



**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Financial Statements	
Statements of Plan Net Position.....	11
Statements of Changes in Plan Net Position.....	12
Notes to Financial Statements.....	13-27
Required Supplementary Information	
Schedule of Funding Progress	28
Schedule of Employer Contributions.....	29
Notes to the Schedule of Funding Progress and Schedule of Employer Contributions.....	30
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 <i>Government Auditing Standards</i>	31-32

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Trustees and Interim Plan Administrator
City of Boca Raton Police and Firefighters' Retirement System
Boca Raton, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Boca Raton Police and Firefighters' Retirement System (the Plan), which comprise the statement of Plan net position as of September 30, 2013 and 2012, and the related statements of changes in Plan net position for the years then ended, and the related notes to the financial statements.

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 audits 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective plan net position of the Boca Raton Police and Firefighters' Retirement System as of September 30, 2013 and 2012, and the respective changes in plan net position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 2 to the financial statements, the Board of Trustees implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of October 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress on pages 3–10 and 27-30 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 any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Plan's internal control over financial reporting and compliance.

Marcum LLP

West Palm Beach, Florida
March 25, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Boca Raton Police and Firefighters' Retirement System's (the "Plan") performance provides an overview of the financial activities and funding conditions for the years ended September 30, 2013, 2012 and 2011. Readers are encouraged to consider the information presented in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- A net increase of approximately \$39.2 million in net position (or 16.0%) as a result of the year's activities was primarily due to net investment income.
- City contributions were approximately \$12.4 million. Contributions increased approximately \$2.3 million (or 23.1%) from the 2012 contribution of \$10.1 million. The 2012 contribution increased approximately \$1.5 million (or 17.2%) from the 2011 contribution of approximately \$8.6 million. The amount of employer contributions vary from year to year based on an actuarially determined requirement.
- State contributions were approximately \$3.3 million. Contributions increased approximately \$605 thousand (or 22.4%) from the 2012 contribution of approximately \$2.7 million. The 2012 contribution increased \$22 thousand (or 0.8%) from the 2011 contribution of approximately \$2.68 million. The amount of state contributions is dependent upon the taxes collected on local insurance premiums.
- Employee contributions were approximately \$3.0 million, representing 10.2% of payroll. Contributions increased approximately \$82 thousand from the 2012 contribution of approximately \$2.9 million. The 2012 contribution increased \$95 thousand from the 2011 contribution of approximately \$2.8 million. Member contributions will vary from year to year and are dependent upon several factors such as salary levels and number of active members.
- The equity and fixed income securities net investment income in an amount of approximately \$34.4 million in 2013 experienced a decrease of approximately \$2.7 million when compared to the approximate \$37.1 million gain in 2012. This followed a significant increase of approximately \$36.8 million in net investment activity in 2012 when compared to the gain experienced in 2011.
- In 2013, benefit payments and refunds of contributions decreased by approximately \$1.4 million (or 9.4%), while in 2012, benefit and refund payments increased by approximately \$3.8 million (or 34.4%). There were fewer withdrawals in 2013 in Deferred Retirement Option Plan, increases in retirement benefit recipients, as well as increases in refund payments.

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF FINANCIAL STATEMENTS

Management's Discussion and Analysis serves as an introduction to the financial statements. The financial statements consist of the Statements of Plan Net Position, the Statements of Changes in Plan Net Position, and the notes to the financial statements. The required supplementary information immediately following the financial statements presents schedules of historical trend information. The financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board.

The *Statement of Plan Net Position* is a point in time snapshot of account balances at year-end. It reports the assets available for future payments to retirees and their beneficiaries less any liabilities that are owed as of the year end. The resulting net position held in trust for pension benefits are available to meet on-going obligations.

The *Statement of Changes in Plan Net Position* displays the effect of pension fund transactions that occurred during the year. The impact of those activities is shown as additions less deductions to the plan net position. The trend of additions versus deductions to the plan indicates the condition of the Plan's financial position over time.

The *Notes to the Financial Statements* are an integral part of the financial reports. The notes provide detailed discussions of key policies and activities, and additional background that is essential for a complete understanding of the data presented in the statements.

The *Required Supplementary Information* presents historical trend information for the last six consecutive years in the schedule of funding progress and the schedule of employer contributions. The schedule of funding progress demonstrates the actuarially funded status of the plan from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to pay benefits when due. The schedule of employer contributions shows the annual required contributions of the employer and the percentage contributed in relation to the requirement.

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

The following is a condensed comparative summary of plan net position:

SUMMARY OF PLAN NET POSITION							
	2013	2012	2011	2013		2012	
				Amount Change	% Change	Amount Change	% Change
Assets							
Cash and short-term investments	\$ 6,419,414	\$ 4,980,169	\$ 5,580,206	\$ 1,439,245	28.9%	\$ (600,037)	-10.8%
Investments	277,672,836	238,235,367	201,482,794	39,437,469	16.6%	36,752,573	18.2%
Other assets	2,098,934	2,109,376	1,607,509	(10,442)	-0.5%	501,867	31.2%
Total Assets	286,191,184	245,324,912	208,670,509	40,866,272	16.7%	36,654,403	17.6%
Liabilities							
Payables	2,425,752	721,071	1,487,971	1,704,681	236.4%	(766,900)	-51.5%
Net Position	\$ 283,765,432	\$ 244,603,841	\$ 207,182,538	\$ 39,161,591	16.0%	\$ 37,421,303	18.1%

The net position of the Plan is principally comprised of investments and investment related accruals. The net position held in trust for pension benefits reported in the year 2013 was approximately \$283.8 million compared to the net position reported in 2012 of approximately \$244.6 million. The net position increased by approximately \$39.2 million (or 16.0%) primarily due to the increase in investments of approximately \$39.4 million due to the improved market conditions and increase in city contributions. When comparing 2012 net position to the 2011 net position of approximately \$207.1 million, a net position increase of approximately \$37.4 million represents continued improving market conditions as well as increased city contributions. (See below for further details.)

