

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

A PENSION TRUST FUND OF THE CITY OF POMPANO BEACH, FLORIDA

FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Executive Director
Pompano Beach Police and Firefighters' Retirement System
Pompano Beach, Florida

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Pompano Beach Police and Firefighters' Retirement System (the System), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the System implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of October 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Report on Comparative Information

We have previously audited the Pompano Beach Police and Firefighters' Retirement System's 2012 financial statements, and our report dated January 16, 2013, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended September 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and contributions from employer and other contributing entity on pages 4-9 and 24-25 be presented to supplement the basic financial statements. Such information, although not a part of the 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

The Schedule of Administrative and Investment Expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

prepare the 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise System's basic financial statements. The information identified in the table of contents as the Schedules of Financial Information for Pompano Beach Investors, LLC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Financial Information for Pompano Beach Investor's LLC has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 System's internal control over financial reporting and compliance.

Marcum LLP

Fort Lauderdale, FL
January 16, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial activities of the Pompano Beach Police and Firefighters' Retirement System (the System) provides an overview of the financial statements by focusing on the System's financial performance during the fiscal years ended September 30, 2013 and 2012 and identifying significant changes in the financial position. Please read it in conjunction with the financial statements and notes to the financial statements which follow this discussion.

The System is responsible for administering a defined benefit public employee retirement system. It provides services to approximately 21 active police officers, 144 active firefighters and 384 benefit recipients.

Overview of Financial Statements

Basic Financial Statements

The System presents select comparative financial statements as of and for the years ended September 30, 2013 and 2012. The financial statements are prepared using the accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB) pronouncements. The two basic financial statements are the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

The Statement of Fiduciary Net Position presents information on all of the System's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as net position restricted for pension benefits. This represents the value of net position held in trust to pay pension benefits. The system did not have any deferred outflows or inflows as of September 30, 2013.

By contrast, the Statement of Changes in Fiduciary Net Position presents information showing how the System's net position changed, on a comparative basis, with additions (revenue) and deductions (expenses) for the fiscal year.

Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the financial statements and provide additional information and schedules that are essential for a full understanding of the System provided in the financial statements. Among other things, information in the notes discloses the method used to value investments, a general description of the plan, recent plan amendments, contribution information and investment information.

Required Supplementary Information

Because of the long-term nature of a defined benefit plan, the System provides two required schedules of historical trends based on the actuarial valuations performed by the System's actuary.

The Schedule of Funding Progress contains actuarial information for the past six fiscal years. It shows the ratio of the actuarial value of assets as a percentage of the actuarial accrued liability and the ratio of the unfunded actuarial accrued liability to member payroll. Progress is indicated when the funding ratio is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The Schedule of Contributions From Employer and Other Contributing Entity presents historical trend information for the past six fiscal years and shows the annual employer and other contributing entity contributions required to be made and the percentage actually contributed in meeting this requirement.

These two schedules and the notes to the required supplementary information provide information that contributes to an understanding of the changes in funded status over time in order to determine whether the System is becoming financially stronger or weaker.

Other Supplementary Information

Other schedules provided are a Schedule of Administrative and Investment Expenses (supplementary information) incurred by the System. Also, provided as other information are Schedules of Financial Information relating to the System's investment in Pompano Beach Investors, LLC (other information).

Financial Highlights

Fiscal Year 2013:

- Net position increased by \$19.3 million from \$199.5 million at September 30, 2012 to \$218.8 million at September 30, 2013, or 9.6%, due primarily to positive investment returns.
- The gain on investments was 13.74%, net of fees, on a market value basis, which significantly exceeded the assumed investment rate of return of 7.7%.
- At October 1, 2012, the date of the most recent actuarial valuation, the System had a funded ratio of 66.1%, a decrease of 2.9% from the previous year's level of 69.0%.
- The System received \$1.4 million in member contributions, \$8.1 million in employer contributions and \$2.2 million in revenue from the State of Florida during 2013. Employer contributions for 2013 were based on the revised October 1, 2011 actuarial valuation.

Fiscal Year 2012:

- Net position increased by \$19.5 million from \$180.0 million at September 30, 2011 to \$199.5 million at September 30, 2012, or 10.8%, due primarily to positive investment returns.
- The gain on investments was 16.78%, net of fees, on a market value basis, which significantly exceeded the assumed investment rate of return of 7.9%.
- At October 1, 2011, the date of the most recent actuarial valuation, the System had a funded ratio of 69.0%, a decrease of .8% from the previous year's level of 69.8%.
- The System received \$1.5 million in member contributions, \$3.6 million in employer contributions and \$2.2 million in revenue from the State of Florida during 2012. Employer contributions for 2012 were based on the October 1, 2010 actuarial valuation.

Financial Analysis

Fiduciary Net Position

The System's funding objective is to accumulate sufficient assets over time to meet long-term benefit obligations. To accumulate the funds needed to pay pension benefits, the System relies on contributions to the plan and investment earnings.

