



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

FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Trustees
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 statements of fiduciary net position as of September 30, 2014 and 2013, and the related statements of changes in fiduciary 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 an opinion on these financial statements based on our audits. 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 opinion.

Opinion

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, 2014 and 2013, 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. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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 changes in the City's net pension liability and related ratios, City contributions and investment returns on pages 3-9 and 27-29 be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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 26, 2015 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 26, 2015

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, 2014, 2013 and 2012. Readers are encouraged to consider the information presented in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- A net increase of approximately \$28.8 million in net position (or 10.2%) as a result of the year's activities was primarily due to net investment income.
- City contributions were approximately \$13.2 million. Contributions increased approximately \$764 thousand (or 6.1%) from the 2013 contribution of \$12.4 million. The 2013 contribution increased approximately \$2.3 million (or 23.1%) from the 2012 contribution of approximately \$10.1 million. The amount of employer contributions vary from year to year based on an actuarially determined requirement.
- State contributions were approximately \$2.9 million. Contributions increased approximately \$24 thousand (or 0.9%) from the 2013 contribution of approximately \$2.8 million. The 2013 contribution increased \$145 thousand (or 5.4%) from the 2012 contribution of approximately \$2.7 million. The amount of state contributions is dependent upon the taxes collected on local insurance premiums.
- Employee contributions were approximately \$3.1 million, representing 10.2% of payroll. Contributions increased approximately \$131 thousand from the 2013 contribution of approximately \$3.0 million. The 2013 contribution increased \$82 thousand from the 2012 contribution of approximately \$2.9 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 \$26.3 million in 2014 experienced a decrease of approximately \$8.2 million when compared to the approximate \$34.4 million gain in 2013. This followed an increase of approximately \$2.7 million in net investment activity in 2013 when compared to the gain experienced in 2012.

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 fiduciary net position, the statements of changes in fiduciary net position, and the notes to the financial statements. The required information immediately following the financial statements presents required supplementary 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

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

The *Statement of Changes in Fiduciary 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 fiduciary 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 a schedule of changes in net pension liability and related ratios, a schedule of employer contributions, and a schedule of investment returns of the Plan along with a discussion of actuarial assumptions and methods.

FINANCIAL ANALYSIS

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

SUMMARY OF FIDUCIARY NET POSITION

				2014		2013	
	2014	2013	2012	Amount Change	% Change	Amount Change	% Change
Assets							
Cash and short-term investments	\$ 3,343,490	\$ 6,419,414	\$ 4,980,169	\$ (3,075,924)	-47.9%	\$ 1,439,245	28.9%
Investments	308,598,716	277,672,836	238,235,367	30,925,880	11.1%	39,437,469	16.6%
Receivables	1,206,589	2,056,693	2,072,684	(850,104)	-41.3%	(15,991)	-0.8%
Other assets	45,103	42,241	36,692	2,862	6.8%	5,549	15.1%
Total Assets	313,193,898	286,191,184	245,324,912	27,002,714	9.4%	40,866,272	16.7%
Liabilities							
Payables	1,122,647	2,425,752	721,071	(1,303,105)	-53.7%	1,704,681	236.4%
Deferred Inflows of Resources							
Advanced City Contributions	--	460,057	--	(460,057)	-100.0%	460,057	0.0%
Net Position Restricted for Pension Benefits	\$ 312,071,251	\$ 283,305,375	\$ 244,603,841	\$ 28,765,876	10.2%	\$ 38,701,534	15.8%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

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 2014 was approximately \$312.1 million compared to the net position reported in 2013 of approximately \$283.3 million. The net position increased by approximately \$ 28.7 million (or 10.2%) primarily due to the increase in investments of approximately \$30.9 million due to the improved market conditions and increase in city contributions. When comparing 2013 net position to the 2012 net position of approximately \$244.6 million, a net position increase of approximately \$38.7 million represents continued improving market conditions as well as increased city contributions. (See below for further details.)

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

SUMMARY OF FIDUCIARY NET POSITION

				2014		2013	
	2014	2013	2012	Amount Change	% Change	Amount Change	% Change
Additions							
City contributions	\$ 13,182,553	\$ 12,419,043	\$ 10,092,632	\$ 763,510	6.1%	\$ 2,326,411	23.1%
State contributions	2,868,153	2,843,696	2,698,326	24,457	0.9%	\$ 145,370	5.4%
Employee contributions	3,118,159	2,987,320	2,905,580	130,839	4.4%	\$ 81,740	2.8%
Net investment income	26,270,178	34,407,247	37,103,842	(8,137,069)	-23.6%	\$ (2,696,595)	-7.3%
Total Additions	45,439,043	52,657,306	52,800,380	(7,218,263)	-13.7%	(143,074)	-0.3%
Deductions							
Benefit payments	16,235,331	13,309,098	14,864,498	2,926,233	22.0%	(1,555,400)	-10.5%
Termination refunds	75,367	202,441	47,603	(127,074)	-62.8%	154,838	325.3%
Administrative expenses	362,469	444,233	466,976	(81,764)	-18.4%	(22,743)	-4.9%
Total Deductions	16,673,167	13,955,772	15,379,077	2,717,395	19.5%	(1,423,305)	-9.3%
Net Increase in Fiduciary Net Position	28,765,876	38,701,534	37,421,303	(9,935,658)	-25.7%	1,280,231	3.4%
Fiduciary Net Position - Beginning of Year	283,305,375	244,603,841	207,182,538	38,701,534	15.8%	37,421,303	18.1%
Fiduciary Net Position - End of Year	\$ 312,071,251	\$ 283,305,375	\$ 244,603,841	\$ 28,765,876	10.2%	\$ 38,701,534	15.8%