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

The table below is a condensed comparative summary of the changes in plan net position and reflects the activities of the Plan.

STATEMENTS OF CHANGES IN NET POSITION

				2013		2012	
	2013	2012	2011	Amount Change	% Change	Amount Change	% Change
Additions							
City contributions	\$ 12,419,043	\$ 10,092,632	\$ 8,614,508	\$ 2,326,411	23.1%	\$ 1,478,124	17.2%
State contributions	3,303,753	2,698,326	2,676,070	605,427	22.4%	22,256	0.8%
Employee contributions	2,987,320	2,905,580	2,810,410	81,740	2.8%	95,170	3.4%
Net investment income	34,407,247	37,103,842	340,072	(2,696,595)	-7.3%	36,763,770	10810.6%
Total Additions	<u>53,117,363</u>	<u>52,800,380</u>	<u>14,441,060</u>	<u>316,983</u>	<u>0.6%</u>	<u>38,359,320</u>	<u>265.6%</u>
Deductions							
Benefit payments	13,309,098	14,864,498	11,047,322	(1,555,400)	-10.5%	3,817,176	34.6%
Termination refunds	202,441	47,603	49,584	154,838	325.3%	(1,981)	-4.0%
Administrative expenses	444,233	466,976	466,375	(22,743)	-4.9%	601	0.1%
Total Deductions	<u>13,955,772</u>	<u>15,379,077</u>	<u>11,563,281</u>	<u>(1,423,305)</u>	<u>-9.3%</u>	<u>3,815,796</u>	<u>33.0%</u>
Net Increase in Net Position	<u>39,161,591</u>	<u>37,421,303</u>	<u>2,877,779</u>	<u>1,740,288</u>	<u>4.7%</u>	<u>34,543,524</u>	<u>1200.4%</u>
Net Position - Beginning of Year	<u>244,603,841</u>	<u>207,182,538</u>	<u>204,304,759</u>	<u>37,421,303</u>	<u>18.1%</u>	<u>2,877,779</u>	<u>1.4%</u>
Net Position - End of Year	<u>\$ 283,765,432</u>	<u>\$ 244,603,841</u>	<u>\$ 207,182,538</u>	<u>\$ 39,161,591</u>	<u>16.0%</u>	<u>\$ 37,421,303</u>	<u>18.1%</u>

The changes in plan net position reflect the following:

Additions to the plan net position increased by approximately \$317 thousand from approximately \$52.8 million during 2012 to approximately \$53.1 million during 2013. City contributions equaled approximately \$12.4 million which were approximately \$2.3 million (or 23.1%) higher, as determined by the annual actuarial valuation. State contributions were approximately \$605 thousand (or 22.4%) higher due to an increase in the taxes collected by the State of Florida on local insurance premiums. Net investment income was approximately \$2.7 million lower due to a lower net appreciation in the fair value of investments in 2013. Additions to plan net position increased approximately \$38.4 million from 2011 to 2012 primarily due to an increase in net investment activity of approximately \$36.8 million from continued market improvement.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

Deductions to plan net position decreased approximately \$1.4 million (or 9.3%) from approximately \$15.4 million during 2012 to approximately \$14.0 million in 2013. The majority of this activity relates to decreased deferred retirement option plan (DROP) withdrawals of approximately \$2.7 million. The decrease was partially offset by increased retirement benefits of approximately \$1.1 million due to additional retirees and cost of living increases, as well as increased refund payments of \$155 thousand. Deductions to plan net position increased approximately \$3.8 million from 2011 to 2012 due to increased DROP withdrawal activity of approximately \$2.6 million as well as increased retirement benefits of approximately \$1.2 million.

INVESTMENT ACTIVITIES

Investment income provides current and future financial stability. Therefore, the Trustees have a fiduciary responsibility to act prudently, when making Plan investment decisions.

The Board employs the services of an investment consultant to assist with informed investment decisions. The investment consultant reviews and periodically recommends changes to the Statement of Investment Policy and Objectives. Portfolio performance is reviewed quarterly by the Board and its investment consultant. Performance is evaluated for each individual money manager by investment type and for the total portfolio.

ASSET ALLOCATION

The table below indicates the asset allocation for the past three years. The table demonstrates the steps the plan has taken to diversify its assets.