NET POSITION AS OF SEPTEMBER 30, 2013 AND 2012

	2013	2012	Increase (Decrease) 2013 to 2012	
			Amount	Percent
Assets other than investments	\$ 1,797,171	\$ 4,530,222	\$ (2,733,051)	-60.3%
Investments, at fair value	<u>224,436,729</u>	<u>206,496,076</u>	<u>17,940,653</u>	8.7%
Total Assets	226,233,900	211,026,298	15,207,602	7.2%
Liabilities	<u>7,468,329</u>	<u>11,467,405</u>	<u>(3,999,076)</u>	-34.9%
Net Position	<u>\$ 218,765,571</u>	<u>\$ 199,558,893</u>	<u>\$ 19,206,678</u>	9.6%

Net position restricted for pension totaled \$218.8 million at September 30, 2013 compared to \$199.5 million at September 30, 2012, an increase of \$19.3 million. Current and other assets, reflecting cash, amounts owed for pending trades due from brokers and receivables at September 30, 2013 were \$1.8 million. Investments totaled \$224.4 million, which is an increase of \$17.9 million or 8.7% from fiscal year 2012. The increase is primarily attributable to investment gains for the year. The largest portion of the System's assets is invested in equities. At September 30, 2013, the System held \$127.9 million in equities, \$51.8 million in fixed income securities, \$32.0 million in hedge funds and private equity, \$2.2 million in Pompano Beach Investors, LLC, a real estate investment, and \$10.5 million in money market funds. Total liabilities as of September 30, 2013 were \$7.5 million, which included the amount owed to brokers for pending trades of over \$6.7 million, accounts payable and accrued expenses of \$343,565 and advance employer contributions of \$423,661. For fiscal year 2013, liabilities decreased by \$4.0 million from 2012 primarily due to a change in the employer contribution payment method, as described in the *Funding* section.

Revenues – Additions to Net Position Restricted for Pension Benefits

Additions to the Plan Net Position are used to finance current and future retirement benefits. The primary sources of revenue include contributions from active members, employers, premium tax revenue from the State of Florida and investment income.

ADDITIONS TO NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012	Increase (Decrease)	
			2013 to 2012	
			Amount	Percent
Employer contributions	\$ 8,121,441	\$ 3,636,825	\$ 4,484,616	123.3%
Member contributions	1,434,802	1,500,717	(65,915)	-4.4%
State of Florida contributions	2,152,520	2,152,540	(20)	0.0%
Net investment income	<u>25,574,768</u>	<u>29,004,831</u>	<u>(3,430,063)</u>	-11.8%
Total Additions	<u>\$ 37,283,531</u>	<u>\$ 36,294,913</u>	<u>\$ 988,618</u>	2.7%

Contributions and net investment income totaled \$37.3 million in 2013, an increase of \$1.0 million from 2012.

Employer contributions for 2013 were based on the rates from the revised October 1, 2011 actuarial valuation. Effective October 1, 2010, the method by which the employer contributions are paid changed from a level dollar amount to a percentage of payroll. This change created prepaid employer contributions for the years ending in 2011, 2012 & 2013 as a result of actual total payrolls that were less than assumed by the actuary. The total prepaid employer contribution was \$423,661 as of September 30, 2013, a decrease of \$3.8 million from the previous year. This significant decrease was due to the fact that the actuary provided an updated payroll estimate when performing the October 1, 2012 valuation. Effective October 1, 2013 the payment method will revert back to a level dollar amount. Member contributions decreased \$65,915 in 2013 compared to the previous year primarily due to increases in police officers' retirements and firefighters' DROP participation. The State of Florida premium tax revenue remained level compared to 2012.

The System incurred a positive return on the market value of its investments in 2013. Net investment income of \$25.6 million was recognized in 2013, compared with net investment income of \$29.0 million in 2012. The net appreciation in the fair value of investments was \$22.6 million for 2013 compared to an appreciation of \$26.1 million in 2012. Interest, dividends and other investment income generated income of \$4.2 million for 2013, which was a 3.1% increase from the previous year.

Investment management fees are asset based and normally increase as the total assets increase. Investment expenses increased \$22,364 from 2012. Investment expenses are deducted from total investment income to determine the net investment income.

Expenses – Deductions from Net Position Restricted for Pension Benefits

The primary expenses for the System include benefit payments to retirees and beneficiaries plus cost-of-living adjustments, Deferred Retirement Option Plan (DROP) and Share Plan distributions. They also include refunds of contributions paid to members who terminated employment during the year and administrative expenses.

DEDUCTIONS FROM NET POSITION
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012	Increase (Decrease)	
			2013 to 2012	
			Amount	Percent
Benefit payments	\$ 17,359,564	\$ 15,921,800	\$ 1,437,764	9.0%
Refund of contributions	148,497	250,631	(102,134)	100.0%
Administrative expenses	<u>568,792</u>	<u>595,374</u>	<u>(26,582)</u>	-4.5%
Total Deductions	<u>\$ 18,076,853</u>	<u>\$ 16,767,805</u>	<u>\$ 1,309,048</u>	7.8%

The largest expense was for benefits paid to retirees and beneficiaries. Benefit payments totaled approximately \$17.4 million for fiscal year 2013, an increase of \$1.4 million or 9.0% from 2012, attributable to the increase in the number of retirees, the annual 2% cost-of-living adjustment and DROP and Share Plan distributions. There were three refunds of contributions to terminating members in 2013, compared to two the previous year. For the year ended September 30, 2013, administrative expenses (not including investment management fees) were 0.26% of the System's net position.