The changes in fiduciary net position reflect the following:

Additions to the Plan net position decreased by approximately \$7.3 million from approximately \$52.7 million during 2013 to approximately \$45.4 million during 2014. City contributions equaled approximately \$13.2 million which were approximately \$764 thousand (or 6.1%) higher, as determined by the annual actuarial valuation. State contributions were approximately \$24 thousand (or 0.9%) higher due to an increase in the taxes collected by the State of Florida on local insurance premiums. Net investment income was approximately \$8.2 million lower due to a lower net appreciation in the fair value of investments in 2014. Additions to Plan net position decreased approximately \$143 thousand from 2012 to 2013 primarily due to a decrease in net investment activity of approximately \$2.7 million from continued market improvement.

**CITY OF BOCA RATON
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS (CONTINUED)

Deductions to Plan net position increased approximately \$2.7 million (or 19.5%) from approximately \$14.0 million during 2013 to approximately \$16.7 million in 2014. The majority of this activity relates to increased deferred retirement option plan (DROP) withdrawals of approximately \$1.8 million as well as increased retirement benefits of approximately \$1.1 million due to additional retirees and cost of living increases. The increase was partially offset by decreased refund payments of \$127 thousand. Deductions to plan net position decreased approximately \$1.4 million from 2012 to 2013 due to decreased DROP withdrawal activity of approximately \$2.7 million as well as increased retirement benefits of approximately \$1.1 million.

INVESTMENT ACTIVITIES

Investment income provides current and future financial stability. Therefore, the Board of 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		2014	2013	2012
	Range	Target	Actual	Actual	Actual
Equity					
Domestic large cap	25% - 35%	30%	31.5%	31.9%	32.4%
Domestic small cap	5% - 15%	10%	10.9%	12.2%	11.3%
Long/short equity	10% - 20%	15%	15.4%	14.9%	13.5%
International equity	10% - 20%	15%	15.9%	15.5%	13.7%
Total Equity	65% - 75%	70.0%	73.7%	74.5%	70.9%
Fixed income	15% - 25%	20%	18.1%	18.2%	21.4%
Real estate	0% - 12%	10%	8.2%	7.3%	7.7%
Total Asset Allocation		100%	100%	100%	100%

**CITY OF BOCA RATON
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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 2014 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 0.1% indicative of market conditions. Notable changes in equity asset class occurred in 2014 due to the termination of large cap equity asset manager, hiring of a new real estate asset manager, and increased funding to the domestic small cap equity, long/short equity, and the remaining international asset manager. Moderate changes in allocation occurred in 2013 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>	Annualized Return				
Benchmark Return	2014	2013	2012	3 Years	5 years
Equity					
<i>Domestic large cap equity</i>	19.4%	20.8%	29.8%	23.2%	16.4%
<i>Domestic large cap value</i>	17.6%	24.4%	29.6%	23.8%	16.1%
Russell 1000 Value	18.9%	22.3%	30.9%	23.9%	15.3%
<i>Domestic large cap core</i>	20.9%	18.3%	31.1%	23.3%	16.4%
S&P 500	19.7%	19.3%	30.2%	23.0%	15.7%
<i>Domestic large cap growth</i>	19.2%	20.2%	28.7%	22.6%	16.6%
Russell 1000 Growth	19.2%	19.3%	29.2%	22.5%	16.5%
<i>Domestic small / mid cap</i>	<i>N/A</i>	25.5%	25.0%	<i>N/A</i>	<i>N/A</i>
Russell 2500	<i>N/A</i>	29.8%	30.9%	<i>N/A</i>	<i>N/A</i>
<i>Domestic small cap growth</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Russell 2000 Growth	3.8%	<i>N/A</i>	<i>N/A</i>	21.9%	15.5%
<i>Domestic small cap value</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Russell 1000 Value	4.1%	<i>N/A</i>	<i>N/A</i>	20.6%	13.0%
<i>Long/Short equity</i>	7.7%	14.0%	14.1%	11.9%	<i>N/A</i>
HFRI Strategic	6.5%	8.4%	3.3%	6.1%	3.7%
<i>International equity fund</i>	7.6%	18.3%	19.3%	19.3%	<i>N/A</i>
MSCI EAFE	4.7%	24.3%	14.3%	14.2%	7.0%
<i>Emerging markets</i>	9.4%	-0.4%	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
MSCI Emerging Markets	4.7%	1.3%	<i>N/A</i>	7.5%	4.8%