SUMMARY OF ASSET ALLOCATION

	Policy		2013	2012	2011
	Range	Target	Actual	Actual	Actual
Equity					
Domestic large cap	25% - 35%	30%	31.9%	32.4%	32.2%
Domestic small cap	5% - 15%	10%	12.2%	11.3%	10.7%
Long/short equity	10% - 20%	15%	14.9%	13.5%	14.1%
International equity	10% - 20%	15%	15.5%	13.7%	12.9%
Total Equity	65% - 75%	70.0%	74.5%	70.9%	69.9%
Fixed income	15% - 25%	20%	18.2%	21.4%	20.9%
Real estate	0% - 12%	10%	7.3%	7.7%	9.2%
Total Asset Allocation		100%	100%	100%	100%

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSET ALLOCATION (CONTINUED)

The percentage of total assets invested in each asset class was within the policy ranges and close to the target asset mix. Moderate changes in asset allocation occurred in 2013 primarily due to market conditions and reallocations in the equity asset classes. Each asset class fluctuated less than 2%, except for fixed income. Fixed income decreased 3.2% indicative of market conditions. Notable changes in equity asset class occurred in 2013 due to the termination of an international asset manager and increased funding to the long/short equity and the remaining international asset manager. Moderate changes in allocation occurred in 2012 primarily due to market conditions somewhat offset by midyear allocations to fund a dedicated emerging market manager.

INVESTMENT RETURNS

The summary of investment returns reflects the past three year returns as well as the three-year and five-year annualized rates of return for the year ending September 30th. The rates of return are time weighted, gross of fees, and based on market rate of return.

SUMMARY OF INVESTMENT RETURNS

Security Type					
<i>Fund Return</i>	<u>Annualized Return</u>				
Benchmark Return	2013	2012	2011	3 Years	5 years
Equity					
<i>Domestic large cap equity</i>	20.8%	29.8%	2.8%	17.3%	10.8%
<i>Domestic large cap value</i>	24.4%	29.6%	0.3%	17.4%	11.3%
Russell 1000 Value	22.3%	30.9%	-1.9%	16.3%	8.9%
<i>Domestic large cap core</i>	18.3%	31.1%	2.2%	16.6%	10.3%
S&P 500	19.3%	30.2%	1.1%	16.3%	10.0%
<i>Domestic large cap growth</i>	20.2%	28.7%	5.9%	17.9%	11.2%
Russell 1000 Growth	19.3%	29.2%	3.8%	16.9%	12.1%
<i>Domestic small / mid cap</i>	25.5%	25.0%	-0.7%	15.9%	11.0%
Russell 2500	29.8%	30.9%	-2.2%	18.4%	12.7%
<i>Long/Short equity</i>	14.0%	14.1%	N/A	N/A	N/A
HFRI Strategic	8.4%	3.3%	N/A	2.9%	2.4%
<i>International equity fund</i>	18.3%	19.3%	-13.7%	6.8%	4.7%
MSCI EAFE	24.3%	14.3%	-8.9%	9.0%	6.9%
Fixed Income	-1.0%	7.8%	4.9%	3.8%	7.1%
Barclays Capital Aggregate	-1.7%	5.2%	5.3%	2.9%	5.4%
Real Estate	11.0%	10.0%	21.7%	12.7%	3.4%
<i>Strategic property fund</i>	14.9%	12.4%	18.1%	15.1%	2.1%
<i>Value add real estate</i>	26.8%	6.6%	38.8%	23.3%	-13.3%
NCREIF Property	11.0%	11.0%	16.1%	12.7%	3.4%
Total Fund Return	14.9%	19.0%	1.3%	11.5%	7.9%
Total Fund Benchmark	14.8%	20.6%	1.8%	12.2%	8.4%

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT RETURNS (CONTINUED)

The Plan returned 14.9% for the year ended September 30, 2013, as compared to a 19.0% return for 2012 and a 1.3% return for 2011. The Plan's performance this year was the result of strong returns in all asset classes, especially in the domestic and international equity markets. Fixed income showed a negative 1.0% return. In 2012, the impressive performance was the result of strong returns in all asset classes, especially in the domestic and international equity markets. In 2011, the moderate returns in the equity markets, especially in the real estate and domestic large cap equity asset classes, were substantially offset by the international asset class resulting in a slightly positive total return. While the total fund return is slightly higher than the total fund benchmark this year, it however lagged behind the benchmark in the two previous years as well as the 3-year and 5-year annualized rates of return.

ECONOMIC FACTORS AND FUNDING STATUS

The Plan's funding objectives are to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of contributions and the income from investments are essential for providing the reserves needed to finance future retirement benefit payments. The Plan's investment activities are a function of the underlying marketplace for the period measured, money manager performance, and the investment policy's asset allocation. Maintaining a diversified portfolio of investments is critical for an opportunity of positive returns. A retirement plan's funding is a long term concept, where temporary fluctuations in the market are expected. The economic outlook remains positive, but may contain volatility due to the slow housing market and uncertain interest rate changes. The market continues to have excellent opportunity for the possibility of growth in many sectors. The Plan has successful investment programs and management practices in place to help alleviate the effects of present and future adverse economic conditions.

The funding ratio is the percentage between the actuarial value of assets and the actuarial accrued liabilities as of each actuarial valuation date. The higher the ratio, the better funded the Plan is from an actuarial perspective. The schedule of funding progress provides trend funded ratio information for the past six years. The latest actuarial valuation date is October 1, 2012. The actuarial value of assets was \$218 million and the actuarial accrued liability was \$347 million. This resulted in a funded ratio of 63%, which was approximately the same funded ratio as the previous valuation.