Further analysis of benefit payments follows:

BENEFIT PAYMENTS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012	Increase (Decrease)	
			2013 to 2012	
			Amount	Percent
Normal retirement payments	\$ 12,738,414	\$ 11,934,089	\$ 804,325	6.7%
Disability pension payments	1,287,298	1,197,328	89,970	7.5%
Beneficiary payments	771,204	677,214	93,990	13.9%
Share plan payments	77,021	239,394	(162,373)	100%
DROP account withdrawals	<u>2,485,627</u>	<u>1,873,775</u>	<u>611,852</u>	32.7%
Total Benefit Payments	<u>\$ 17,359,564</u>	<u>\$ 15,921,800</u>	<u>\$ 1,437,764</u>	9.0%

Funding

An actuarial valuation of the System's assets and benefit obligations is performed annually. The latest actuarial valuation dated October 1, 2012, as revised, showed the System had a ratio of actuarially determined pension assets-to-liabilities or funded ratio of 66.1%, down 2.9% from 69.0% on October 1, 2011. At October 1, 2012, the System's actuarial accrued liability exceeded the actuarial value of assets by \$91.9 million. From 1997 through 2001, the System was more than 100% funded. The subsequent reduction in the funded ratio is the result of investment losses during the 2001 through 2005, 2008 and 2009 fiscal years, benefit improvements and the five-step incremental reduction in the assumed investment rate of return starting October 1, 2009. While the investment losses and lowering of the investment assumption rate have added to

the required employer contribution, the change in payment methodology for years ending 2011-2013 helped to mitigate those rising costs. The expected actuarial gain for 2013 and the retirement of some actuarial losses should cause the funded ratio to increase.

Investment Activity

The System's net position has consistently increased over the last 36 years, with the exception of a few years during which there were downturns in the financial markets. For that 36-year period, the average compounded rate of return on an actuarial asset basis was 7.4% and 8.4% on a market value basis.

Investment losses during fiscal years 2001 and 2002 were the first substantial losses suffered by the System since its 1972 inception. However, in 2008 the System experienced another substantial loss due to a major downturn in the global financial markets. Thus, it is anticipated that employer contribution rates will increase in order to sustain funding levels as a result of the combination of the above events. Commencing with the October 1, 2008 actuarial valuation, the System adopted a new policy of smoothing investment gains and losses over a five-year period to stabilize employer contribution rates from year to year. At that time, it was also decided that the investment return assumption would be lowered incrementally over a five-year period from 8.5% to 7.5%, which will lead to increased employer contributions but will ultimately minimize the fluctuations in the actuarial gains and losses.

The Board of Trustees oversees the System's investments, performance and investment managers. Long-term asset growth is essential to the System's current and continued financial stability. Therefore, the Board of Trustees has the fiduciary responsibility to act with prudence when making investment decisions. The foundation of all investment decisions is a realistic investment policy statement. The System's investment policy is continually monitored and revised to match the goals and risk tolerance of the System and provide enhanced criteria for measuring the performance of the investment managers. The current investment policy utilizes traditional asset classes such as Large Capitalization Value, Large Capitalization, Growth, Large Capitalization Core, Mid Capitalization Value, Small/Mid Capitalization Growth, International Value, and International Growth as well as alternative asset classes including Public & Private Real Estate, Funds of Hedge Funds and Private Equity in an effort to enhance the expected return of the System's portfolio while reducing risk. Periodic rebalancing of the total portfolio to the targets is done to insure diversification among the various asset classes, which is the key to reaching long-term goals. In addition, the Board constantly monitors the performance of all the managers and replaces those that have long-term underperformance (or other appropriate reasons as determined by the Board of Trustees) with managers believed to provide a better opportunity for the System to meet its investment objectives.

Requests for Information

This financial report is designed to provide plan participants, employers and other interested parties a general overview of the System's finances and to show the System's accountability for the funding it receives. Questions concerning information in this report or requests for additional financial information should be addressed to the Pompano Beach Police and Firefighters' Retirement System, 2335 East Atlantic Boulevard, Suite 400, Pompano Beach, Florida 33062.

BASIC FINANCIAL STATEMENTS

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

STATEMENT OF FIDUCIARY NET POSITION

**SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2012)**

	2013	2012
Assets		
Cash	\$ 407	\$ 5,472
Due from brokers	1,266,933	3,631,382
Receivables:		
Accrued interest and dividends	384,945	460,997
Other receivables	98,013	373,556
Total Receivables	482,958	834,553
Investments, at Fair Value		
U. S. Government agency obligations	18,117,056	15,817,070
Mortgage backed securities	14,312,601	15,082,781
Municipal obligations	708,342	665,661
Corporate obligations	18,676,191	18,713,674
Equity securities	127,914,791	115,180,277
Hedge funds and private equity	31,977,060	28,394,476
Pompano Beach Investors LLC (real estate)	2,250,851	3,428,960
Money market funds	10,479,837	9,213,177
Total Investments	224,436,729	206,496,076
Prepayments and other assets	--	1,350
Property and equipment, net of accumulated depreciation of \$139,811 and \$92,938, respectively	46,873	57,465
Total Assets	226,233,900	211,026,298
Liabilities		
Accounts payable and accrued expenses	343,565	345,323
Due to brokers	6,701,103	6,915,440
Advance contribution from employer	423,661	4,206,642
Total Liabilities	7,468,329	11,467,405
Net Position Restricted for Pension Benefits	\$ 218,765,571	\$ 199,558,893

The accompanying notes are an integral part of these financial statements.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2012)

