 2,641,702 | \$ 2,209,361 | \$ - |
| Mortgage/Asset-backed securities | Not rated | Not rated | 235,198 | - | - | - | 235,198 |
| Corporate obligations | Aa1...Baa1 | AA...BBB | 3,301,869 | 196,381 | 2,650,462 | 455,026 | - |
| | | | 8,388,130 | <u>\$ 196,381</u> | <u>\$ 5,292,164</u> | <u>\$ 2,664,387</u> | <u>\$ 235,198</u> |
| Fixed income mutual funds | Not rated | Not rated | 4,152,838 | | | | |
| Equity securities | Not rated | Not rated | 28,523,490 | | | | |
| International equity securities | Not rated | Not rated | 45,445 | | | | |
| Commingled real estate funds | Not rated | Not rated | 4,222,531 | | | | |
| Total investments | | | <u>\$ 45,332,434</u> | | | | |

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, 2019, the Fund's total assets had \$45,445 of Common Stocks in foreign companies.

Rate of return: For the year ended September 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.55%. 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,
POLICE OFFICERS' PENSION-LOCAL OPTION TRUST FUND**

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

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.

Fair Value Measurements: The Fund has the following recurring fair value measurements, broken into the fair value hierarchy, as of September 30, 2019:

| Investment | Fair Value | Fair Value Hierarchy | | |
|---------------------------------------|----------------------|----------------------|---------------------|---------------------|
| | | Level 1 | Level 2 | Level 3 |
| Fixed income securities: | | | | |
| U.S. Government obligations | \$ 4,851,063 | \$ 4,851,063 | \$ - | \$ - |
| Mortgage/Asset backed securities | 235,198 | - | 235,198 | - |
| Corporate bonds | 3,301,869 | - | 3,301,869 | - |
| Mutual funds - fixed income | 4,152,838 | 4,152,838 | - | - |
| Total fixed income securities | <u>12,540,968</u> | <u>9,003,901</u> | <u>3,537,067</u> | <u>-</u> |
| Commingled real estate funds | <u>4,222,531</u> | <u>-</u> | <u>-</u> | <u>4,222,531</u> |
| Equity investments: | | | | |
| Common stock | 9,999,893 | 9,999,893 | - | - |
| Foreign stock | 45,445 | 45,445 | - | - |
| Mutual funds - equity | 18,523,597 | 18,523,597 | - | - |
| Total equity investments | <u>28,568,935</u> | <u>28,568,935</u> | <u>-</u> | <u>-</u> |
| Total investments at fair value level | <u>\$ 45,332,434</u> | <u>\$ 37,572,836</u> | <u>\$ 3,537,067</u> | <u>\$ 4,222,531</u> |

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,
POLICE OFFICERS' PENSION-LOCAL OPTION TRUST FUND**

NOTES TO FINANCIAL STATEMENTS

NOTE 4. PLAN DISCLOSURES

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

Net Pension Liability of the City: The components of the net pension liability of the City at September 30, 2019, were as follows:

| | |
|---|---------------------|
| Total pension liability | \$ 50,000,940 |
| Plan fiduciary net position | (46,453,734) |
| City's net pension liability | <u>\$ 3,547,206</u> |
| | |
| Plan fiduciary net position as a percentage of the total pension liability | 92.91% |

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, 2017, updated to September 30, 2019, using the following actuarial assumptions:

| | |
|---------------------------|-----------------|
| Inflation | 2.50% |
| Salary increases | 2.00% to 17.00% |
| Discount rate | 7.45% |
| Investment rate of return | 7.45% |

Mortality Rate Healthy Active Lives:

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

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

Mortality Rate Healthy Inactive 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4. PLAN DISCLOSURES

The most recent actuarial experience study used to review the other significant assumptions was dated September 5, 2013.