Management and its actuary believe that the Plan remains in sound financial position to meet its future obligations to the plan participants and beneficiaries.

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUESTS FOR INFORMATION

This financial report is designed to provide the Trustees, retired and active plan participants with an overview of the Plan's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the City of Boca Raton Police and Firefighters' Retirement System at 2333 Glades Road, Boca Raton, Florida 33431, phone (561) 554-8520.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

STATEMENTS OF PLAN NET POSITION

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Assets		
Cash and Short-Term Investments	\$ 6,419,414	\$ 4,980,169
Investments, at Fair Value		
Common stock	116,406,455	99,815,725
U.S. government securities	18,747,228	21,764,595
Corporate bonds and debentures	24,319,482	21,596,904
Commingled funds	98,339,837	77,096,708
Real estate	19,859,834	17,961,435
Total Investments	277,672,836	238,235,367
Other Assets		
Interest and dividends receivable	405,918	397,189
Unsettled trades receivable	1,650,775	353,509
Contributions receivable	--	1,321,986
Other assets	42,241	36,692
Total Other Assets	2,098,934	2,109,376
Total Assets	286,191,184	245,324,912
Liabilities and Deferred Inflows of Resources		
Liabilities		
Accounts payable and accrued expenses	314,523	300,482
Unsettled trades payable	2,111,229	420,589
Total Liabilities	2,425,752	721,071
Deferred Inflows of Resources		
Advanced state contribution	460,057	--
Total Liabilities and Deferred Inflows of Resources	2,885,809	721,071
Net Position Held in Trust for Pension Benefits	\$ 283,305,375	\$ 244,603,841

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

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

STATEMENTS OF CHANGES IN PLAN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Additions		
Contributions		
City	\$ 12,419,043	\$ 10,092,632
State	2,843,696	2,698,326
Employee	<u>2,987,320</u>	<u>2,905,580</u>
Total Contributions	<u>18,250,059</u>	<u>15,696,538</u>
Investment Income		
Net appreciation in fair value of investments	30,417,256	33,231,871
Interest	1,624,335	1,650,768
Dividends	3,560,080	3,336,177
Other income	<u>3,923</u>	<u>4,810</u>
Total investment income	35,605,594	38,223,626
Less investment expenses	<u>(1,198,347)</u>	<u>(1,119,784)</u>
Net Investment Income	<u>34,407,247</u>	<u>37,103,842</u>
Total Additions	<u>52,657,306</u>	<u>52,800,380</u>
Deductions		
Benefit payments		
Retirement	9,914,942	8,768,179
Disability	947,762	1,067,142
Death	594,815	502,616
Deferred retirement option plan	1,851,579	4,526,561
Termination refunds	202,441	47,603
Administrative expenses	<u>444,233</u>	<u>466,976</u>
Total Deductions	<u>13,955,772</u>	<u>15,379,077</u>
Net Increase	38,701,534	37,421,303
Net Position Held in Trust for Pension Benefits		
Beginning of Year	<u>244,603,841</u>	<u>207,182,538</u>
End of Year	<u>\$ 283,305,375</u>	<u>\$ 244,603,841</u>

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

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

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

PLAN DESCRIPTION

The City of Boca Raton Police and Firefighters' Retirement System (the Plan) is a single-employer defined benefit plan administered by an eight member Board of Trustees which covers all City of Boca Raton, Florida (the City) police officers and firefighters. The Plan was established by Ordinance 1806, adopted April 17, 1973, by City Council. The Plan is also governed by Chapters 112, 175 and 185, *Florida Statutes*.

Since the Plan is a single-employer public employee retirement system sponsored by the City, the Plan is included as a pension trust fund in the City's Comprehensive Annual Financial Report (CAFR) as part of the City's financial reporting entity for the year ended September 30, 2013. Anyone wishing further information about the City is referred to the CAFR in which the Plan has been included.

As of September 30, 2013 and 2012, membership in the Plan consisted of:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving	292	279
Vested terminated employees	2	3
Active employees:		
Fully vested	146	150
Nonvested	<u>187</u>	<u>193</u>
Total	<u><u>627</u></u>	<u><u>625</u></u>

PENSION BENEFITS

Normal Retirement

The earliest date at which a police officer and firefighter can receive full benefits is called the normal retirement date. The normal retirement date is the first day of the month coincident with or following completion of 20 years of continuous service or attainment of age 55 with 10 years of continuous service. There is no mandatory retirement date; employees may work past their normal retirement date and continue to accrue additional benefits.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Normal Retirement (continued)

A police officer member who exercises normal retirement is entitled to receive a benefit payable monthly equal to 3.5% of the average monthly earnings for the highest two consecutive years of compensation multiplied by the member's years of continuous service subject to a maximum of 87.5%.

A firefighter member who exercises normal retirement is entitled to receive a benefit payable monthly equal to 3.4% of the average monthly earnings for the highest two consecutive years of compensation multiplied by the member's years of continuous service.

Members separating from service receive a \$10.50 monthly supplement per year of service. Members who retired on October 26, 2010 or prior received a \$10 monthly supplement per year of service.