	2013	2012
Additions		
Contributions:		
City of Pompano Beach	\$ 4,372,008	\$ 1,905,074
Broward Sheriff's Office	3,749,433	1,731,751
Members	1,434,802	1,500,717
State of Florida	2,152,520	2,152,540
Total Contributions	11,708,763	7,290,082
Investment Income		
Net appreciation in fair value of investments	22,613,699	26,147,200
Interest and dividends	4,167,327	3,953,249
Miscellaneous investment income	10,245	98,521
	26,791,271	30,198,970
Less: investment expenses	(1,216,503)	(1,194,139)
Net Investment Income	25,574,768	29,004,831
Total Additions	37,283,531	36,294,913
Deductions		
Benefit payments	17,359,564	15,921,800
Refund of participant contributions	148,497	250,631
Administrative expenses	568,792	595,374
Total Deductions	18,076,853	16,767,805
Net Increase	19,206,678	19,527,108
Net Position Restricted for Pension Benefits		
Beginning of year	199,558,893	180,031,785
End of year	\$ 218,765,571	\$ 199,558,893

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

POMPANO BEACH POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of the Pompano Beach Police and Firefighters' Retirement System (the System) are prepared using the accrual basis of accounting. Contributions from the Plan's members are recognized as revenue in the period in which the contributions are due. Contributions from the City of Pompano Beach (the City) and the Broward Sheriff's Office (BSO), as calculated by the System's actuary, are recognized as revenue when due and when the entities have made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

METHOD USED TO VALUE INVESTMENTS

Investments are reported at fair value. Short-term investments, which consist of money market funds, are reported at cost, which is fair value. Securities traded on national or international exchanges are valued at the last reported sales price or current exchange rates. Real estate investment is reported at its fair value based on an appraisal of underlying property. The System has investments in funds of hedge funds which hold a variety of different investment vehicles that do not have readily available market quotations. The System's fair value is based on its proportionate share of the value of the funds of hedge funds as determined by the fund managers. That value is based on what the hedge fund can reasonably expect to receive as its interest in the various investment vehicles based on input from fund managers, independent valuation consultants and independent auditors. Net appreciation in fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost. Interest and dividends are recorded as earned. Purchases and sales of investments are recorded on a trade date basis. Dividends are recorded on the ex-dividend date.

USE OF ESTIMATES

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

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPARATIVE INFORMATION

The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended September 30, 2012, from which the information was derived.

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Board implemented the following GASB Statement during the fiscal year ended September 30, 2013 that had an impact on the financial statements:

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It further identifies net position as the residual of all other elements presented in a statement of fiduciary net position.

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

PLAN DESCRIPTION

The following brief description of the System is provided for general information purposes only. Participants should refer to City ordinances for more complete information.

The Pompano Beach Police and Firefighters' Retirement System was established by ordinance of the City of Pompano Beach to account for the financial activity of the System. The System is administered by a nine member Board of Trustees comprised of three members appointed by the City Commission, three members elected by/from the Firefighter members, and three members elected by/from the Police members. The System is included as a pension trust fund in the City's financial statements.

The System is a single employer defined benefit pension plan that covers all of the City's employees that are full-time sworn police officers and firefighters. In August 1999, the City contracted with the Broward Sheriff's Office whereby BSO would provide policing services in Pompano Beach. As a result, all of the City's police officers are employed by BSO. Participating police officers were given the option to either remain in the System or switch to BSO's retirement plan and the System was closed to new police officers.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

The System provides retirement, death and disability benefits for its members. Benefit provisions are established and may be amended by the City of Pompano Beach, in conjunction with the members' collective bargaining units. A member may retire with normal benefits after reaching age 47 and accumulating 20 or more years of credited service or age 55 and accumulating 10 or more years of credited service. Pursuant to Ordinance 2008–54, a police officer with 25 years of credited service may elect to purchase unreduced normal retirement benefits regardless of age. Normal retirement benefits are stipulated in Section 34.055 of the City's Code of Ordinances and are contingent upon a member's employment classification, separation date, length of service and average monthly earnings. In general, normal retirement benefits are the member's average monthly earnings times the number of years of service multiplied by a factor ranging from 2.0% to 4.0%. Members with 20 or more years of service may receive an early retirement benefit at age 47 or an immediate benefit at a reduced amount. Members who have attained age 50 and have completed 10 years of service are also eligible for an early retirement benefit.

Each October 1, an automatic cost of living adjustment (COLA) of 2% is provided to those retirees who have been retired at least 5 years. An additional increase of up to 1% may be paid to those same retirees under certain circumstances.

A member attaining age 47 with 20 or more years of credited service is eligible for delayed retirement. These benefits begin upon application and are computed in the same manner as the normal retirement benefit.

Disability benefits for service related disabilities are paid to the member for at least 10 years or until recovery. Benefits are calculated as 75% of the member's final earnings in effect at the date the benefit is approved. For firefighters, benefits are calculated at the greater of 75% of final earnings or the vested accrued benefit at the time of disability.

Disability benefits for non-service related disabilities for members with 10 or more years of credited service are paid to a member for at least 10 years or until recovery. Benefits are calculated as 3% of the member's average monthly earnings times the number of credited service years, up to a maximum of 60% of the member's salary, plus 2% of average monthly earnings times the number of credited service years in excess of 25 years.