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, 2019, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---------------------------|----------------------|---|
| Domestic Equity | 45% | 7.5% |
| International Equity | 15% | 8.5% |
| Intermediate Fixed Income | 20% | 2.5% |
| Global Bond | 5% | 3.5% |
| Real Estate | 10% | 4.5% |
| GTAA | 5% | 3.5% |
| Total | 100% | |

Discount rate. The discount rate used to measure the total pension liability was 7.45%. 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 7.45%, 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 (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

| | 1% Decrease 6.45% | Current Discount Rate 7.45% | 1% Increase 8.45% |
|--------------------------------------|----------------------|-----------------------------------|----------------------|
| City's net pension (asset) liability | \$ 9,830,781 | \$ 3,547,206 | \$ (1,677,885) |

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4. PLAN DISCLOSURES

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, 2019, and the current sharing pattern of costs between employer and employee.

NOTE 5. SUBSEQUENT EVENT

The Fund has evaluated all subsequent events through February 17, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | | | |
| Service cost | \$ 1,707,877 | \$ 1,780,290 | \$ 1,882,560 | \$ 1,693,377 | \$ 1,991,280 | \$ 1,967,848 |
| Interest on total pension liability | 3,518,998 | 3,364,267 | 3,103,881 | 2,867,478 | 2,731,953 | 2,485,396 |
| Change in excess state money | - | - | - | (688,670) | 162,203 | 127,413 |
| Share plan allocation | 215,381 | 173,918 | 125,720 | 159,765 | - | - |
| Changes of benefit terms | - | - | - | 4,812 | - | - |
| Differences between expected and actual experience | 488,870 | (582,492) | 472,241 | (860,314) | (1,104,588) | - |
| Changes of assumptions | 565,173 | 528,699 | 569,256 | 782,433 | - | - |
| Contributions - buy back | - | 1,225 | 53,000 | 71,560 | 24,568 | - |
| Benefit payments, including refunds of employee contributions | (2,793,475) | (2,329,700) | (1,827,860) | (1,878,394) | (1,323,724) | (1,267,557) |
| Net change in total pension liability | 3,702,824 | 2,936,207 | 4,378,798 | 2,152,047 | 2,481,692 | 3,313,100 |
| Total pension liability, beginning | 46,298,116 | 43,361,909 | 38,983,111 | 36,831,064 | 34,349,372 | 31,036,272 |
| Total pension liability, ending | \$ 50,000,940 | \$ 46,298,116 | \$ 43,361,909 | \$ 38,983,111 | \$ 36,831,064 | \$ 34,349,372 |
| | | | | | | |
| Plan fiduciary net position | | | | | | |
| Contributions, employer | \$ 1,969,588 | \$ 2,045,282 | \$ 1,831,771 | \$ 2,270,516 | \$ 2,374,183 | \$ 2,254,752 |
| Contributions, state | 495,381 | 453,918 | 405,720 | 378,333 | 341,432 | 306,642 |
| Contributions, employee | 439,024 | 475,208 | 557,859 | 500,840 | 517,932 | 528,422 |
| Net investment income (loss) | 1,152,706 | 3,733,338 | 4,560,969 | 2,445,510 | (212,104) | 2,200,982 |
| Benefit payments, including refunds of employee contributions | (2,793,475) | (2,329,700) | (1,827,860) | (1,880,377) | (1,323,724) | (1,267,557) |
| Administrative expenses | (109,655) | (91,943) | (70,413) | (78,881) | (68,912) | (70,301) |
| Net change in plan fiduciary net position | 1,153,569 | 4,286,103 | 5,458,046 | 3,635,941 | 1,628,807 | 3,952,940 |
| Plan fiduciary net position, beginning | 45,300,165 | 41,014,062 | 35,556,016 | 31,920,075 | 30,291,268 | 26,338,328 |
| Plan fiduciary net position, ending | \$ 46,453,734 | \$ 45,300,165 | \$ 41,014,062 | \$ 35,556,016 | \$ 31,920,075 | \$ 30,291,268 |
| | | | | | | |
| Net pension liability, ending | \$ 3,547,206 | \$ 997,951 | \$ 2,347,847 | \$ 3,427,095 | \$ 4,910,989 | \$ 4,058,104 |
| | | | | | | |
| Plan fiduciary net position as a percentage of the total pension liability | 92.91% | 97.84% | 94.59% | 91.21% | 86.67% | 88.19% |
| | | | | | | |
| Covered payroll | \$ 5,487,798 | \$ 5,940,108 | \$ 6,310,736 | \$ 6,260,499 | \$ 6,550,454 | \$ 6,605,273 |
| | | | | | | |
| City's net pension liability as a percentage of covered payroll | 64.64% | 16.80% | 37.20% | 54.74% | 74.97% | 61.44% |