Early Retirement

A member of the Plan may be eligible for early retirement after attainment of age 50 with 10 years of continuous service. Members so qualifying may receive benefits under one of the following two options:

1. The benefits can be deferred until the member's normal retirement date, in which case the benefit will be calculated the same as discussed above under normal retirement, or
2. The member may take a reduced benefit, which may start any time prior to the normal retirement date. The reduction factor is 3% for each year prior to the normal retirement date.

Disability Retirement

Active employees under a disability retirement shall be entitled to receive a retirement benefit equal to 75% of the member's average monthly earnings or accrued benefit if the disability occurred in-service. The monthly benefit for a non-service incurred disability is equal to the normal benefit accrued by the member as of the date of the disability. Such benefit is payable from the first day of disability.

Disability benefits are paid until the earlier of death or recovery from disability.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Preretirement Death Benefit

If an active employee dies from a service-incurred death, a lump-sum payment of \$5,000 is paid to the beneficiaries. In addition, the surviving spouse receives a monthly benefit until death, equal to 75% of the average monthly earnings. An additional 7½% of the average monthly earnings is paid for each minor child, but in no event does the amount paid to the spouse and children exceed 90% of the member's average monthly earnings. The payments to the children ends upon the earlier of death, marriage, attainment of age 18, or age 22 if the child is a full-time student in an accredited school.

If an active employee dies from a non-service incurred cause and has less than one year of continuous service, a single payment of \$2,500 is paid to the beneficiaries. If the employee has more than one year of continuous service, a single payment of \$5,000 is paid to the beneficiaries. If the employee has five or more years of service, the surviving spouse will receive a monthly pension equal to 65% of the employee's accrued pension. An additional 7½% of the average monthly earnings is paid for each minor child, but in no event does the amount paid to the spouse and children exceed 50% of the member's average monthly earnings. Payments to the children end upon the earlier of death, marriage, attainment of age 18, or age 22 if the child is a full-time student in an accredited school.

Termination Refunds

If an employee terminates employment and is not eligible for any other benefits under the system, he is entitled to the following:

- With less than 10 years of continuous service, a refund of the member contribution is made plus 3% interest, or
- With 10 or more years of continuous service, the pension accrued to the date of termination, payable commencing at his or her normal retirement date or at the member's option, lump-sum refund of the member contribution is made plus 3% interest.

Deferred Retirement Option Plan

The Deferred Retirement Option Plan (DROP) is available to active plan members who are eligible for normal retirement. Upon electing to participate in the DROP, members are considered to have retired for purposes of the pension plan but continue to remain in active employment with the City. The member's normal retirement benefit is calculated as if the member had actually retired on the date of DROP participation, using continuous service and average monthly earnings as of that date.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Deferred Retirement Option Plan (continued)

Instead of paying the benefit to the member, a DROP account is established and the benefit is deposited in the account each month; these deposits continue to accumulate during the remainder of the member's employment. The DROP account may remain a commingled part of the pension plan or may be self-directed with an established retirement corporation. City and employee contributions cease when a member elects to participate in the DROP. Member's benefits are eligible for cost-of-living increases during DROP participation.

During the period of DROP participation, the member's DROP account is credited quarterly with investment earnings at the same rate that is earned on the total pension fund or as self-directed, if applicable. In addition, each member's account is charged with a portion of the administrative expenses. The maximum period of DROP participation is five years. If a member continues to remain in employment more than five years, no further deposits will be made to the member's account and investment earnings will cease to be posted. Administrative expenses will continue to be charged. There is no taxation of benefits during the period of DROP participation.

Upon termination of employment, members may elect to receive their funds from the DROP account in a lump sum, annual installments or monthly annuity distributions. Benefits distributions must commence by age 70½.

When participating in the DROP, participants are no longer eligible for disability or preretirement death benefits from the Plan. If a participant dies prior to the DROP balance being paid in full, the beneficiary shall have the same rights to which the participant was entitled. At September 30, 2013, there were 87 DROP participants with a total balance of \$17,763,710. At September 30, 2012, there were 94 DROP participants with a total balance of \$14,313,959.

Cost-of-Living Adjustment

Police officer participants eligible to receive normal retirement benefits at the time they leave employment of the City, are eligible to receive a 2% cost-of-living adjustment every year after the first year of retirement. Retirements before October 1, 2001 receive a 3% cost of living adjustment every two years.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Cost-of-Living Adjustment (continued)

Firefighter participants eligible to receive normal retirement benefits and have 22 or more years of continuous service (or 20 years if retired prior to December 9, 2008), are eligible for an increased benefit of 3% each year once they have attained the age of 52 or have been retired one year, whichever comes later. Participants with 21 years of continuous service are eligible for the cost-of-living adjustment after two years and with 20 years of continuous service are eligible after three years. Benefits payable for service-related death and disability benefits are increased by 3% each year starting with the date they would have attained age 52. No increases apply to nonservice related death or disability benefits unless they complete 20 years of continuous service prior to their death or disability.