Pre-retirement death benefits for service related deaths are payable to the member's surviving spouse until death or remarriage (for life if the member was killed in the line of duty). Benefits are calculated as a \$5,000 lump sum payment plus 75% of the member's final earnings. In addition, eligible children each receive 7.5% of the member's final earnings. If no eligible surviving spouse exists, eligible children each receive 15% of the member's final earnings not to exceed 50%.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

Pre-retirement death benefits for non-service related deaths of members with more than 10 years of credited service are payable to a designated beneficiary. The designated beneficiary may elect to receive a return of the member's contribution plus interest or an accrued benefit payable at normal retirement or early retirement. In addition, the designated beneficiary may elect the pre-retirement death benefit for non-service related deaths of members with 5 to 10 years of credited service. Pre-retirement death benefits for non-service related deaths of members with 5 to 10 years of credited service are paid to the member's surviving spouse for life. Benefits are computed as a \$5,000 lump sum plus 65% of the member's accrued benefits at the date of death, subject to a minimum of 20% of the member's average monthly salary. In addition, eligible children each receive 7.5% of the member's final earnings. If no eligible surviving spouse exists, eligible children each receive 15% of the member's final earnings. The pre-retirement death benefit for members with 1 to 5 years of credited service is a \$5,000 lump sum payment to the member's designated beneficiary.

Post retirement death benefits are payable to the member's beneficiary in accordance with the terms of the payment method selected.

A member with less than 10 years of credited service who terminates employment is refunded his or her contributions, plus interest of 3%. A member with 10 or more years who terminates employment may receive his or her accrued benefit payable at normal retirement date or early retirement date or a refund of contributions plus 3% interest.

Membership consisted of the following at October 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries currently receiving benefits	326
Terminated employees entitled to benefits but not yet receiving them, participants who have elected to defer normal retirement benefits, and participants who have elected to participate in the DROP	47
Active plan members	<u>182</u>
	<u>555</u>

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

DROP PLAN

Any member who is eligible to receive a normal retirement pension, prior to attaining 25 years of service, may elect to participate in a deferred retirement option plan (DROP) while continuing his or her active employment as a police officer or firefighter. The maximum DROP participation period is five years for police officers and eight years for firefighters. A member with 25 years of credited service who is not yet eligible for normal retirement may elect to participate in the DROP upon reaching normal retirement. 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 pension Plan. Normal retirement payments that would have been payable to the member are accumulated and invested in the DROP plan to be distributed to the member upon his or her termination of employment.

As of September 30, 2013 and 2012, the balance in the DROP account was \$19,653,308 and \$17,145,667, respectively. These amounts are included in the total investment balance presented on the statement of fiduciary net position.

DROP LOAN PROGRAM

On June 22, 2010, the Plan allowed participants (police officers only) to borrow from their DROP account. The loan limit is up to 50% of participant's account balance, subject to a minimum of \$5,000 and a maximum of \$50,000. The interest rate charged is the "prime rate" in effect on the day of loan application; repayment schedule and maturity date are not to exceed five years. On September 30, 2013, the balance of DROP loans was \$90,486.

SHARE PLAN

A Supplemental Retirement Benefit Plan was established for firefighter members who were employed on October 1, 2010. Firefighters who were actively employed on that date were given a share, based on completed months of service, of the existing Chapter 175 reserves. Annually thereafter, Chapter 175 contributions exceeding \$821,230 are also allocated to members who are employed at the end of each fiscal year. In addition, earnings are posted to the share plan accounts each January 1. Firefighters become vested in their accounts at the rate of 50% after 10 years of service, 75% after 15 years of service and 100% after 20 years of service. As of September 30, 2013, the balance in the share plan account was \$3,651,760. This amount is included in the total investment balance presented on the statement of fiduciary net position.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

CONTRIBUTIONS

Police officers are required to contribute 8.6% and firefighters 11.6% of their annual covered salary. Pursuant to Chapters 175 and 185 of the Florida Statutes, a premium tax on certain property and casualty insurance contracts written on Pompano Beach properties is collected by the State and is remitted to the System. The City and BSO are required to contribute the remaining amounts necessary to fund the benefits through periodic contributions at actuarially determined rates. Administrative costs are funded through investment earnings.

In accordance with Florida Statutes, additional premium tax revenues received by the System are reserved to provide future minimum or extra benefits and may not be used to reduce or offset the contribution requirements of the employers. As of the October 1, 2012 actuarial valuation, the cumulative balance of additional premium tax revenues reserved to provide future benefit improvements totals \$651,182 of which \$215,163 pertains to the police members (Chapter 185 funds) and \$436,019 pertains to the firefighter members (Chapter 175 funds). The firefighters' reserves were allocated to the members' Share Plan accounts on January 1, 2013.

NOTE 3 – INVESTMENTS

Investment authorization – The System's investment practices are governed by Chapters 175 (Firefighter Pensions), 185 (Municipal Police Pensions), 280 (Florida Security for Public Deposits Act) and 218 (Local Government Investment Policies), Florida Statutes, City Code of Ordinances and the System's adopted investment policy. In addition to complying with System policy, the System applies the "Prudent Person Rule" when executing investment strategies. Investments are made with judgment and care, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income derived.