Notes to the Schedule

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

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

SCHEDULE OF CONTRIBUTIONS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Actuarially determined contribution | \$ 2,249,588 | \$ 2,325,282 | \$ 2,111,771 | \$ 2,449,745 | \$ 2,553,412 | \$ 2,429,885 |
| From excess state monies reserve | - | - | - | 528,906 | - | - |
| Contributions in relation to the actuarially determined contributions | 2,249,588 | 2,325,282 | 2,111,771 | 2,550,516 | 2,553,412 | 2,429,885 |
| Contribution excess | \$ - | \$ - | \$ - | \$ (629,677) | \$ - | \$ - |
| Covered payroll | \$ 5,487,798 | \$ 5,940,108 | \$ 6,310,736 | \$ 6,260,499 | \$ 6,550,454 | \$ 6,605,273 |
| Contributions as a percentage of covered payroll | 40.99% | 39.15% | 33.46% | 40.74% | 38.98% | 36.79% |

Valuation Date 10/1/2017

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:

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.

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 assumed rates of mortality were mandated by Chapter 2015-157, *Laws of Florida*. This law mandates the use of the assumptions used in either of the two most recent valuations of the Florida Retirement System (FRS) for special risk participants. The above rates are those outlined in the July 1, 2016, FRS actuarial valuation report. We feel these assumptions sufficiently accommodate future mortality improvements.

Additionally, 75% of active Member deaths are assumed to be service-related.

Interest Rate:

7.65% per year compounded annually, net of investment related expenses.

Normal Retirement:

| Years Eligible for Normal Ret. | Percent Retiring |
|-----------------------------------|---------------------|
| 0 | 66.70% |
| 1 | 50.0% |
| 2 or more | 100.0% |

Early Retirement:

Commencing with attainment of Early Retirement Status (age 45 with 10 years of service). Members are assumed to retire with an immediate subsidized benefit at the rate of 10% per year.

Salary increases:

| Credited Service | Assumption |
|--------------------|------------|
| First 2 years | 17% |
| 2 - 10 years | 8.5% |
| 11 - 20 years | 6.0% |
| More than 20 years | 2.0% |

Inflation:

2.5% per year.

Payroll growth:

0.0% per year

Final Year Salary Load:

Projected salary at retirement is increased 20% to account for non-regular compensation (no load for Members hired after January 1, 2012).

Termination Rates:

| Credited Service | Assumption |
|------------------|------------|
| First year | 24.0% |
| 1 - 4 years | 6.0% |
| 5 - 19 years | 3.0% |
| 20 or more years | 0.0% |

Notes to the Schedule

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

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

SCHEDULE OF PENSION INVESTMENT RETURNS

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expenses for the City's pension plan | 2.55% | 9.13% | 12.74% | 7.41% | -0.62% | 8.12% |

Notes to the Schedule

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

OTHER SUPPLEMENTARY INFORMATION

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

**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

Administrative Expenses

| | |
|-------------------------------|-------------------|
| Accounting services | \$ 9,400 |
| Actuarial services | 26,580 |
| Administrative services | 25,183 |
| Insurance | 3,359 |
| Legal services | 28,865 |
| Miscellaneous expenses | 16,268 |
| Total administrative expenses | <u>\$ 109,655</u> |

Investment Expenses

| | |
|------------------------------|-------------------|
| Custodial fees | \$ 23,329 |
| Investment management fees | 81,961 |
| Performance monitoring fees | 15,500 |
| ADR fees | 84 |
| Investment expense - Am Core | 47,131 |
| Total investment expenses | <u>\$ 168,005</u> |

OTHER AUDITOR'S REPORT



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

Board of Trustees
City of North Port, Florida
Police Officers' 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, Police Officers' Pension—Local Option Trust Fund (the "Fund") as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated February 17, 2020.

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.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Bradenton, Florida
February 17, 2020