CONTRIBUTIONS AND FUNDING POLICY

Contributions required from contributory police and firefighter members are at the rate of 10.2% of compensation. Employer contributions for the year ended September 30, 2013, determined using the actuarial valuation dated October 1, 2011, were 42.67% of covered payroll. Employer contributions for the year ended September 30, 2011, determined using the actuarial valuation dated October 1, 2010, were 32.74% of covered payroll. The Plan's funding policy provides for actuarially determined periodic employer contributions sufficient to pay the benefits provided by the Plan when they become due. Administrative costs are funded through investment earnings.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements are prepared using the accrual basis of accounting. Contributions from members are recorded in the period the City makes payroll deductions from participants (members). City contribution requirements are actuarially determined and remitted on a monthly basis. Benefit payments and refunds to members are recognized when due and payable in accordance with the terms of the Plan.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Board implemented the following GASB Statements during the fiscal year ended September 30, 2013:

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.

GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities.*

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

This statement incorporates into GASB literature certain accounting and financial reporting guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements which does not conflict with GASB pronouncements, which had no impact on the financial information in the current year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in net position available for plan benefits. Actual results could differ from those estimates.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS

The Plan's cash deposits are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act*. Therefore, all deposits are deemed as insured.

INVESTMENTS

Investments are generally reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Securities for which no sale was reported on that date are valued at the last reported bid price. Real estate investment fair value is estimated based on the latest independent appraisal information. Commingled funds that do not have an established market are reported at the net asset value of shares owned at the end of the year. Purchases and sales of securities are recorded on the trade date basis. Net appreciation (depreciation) in fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined based on average cost. Dividends and interest income are recorded as earned on an accrual basis.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Plan has no items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Plan's one item that qualifies for reporting in this category is an advanced state contribution of \$460,057 received prior to year end relating to the subsequent reporting period.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAX STATUS

Management and tax counsel believe that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code. The Plan has applied for a new determination letter and management has indicated that they will take the necessary steps, if any, to bring the Plan's operations into compliance with the Code.

NOTE 3 – DEPOSITS AND INVESTMENTS

The following represents the fair value of deposits and investments at September 30th:

Investment Portfolio	2013		2012	
	Fair Value	Percentage of Distribution	Fair Value	Percentage of Distribution
Cash and Short-Term Investments				
Cash deposits	\$ 2,622,394	0.92%	\$ 2,107,810	0.87%
Short-term investments	3,797,020	1.34%	2,872,359	1.18%
Total Cash and Short-Term Investments	6,419,414	2.26%	4,980,169	2.05%
Common Stock	116,406,455	40.97%	99,815,725	41.04%
U.S. Government Securities				
U.S. Treasury Securities:				
U.S. Treasury notes	3,770,293	1.33%	3,366,660	1.38%
U.S. Treasury bonds	924,262	0.33%	2,178,563	0.90%
Total U.S. Treasury Securities	4,694,555	1.65%	5,545,223	2.28%
U.S. Government Sponsored Agencies:				
Mortgage-backed Securities				
Federal National Mortgage Association	8,805,242	3.10%	10,121,180	4.16%
Government National Mortgage Association	2,962,817	1.04%	2,946,494	1.21%
Federal Home Loan Mortgage Corporation	2,284,615	0.80%	3,151,698	1.30%
Total Mortgage-backed Securities	14,052,674	4.95%	16,219,372	6.67%
Total U.S. Government Securities	18,747,229	6.60%	21,764,595	8.95%
Corporate Bonds and Debentures				
Corporate obligations	22,005,359	7.75%	19,826,040	8.15%
Commercial mortgage-backed securities	1,023,273	0.36%	967,171	0.40%
Asset-backed securities	1,290,850	0.45%	803,693	0.33%
Total Corporate Bonds and Debentures	24,319,482	8.56%	21,596,904	8.88%

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Portfolio	2013		2012	
	Fair Value	Percentage of Distribution	Fair Value	Percentage of Distribution
Commingled Funds				
Long/Short equity fund of funds	40,396,301	14.22%	31,494,102	12.95%
International equity funds	30,723,645	10.81%	20,658,199	8.49%
High yield fixed income fund	5,207,259	1.83%	4,985,060	2.05%
Mutual funds	22,012,631	7.75%	19,959,347	8.21%
Total Commingled Funds	98,339,836	34.62%	77,096,708	31.70%
Real Estate Direct Investment Partnership	19,859,834	6.99%	17,961,435	7.38%
Total Investments	277,672,836	97.74%	238,235,367	97.95%
Total Cash and Investments	\$ 284,092,250	100.00%	\$ 243,215,536	100.00%

INVESTMENT MANAGEMENT

The Board of Trustees has engaged outside investment professionals to manage the assets of the Plan. Firms registered with the Securities and Exchange Commission as investment advisors manage the fixed income assets and equity assets of the Plan. The Custodian is responsible for the activity and safekeeping of the investment assets. An investment consultant is utilized to advise the Board on investment policy amendments, as well as investment manager performance, benchmarks and selection.