Types of investments – Florida Statutes and Plan policy authorize the Board of Trustees to invest in marketable debt securities issued or guaranteed by either the United States Government or its agencies, domestic corporations (including industrial and utilities), Israel bonds, asset backed and commercial mortgage backed securities, domestic banks and other financial institutions, exchange traded funds, equity securities listed on the New York, American and principal regional and foreign (for foreign securities) exchanges, over the counter securities for which there is an active market maker regulated by National Association of Securities Dealers, American Depository Receipts, and real estate investment trusts (REIT) listed on the New York American principal regional and foreign exchanges, Funds of Hedge Funds, and private real estate through institution vehicles or direct ownership.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 – INVESTMENTS (CONTINUED)

The Plan's investment policy, which was revised effective September 26, 2013, establishes asset classes and stipulates the following maximum portfolio percentages:

<u>Authorized Investments</u>	<u>Effective September 26, 2013 Maximum % of Portfolio</u>	<u>Prior to September 26, 2013 Maximum % of Portfolio</u>
Fixed income securities	30.0%	30.0%
Equity securities	60.0%	62.5%
Real estate	10.0%	10.0%
Funds of hedge funds	10.0%	10.0%
Private equity	7.5%	5.0%

INTEREST RATE RISK

As of September 30, 2013, the System had the following investments subject to interest rate risk in its portfolio:

	<u>Remaining Maturity</u>				
	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Greater Than 10 Years</u>
U.S. Treasuries, notes and bonds	\$ 16,932,956	\$ 4,994,006	\$ 6,828,616	\$ 2,905,228	\$ 2,205,106
U.S. Federal agencies	1,184,102	--	920,000	264,102	--
U.S. Mortgage backed securities	10,927,535	--	10,855	1,406,646	9,510,034
Municipal obligations	708,342	--	--	--	708,342
Foreign obligations	89,404	--	--	89,404	--
Corporate obligations	18,586,783	93,698	9,499,678	5,541,786	3,451,621
Collateralized mortgage obligations	3,385,068	--	--	--	3,385,068
	<u>\$ 51,814,190</u>	<u>\$ 5,087,704</u>	<u>\$ 17,259,149</u>	<u>\$ 10,207,166</u>	<u>\$ 19,260,171</u>

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. As a means of limiting its exposure to fair value losses, the investment guidelines look to control impacts from interest rate risk in both rising and declining interest rate environments considering such factors as credit quality and duration for losses in rising rate environments, and credit quality in declining rate environments. The benchmarks are monitored and changed when warranted by investment market environment. Debt portfolios are structured and managed to produce returns based on risks inherent in the selected benchmarks.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 – INVESTMENTS (CONTINUED)

CREDIT RISK

This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The System's investment policy requires all fixed income investments to hold a credit rating in one of the four highest classifications by a major rating service. Commercial paper, if used, must be of only the highest quality (rating of A-1 or P-1). Investments in fixed income securities with a rating of BBB are limited to 15% of the fixed income portfolio. The fixed income investments credit ratings for the fiscal year ended September 30, 2013 ranged between AAA and CCC and below ratings. All of the fixed income investments for the fiscal year ended September 30, 2013 met the ratings requirements of the investment policy or an approved exception thereto.

Credit Rating by Standard & Poor's	Fair Value	Corporate	Foreign	Municipal	U.S. Government
U.S. Government guaranteed*	\$ 27,860,491	\$ --	\$ --	\$ --	\$ 27,860,491
Credit risk debt securities:					
AAA	1,688,146	1,617,609	--	70,537	--
AA	4,766,766	3,100,009	--	482,656	1,184,101
A	6,539,667	6,384,518	--	155,149	--
BBB	7,716,680	7,627,276	89,404	--	--
BB	40,527	40,527	--	--	--
B	165,290	165,290	--	--	--
CCC and Below	89,818	89,818	--	--	--
Not Rated	2,946,805	2,946,805	--	--	--
Total credit risk debt securities	<u>23,953,699</u>	<u>21,971,852</u>	<u>89,404</u>	<u>708,342</u>	<u>1,184,101</u>
Total Fixed Income Securities	<u>\$ 51,814,190</u>	<u>\$ 21,971,852</u>	<u>\$ 89,404</u>	<u>\$ 708,342</u>	<u>\$ 29,044,592</u>

*Obligations are backed by the full faith and credit of the U.S. Government

CONCENTRATION OF CREDIT RISK

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. Investments in any one issuer that represent 5% or more of total investments require disclosure, excluding investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds. The System utilizes limitations on securities of a single issuer to manage this risk. The System's investment policy limits investments in the fixed income portion of the portfolio to 10% of a given issuer and limits equity investments in any one company to 10% of the equity portion of each portfolio manager (at market).

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 – INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK (CONTINUED)

As of September 30, 2013, none of the System's investments were held with any single issuer that represents 5% or more of System's investments.

CUSTODIAL CREDIT RISK

This is the risk that in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The System has third party custodial arrangements with financial institutions to accept securities on a delivery versus payment basis for direct purchase agreements. All securities purchased by the System are designated as an asset of the System in the System's name and are held in safekeeping by the System's custodial bank or a third party custodial institution.

REAL ESTATE INVESTMENT

The System purchased a property located at 2335 East Atlantic Boulevard (purchased in 2007 for approximately \$4.4 million) within the City limits. The intent of the purchase was to generate rental income through leasing agreements for office space (see Note 7).

RISKS AND UNCERTAINTIES

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position. The System, through its investment advisor, monitors the System's investment and the risks associated therewith on a regular basis, which the System believes minimizes these risks.

System contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 – TAX STATUS

The Internal Revenue Service has determined and informed the trustees by a letter dated January 31, 2013 that the System is designed in accordance with applicable sections of the Internal Revenue Code (IRC). The most recent determination letter expires on January 31, 2014 but a new application will be filed no later than January 31, 2014.

Subsequent to fiscal year end the Board elected to follow Cycle E and therefore, the determination letter has been extended to January 31, 2016.