INVESTMENT POLICY

The Statement of Investment Policy and Objectives (Policy), effective October 1, 2012 is reviewed by the Board annually. Compliance with the policy is required by the investment managers and is monitored by the investment consultant. All investments must be traded on a national securities exchange with the exception of real estate investments. Prohibited securities include illiquid investments for which a generally recognized market is not available. This policy stipulates long-range asset allocation, measured at fair value. Rebalancing to target allocations is considered annually. The asset mix and permitted investments established by the policy are as follows:

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT POLICY (CONTINUED)

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Equity Investments	65%	70%	75%
Common stock, convertible preferred stock and convertible bonds are permitted			
Domestic large cap stocks	25%	30%	35%
Domestic small cap stocks	5%	10%	15%
Long/short equity	10%	15%	20%
International equity	10%	15%	20%
Fixed Income Investments	15%	20%	25%
Mortgages and mortgage backed securities, cash equivalent securities, money market funds including short term investment funds, bonds and preferred stock are permitted.			
Real Estate	0%	10%	12%
Real estate is permitted			

EQUITY SECURITY INVESTMENT GUIDELINES

Domestic large cap stocks have a style target allocation of 50% core, 25% growth and 25% value and are limited to a sector exposure of 35% of the equity manager's portfolio. Domestic small cap stocks are limited to a sector exposure of 40% of the equity manager's portfolio.

Equity investment individual holdings cannot exceed 5% of the total equity portfolio, except for the large cap core equity managers. Not more than 5% of the fair value of plan assets can be invested in the securities of any one issuing company and investments in one issuing company cannot exceed 5% of their outstanding stock.

In general, only the international equity manager and the global long/short equity comingled fund are permitted to invest in foreign equity securities. However, domestic equity managers are permitted to invest up to 7½% of their portfolio in sponsored American Depository Receipts and other foreign stock listed on the New York Stock Exchange.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

EQUITY SECURITY INVESTMENT GUIDELINES (CONTINUED)

The Plan is required to comply with the Protecting Florida's Investment Act (PFIA). A quarterly reporting of securities held in scrutinized companies as published by the Florida State Board of Administration provided by the investment consultant must be publically reported. Direct holdings in any scrutinized company in accordance with the PFIA require divestiture. Indirect holdings are excluded from required divestiture.

FIXED INCOME SECURITY INVESTMENT GUIDELINES AND RISK

The following represents the fair value of investments at September 30th with credit ratings and weighted average maturity (in years) on the fixed income portfolio:

<u>Fixed Income Investments/Moody's Credit Rating</u>	2013		2012	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Short-Term Securities <i>Not rated</i>	\$ 3,797,021		\$ 2,872,359	
U.S. Government Securities				
U.S. Treasury Securities:				
U.S. Treasury notes Aaa	3,770,293		3,366,660	
U.S. Treasury bonds Aaa	924,262		2,178,563	
Total U.S. Treasury Securities	4,694,555	11.18	5,545,223	15.50
U.S. Government Sponsored Agencies:				
Mortgage-backed Securities				
Federal National Mortgage Association Aaa	\$ 8,805,242		\$ 10,121,180	
Government National Mortgage Association Aaa	2,962,817		2,946,494	
Federal Home Loan Mortgage Corp Aaa	2,284,615		3,151,698	
Total Mortgage-backed Securities	14,052,674	25.56	16,219,372	27.50

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FIXED INCOME SECURITY INVESTMENT GUIDELINES AND RISK (CONTINUED)

Fixed Income Investments/Moody's Credit Rating	2013		2012	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Corporate Bonds and Debentures				
Corporate obligations				
Aaa	394,070		--	
Aa	1,461,415		2,047,983	
A	12,044,051		9,767,093	
Baa	<u>8,105,823</u>		<u>8,010,964</u>	
Total Corporate Obligations	<u>22,005,359</u>	5.92	<u>19,826,040</u>	6.03
Commercial mortgage-backed securities				
Aaa	346,146		254,966	
Not rated	<u>677,126</u>		<u>712,205</u>	
Total Commercial Mortgage-Backed Securities	<u>1,023,272</u>	28.47	<u>967,171</u>	28.67
Asset-backed securities				
Aaa	1,230,598		510,731	
Not rated	<u>60,252</u>		<u>292,962</u>	
Total Asset-Backed Securities	<u>1,290,850</u>	3.49	<u>803,693</u>	3.49
High Yield Fixed Income Fund Ba3	<u>5,207,259</u>		<u>4,985,060</u>	
Total Fixed Income Portfolio	<u>\$ 52,070,990</u>		<u>\$ 51,218,918</u>	

Government agency securities are not rated but have an implied Aaa rating.

The Plan is potentially exposed to various types of investment risk including credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

The following is a detailed discussion of these investment risks and related guidelines:

Credit Risk

Credit risk is the risk that a debt issuer will not fulfill its obligations. The Plan utilizes portfolio diversification in order to limit investments to the highest rated securities as rated by nationally recognized rating agencies. The investment policy limits credit risk by requiring fixed income securities to maintain a weighted average credit quality rating of A or better. The policy further limits high yield fixed income securities to 20% of the portfolio. The investment policy does not permit private placement bonds, except for Rule 144A securities of U.S. issuers which are limited to five percent of the portfolio. At September 30, 2013 and 2012, the portfolio met the credit rating limitations of the policy as presented in the preceding table.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FIXED INCOME SECURITY INVESTMENT GUIDELINES AND RISK (CONTINUED)

Custodial Credit Risk

Custodial credit risk is defined as the risk that the Plan may not recover investments held by another party in the event of financial failure. Custodial credit risk is limited since investments are held in independent custodial safekeeping accounts or commingled funds.