NOTE 5 – FUNDING STATUS AND FUNDING PROGRESS

The System is funded by the City of Pompano Beach, Broward Sheriff’s Office, members and the State of Florida. Employer contributions for the fiscal year ended September 30, 2013 are based on the normal contribution rate developed in the October 1, 2011 actuarial valuation and revised as a % of payroll in the October 1, 2012 valuation. The funded status of the System on October 1, 2012, the most recent actuarial valuation date is as follows:

(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1	(a)	(b)	(b)-(a)	(a)/(b)	(c)	((b-a)/c)
2012	\$ 179,509	\$ 271,407	\$ 91,898	66.1%	\$ 14,433	636.7%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 – FUNDING STATUS AND FUNDING PROGRESS (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Individual entry age
Amortization method	Police (a closed group) - level dollar Firefighters - level percentage
Remaining amortization period	30 years
Asset valuation method	20% Phase-In Method
Actuarial assumptions:	
Investment rate of return, net of investment expenses	7.7% compounded annually
Projected salary increases	3.5%, compounded annually for inflation plus a seniority/merit increase*

*Ranging from 0.5% to 8.5%

NOTE 6 – PLAN AMENDMENTS

During the years ended September 30, 2013 and 2012, the City Code of Ordinances providing for the creation and operation of the System was amended as follows:

Ordinance No. 2013-56

This ordinance enacted technical changes required by the Internal Revenue Service as a condition of its issuance of the January 31, 2013 qualification letter. This ordinance was adopted May 14, 2013.

Ordinance No. 2012-41

This ordinance reinstated a “pop-up” provision that allows a retired member, who chose a Joint & Survivor option and whose joint annuitant dies, to make a one-time election to have his/her benefit converted to the “normal” form of benefit. This ordinance was adopted April 24, 2012.

Ordinance No. 2012-31

This ordinance enacted technical changes to Ordinance No. 2012-68 as a result of final review by the Florida Division of Retirement. It was adopted March 13, 2012.

Ordinance No. 2012-30

This ordinance enacted technical changes to Ordinance No. 2012-67 as a result of final review by the Florida Division of Retirement. It was adopted March 13, 2012.

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 7 – INVESTMENT IN POMPANO BEACH INVESTORS, LLC

The System owns a one hundred percent ownership interest in Pompano Beach Investors, LLC (the LLC) a Florida limited liability company. The LLC had entered into an agreement to purchase commercial real estate in Pompano Beach, Florida for operating facilities and investment purposes. The purchase price stated in the contract was \$4.4 million. The purchase agreement was completed in March 2007.

The member's equity of the LLC as of September 30, 2013 is \$4,770,150 as reported on the LLC's balance sheet (see page 28), however, as required by the accounting standards, the investment in the LLC is reported at fair value on the statement of fiduciary net position of the System as an investment in real estate. The fair value of this investment as of September 30, 2013 is \$2,250,851 as compared to \$3,428,960 as of September 30, 2012. The net loss of the LLC for the period ended September 30, 2013 of \$53,107 is included in net appreciation in fair value of investments in the statement of changes in fiduciary net position. There was also a \$25,000 capital contribution from the System.

REQUIRED SUPPLEMENTARY INFORMATION

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollar Amounts in Thousands)

Actuarial Valuation Date October 1	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$ 159,561	\$ 209,618	\$ 50,057	76.1%	\$ 19,203	260.7%
2008	164,826	216,871	52,045	76.0%	18,938	274.8%
2009	165,046	229,557	64,511	71.9%	18,187	354.7%
2010	169,136	242,462	73,326	69.8%	16,804	436.4%
2011	181,340	262,937	81,597	69.0%	15,514	526.0%
2012	179,509	271,407	91,898	66.1%	14,433	636.7%

**Schedule of Contributions From Employer and
Other Contributing Entity**

Plan Year Ended September 30	Annual Required Contributions	Percentage Contributed
2008	\$ 6,541,199	100.0%
2009	6,321,557	100.0%
2010	6,828,542	100.0%
2011	6,085,623	100.0%
2012	5,527,605	100.0%
2013	8,121,441	100.0%

Annual required contributions represent required employer contributions of the City of Pompano Beach and Broward Sheriff's Office and do not include State contributions. Effective for fiscal year 2012, the actuarial required contribution was paid as a percentage of payroll versus a level dollar amount.

POMPANO BEACH POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

NOTES TO THE SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITY

SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

2012 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The discount rate was reduced to 7.7% from 7.9% as part of the Board's ultimate goal to use 7.5% for the October 1, 2013 valuation.

2011 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The assumed rate of investment return was decreased from 8.1% to 7.9% as another step in the ultimate reduction to 7.5% as of October 1, 2013.
- The Actuarial Required Contribution will be paid as a percentage of payroll versus a level dollar amount.
- A supplemental "share" plan was established for firefighters. Funds received from the State of Florida in excess of \$821,230 annually will be allocated to eligible members.

2010 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The assumed rate of investment return was decreased from 8.3% to 8.1% as another step in the ultimate reduction to 7.5% as of October 1, 2013.

2009 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The assumed rate of investment return was decreased from 8.5% to 8.3%. The assumed return will be lowered each year by 0.20% until the rate is equal to 7.50% as of October 1, 2013.