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. The Plan utilizes limitations on securities of a single issuer to manage this risk. The investment policy requires that corporate bond issuers cannot represent more than five percent of the fair value of the portfolio. At September 30, 2013 and 2012, the portfolio met the investments with a corporate single issuer limitation of the policy.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect fair value of an investment in debt securities. Generally, the longer the time to maturity, the greater the exposure to interest rate risks. The established performance objectives require investment maturities to match anticipated cash-flow requirements in order to pay obligations when due. At September 30, 2013 and 2012, the weighted average maturity in years for each investment type is included in the preceding tables.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The investment policy permits a maximum of 10% of the market value of the fixed income portfolio to be invested in Yankee securities (foreign issuers of U.S. dollar-denominated debt). At September 30, 2013 and 2012, less than 7% of the market value of the fixed income portfolio was invested in Yankee securities, which met the limitations of the policy. The Plan is not subject to foreign currency risk.

RISKS AND UNCERTAINTIES

The Plan 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 those changes could materially affect the amounts reported in the statement of plan net position. The Plan, through its investment advisor, monitors the Plan's investments and the risks associated therewith on a regular basis which the Plan believes minimizes these risks.

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

RISKS AND UNCERTAINTIES (CONTINUED)

Plan 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 would be material to the financial statements.

NOTE 4 – TRANSFERS TO/FROM OTHER PLANS

Members have status changes during their employment with the City. Certain status changes require a change in membership in the pension plan. A transfer therefore occurs to/from the General Employees' Pension Plan.

The amount transferred as a result of the change in status or election is the actuarial value of their accrued benefit. Amounts transferred to other plans are presented on the Statements of Changes in Plan Net Position as Deductions. Amounts transferred from other plans are presented as Contributions.

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of October 1, 2012, the most recent actuarial valuation date and 2011, is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Annual Covered Payroll [(b-a)/c]
October 1, 2012	\$ 217,637	\$ 346,647	\$ 129,010	62.8%	\$ 29,458	437.9%
October 1, 2011	205,429	327,580	122,151	62.7%	28,591	427.2%

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

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

Additional information as of the actuarial valuation dated 2012 and 2011 is as follows:

Actuarial valuation:

Frequency	Annual	Annual
Latest date	October 1, 2012	October 1, 2011
Cost method	Entry age normal	Entry age normal
Remaining amortization period	3 to 30 years	4 to 30 years
Asset valuation method	4 year smoothed average - with 80% / 115% corridor	4 year smoothed average - with 80% / 115% corridor
Amortization method	Level percent, closed	Level percent, closed
Assumptions:		
Investment rate of return*	8.0%	8.0%
Projected salary increases*	4.5% - 7.5%	4.5% - 7.5%
Mortality table	1994 Group Annuity Table	1994 Group Annuity Table
*Includes inflation at 4.5%		
Cost-of-living adjustments	Police: 2% annually Fire: 3% annually	Police: 2% annually Fire: 3% annually

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN THOUSANDS)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Annual Covered Payroll [(b-a)/c]
October 1, 2012	\$ 217,637	\$ 346,647	\$ 129,010	62.8%	\$ 29,458	437.9%
October 1, 2011	205,429	327,580	122,151	62.7%	28,591	427.2%
October 1, 2010	208,497	296,742	88,245	70.3%	29,499	299.1%
October 1, 2009	204,965	274,735	69,770	74.6%	29,767	234.4%
October 1, 2008	203,745	252,988	49,243	80.5%	28,637	172.0%
October 1, 2007	197,932	231,789	33,857	85.4%	24,891	136.0%

CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(DOLLAR AMOUNT IN THOUSANDS)

<u>Fiscal Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
2013	\$ 15,099	\$ 12,419	\$ 2,844	101%
2012	12,902	10,093	2,698	99%
2011	11,499	8,615	2,676	98%
2010	10,153	6,688	2,747	93%
2009	8,527	5,605	3,300	104%
2008	7,229	4,524	3,592	112%

**CITY OF BOCA RATON
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

REQUIRED SUPPLEMENTARY INFORMATION

**NOTES TO THE SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

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

- None

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

- The mortality assumption was changed from a table with no projected mortality improvements to a more recent table with projected mortality improvements.

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

- The assumed rate of pay increase was temporarily decreased by 1% per year for the three years starting October 1, 2008 for Firefighters.
- The COLA for Firefighters was deferred for up to an additional two years for retirement with less than 22 years of service.
- The method of amortization was changed in order to comply with Rule 60T-1.003(3) (c). F.A.C. Previously, the amortization bases and their annual amortization amounts were proportionately adjusted each year according to the excess of the City's contribution over the minimum required contribution. The amortization schedules were fixed with the annual amortization amounts increasing by the assumed payroll growth rate. The change was the creation of a credit balance account, which tracks any excess or shortfall in the City's contribution and may be available as a credit toward future required contributions.

2007 Change in plan provisions and actuarial methods since prior actuarial valuations:

- A one-time additional pay increase of 7% effective October 1, 2007 was assumed for Police Officers.
- The maximum benefit multiplier was increased for Police Officers from 84.0% to 87.5%.

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 and Interim Plan Administrator
City of Boca Raton Police and Firefighters' Retirement System
Boca Raton, 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 statement of Plan net position and changes in Plan net position of the City of Boca Raton Police and Firefighters' Retirement System (the Plan), as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the Plan's financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 Plan'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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

West Palm Beach, Florida
March 25, 2014