2008 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The salary increase assumption was changed to reflect a constant rate of inflation in addition to service based salary increases.
- Termination rates based on age were changed to select rates based on service and ultimate rates based on age to more closely reflect the actual experience of the Plan.
- Retirement rates were changed to rates based on years eligible for normal retirement.
- Disability rates for Police Officers were reduced by one half.
- A new asset smoothing method was used to further reduce fluctuation from year to year in the actuarial value of assets. The new method recognizes the expected investment return plus 20% of the difference between the expected and actual investment return.

SUPPLEMENTARY INFORMATION

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES

**FOR THE YEAR ENDED SEPTEMBER 30, 2013
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2012)**

SUPPLEMENTARY INFORMATION

	2013	2012
Administrative Expenses		
Salaries and payroll taxes	\$ 227,634	\$ 248,341
Legal fees	60,000	63,020
DROP administration fees	51,820	62,308
Office expenses	46,321	51,176
Trustee expenses	40,672	48,480
Actuarial fees	33,626	31,840
Insurance	33,276	26,000
Accounting and payroll fees	28,234	19,051
Employer retirement plan contribution 401(a)	15,739	17,366
Depreciation expense	10,592	11,457
Computer support fees	6,189	4,280
Physical examinations	3,382	3,806
Office supplies	3,240	2,906
Office equipment	2,776	2,354
Telephone	2,711	1,073
Postage	1,265	1,003
Repairs and maintenance	788	513
Death audits	400	400
Publications	127	--
	<u>\$ 568,792</u>	<u>\$ 595,374</u>
Investment Expenses		
Investment advisory fees	\$ 1,077,354	\$ 1,062,352
Performance measurement	79,931	76,057
Custodial fees	59,218	55,730
	<u>\$ 1,216,503</u>	<u>\$ 1,194,139</u>

OTHER INFORMATION (UNAUDITED)

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

POMPANO BEACH INVESTORS, LLC

BALANCE SHEET

SEPTEMBER 30, 2013

OTHER INFORMATION (UNAUDITED)

Assets

Cash and cash equivalents	\$ 100,550
Receivables	3,389
Prepaid expenses and other assets	21,129
Property and equipment, net	<u>4,741,124</u>

Total Assets \$ 4,866,192

Liabilities and Member's Equity

Accounts payable	\$ 95,792
Accrued liabilities	<u>250</u>

Total Liabilities 96,042

Member's Equity 4,770,150

Total Liabilities and Member's Equity \$ 4,866,192

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

POMPANO BEACH INVESTORS, LLC

SCHEDULE OF INCOME AND MEMBER'S EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2013

OTHER INFORMATION (UNAUDITED)

Rental Revenue	\$ 352,637
Operating Expenses	<u>405,875</u>
Loss from Operations	(53,238)
Other Income	
Interest income	<u>131</u>
Net Loss	(53,107)
Member's Equity - Beginning of Year	4,798,257
Capital contribution received	<u>25,000</u>
Member's Equity - End of Year	<u><u>\$ 4,770,150</u></u>

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

POMPANO BEACH INVESTORS, LLC

SCHEDULE OF OPERATING EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

OTHER INFORMATION (UNAUDITED)

	Amount	% of Rental Revenue
Depreciation expense	\$ 105,304	29.9%
Real estate taxes, net of refunds	55,333	15.7%
Electricity	52,007	14.7%
Property and liability insurance	30,413	8.6%
Janitorial contract - tenant spaces	22,599	6.4%
Maintenance staff - third party	18,945	5.4%
Repair and maintenance - HVAC Contract	18,688	5.3%
Management fee - third party	18,000	5.1%
Amortization deferred leasing and marketing costs	10,100	2.9%
Landscaping contract	9,810	2.8%
Property manager fees	7,470	2.1%
Fire prevention	7,421	2.1%
Water and sewer	6,908	2.0%
Appraisal fees	6,600	1.9%
Trash removal	5,021	1.4%
Repair and maintenance - elevator contract /maintenance	4,718	1.3%
Parking lot cleaning and sweeping	4,680	1.3%
Repair and maintenance - Plumbing	4,366	1.2%
Repair and maintenance - Roof repairs	4,124	1.2%
Legal fees	2,542	0.7%
Lighting supplies and maintenance	2,193	0.6%
Pest control	1,888	0.5%
Interior plant service	1,505	0.4%
Repair and maintenance - tools and supplies	1,402	0.4%
Trash recycle	783	0.2%
Repair and maintenance - electrical maintenance and support	705	0.2%
Janitorial supplies	575	0.2%
Repair and maintenance - Sign repair	567	0.2%
Repair and maintenance - window cleaning	466	0.1%

(Continued)

**POMPANO BEACH POLICE AND FIREFIGHTERS'
RETIREMENT SYSTEM**

POMPANO BEACH INVESTORS, LLC

SCHEDULE OF OPERATING EXPENSES (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

OTHER INFORMATION (UNAUDITED)

	<u>Amount</u>	<u>% of Rental Revenue</u>
Commission	\$ 269	0.1%
Licenses, fees and permits	260	0.1%
Locks and keys	68	0.0%
Bank fees	60	0.0%
Repair and maintenance - building general repairs	45	0.0%
Postage	<u>40</u>	<u>0.0%</u>
Total Operating Expenses	<u>\$ 405,875</u>	<u>115.1%</u>

REPORTING SECTION

**INDEPENDENT AUDITORS' 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

Pompano Beach Police and Firefighters' Retirement System

Pompano Beach, 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 Pompano Beach Police and Firefighters' Retirement System (the System), as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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 System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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.

Marcum LLP

Miami, FL
January 16, 2014