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INVESTMENT RETURNS (CONTINUED)

SUMMARY OF INVESTMENT RETURNS					
Fixed Income	4.3%	-1.0%	7.8%	3.6%	5.0%
Barclays Capital Aggregate	4.0%	-1.7%	5.2%	2.4%	4.1%
Real Estate	13.2%	11.0%	10.0%	12.9%	9.5%
<i>Strategic property fund</i>	<i>12.1%</i>	<i>14.9%</i>	<i>12.4%</i>	<i>13.2%</i>	<i>12.5%</i>
<i>Value add real estate</i>	<i>39.1%</i>	<i>26.8%</i>	<i>6.6%</i>	<i>23.4%</i>	<i>10.4%</i>
NCREIF Property	11.3%	11.0%	11.0%	11.1%	11.0%
Total Fund Return	10.3%	14.9%	19.0%	14.7%	10.9%
Total Fund Benchmark	11.6%	14.8%	20.6%	15.7%	11.6%

The Plan returned 10.3% for the year ended September 30, 2014, as compared to a 14.9% return for 2013 and a 19.0% return for 2012. The Plan's performance this year was the result of strong returns in all asset classes, especially in the domestic and emerging markets. Fixed income showed a positive 4.3% return. In 2013, the impressive performance was the result of strong returns in all asset classes, especially in the domestic and international equity markets. In 2012, 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. The total fund return is lower than the total fund benchmark this year, and was slightly higher than the fund benchmark in 2013, however lagged behind the benchmark in 2012 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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND FUNDING STATUS (CONTINUED)

The schedule of changes in net pension liability and related ratios provide information of the Plan's fiduciary net position of as a percentage of total pension liability. The higher the ratio, the better funded the Plan is from an actuarial perspective. This schedule shows as of September 30, 2014 the ratio of 77.95% fiduciary net position as percentage of the total pension liability. The net pension liability as a percentage of covered employee payroll was 301.57%.

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

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.

FINANCIAL STATEMENTS

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

STATEMENTS OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Assets		
Cash and Short-Term Investments	\$ 3,343,490	\$ 6,419,414
Investments, at Fair Value		
Common stock	125,180,348	116,406,455
U.S. government securities	21,464,481	18,747,228
Corporate bonds and debentures	26,160,789	24,319,482
Commingled funds	111,014,998	98,339,837
Real estate	24,778,100	19,859,834
Total Investments	308,598,716	277,672,836
Receivables		
Interest and dividends receivable	395,115	405,918
Unsettled trades receivable	782,806	1,650,775
Contributions receivable	28,668	--
Total Receivables	1,206,589	2,056,693
Other Assets	45,103	42,241
Total Assets	313,193,898	286,191,184
Liabilities and Deferred Inflows of Resources		
Liabilities		
Accounts payable and accrued expenses	410,144	314,523
Unsettled trades payable	712,503	2,111,229
Total Liabilities	1,122,647	2,425,752
Deferred Inflows of Resources		
Advanced City contribution	--	460,057
Total Liabilities and Deferred Inflows of Resources	1,122,647	2,885,809
Net Position Held in Trust for Pension Benefits	\$ 312,071,251	\$ 283,305,375

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

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

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Additions		
Contributions		
City	\$ 13,182,553	\$ 12,419,043
State	2,868,153	2,843,696
Employee	2,985,855	2,981,727
Transfer from General Employees' Pension Plan	<u>132,304</u>	<u>5,593</u>
Total Contributions	<u>19,168,865</u>	<u>18,250,059</u>
Investment Income		
Net appreciation in fair value of investments	22,142,482	30,417,256
Interest	1,642,966	1,624,335
Dividends	3,808,094	3,560,080
Other income	37,066	3,923
Less investment expenses	<u>(1,360,430)</u>	<u>(1,198,347)</u>
Net Investment Income	<u>26,270,178</u>	<u>34,407,247</u>
Total Additions	<u>45,439,043</u>	<u>52,657,306</u>
Deductions		
Benefit payments		
Retirement	11,000,870	9,914,942
Disability	984,438	947,762
Death	638,455	594,815
Deferred retirement option plan	3,611,568	1,851,579
Termination refunds	75,367	202,441
Administrative expenses	<u>362,469</u>	<u>444,233</u>
Total Deductions	<u>16,673,167</u>	<u>13,955,772</u>
Net Increase	28,765,876	38,701,534
Net Position Held in Trust for Pension Benefits		
Beginning of Year	<u>283,305,375</u>	<u>244,603,841</u>
End of Year	<u>\$ 312,071,251</u>	<u>\$ 283,305,375</u>

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

NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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*.

PLAN MEMBERSHIP

As of September 30, 2014 and 2013, membership in the Plan consisted of:

	2014	2013
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	308	290
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	2	2
Active Plan Members	327	333
Total	637	625

PENSION BENEFITS

The Plan provides retirement, termination, disability and death 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.

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%.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

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.

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 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Preretirement Death Benefit (continued)

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Deferred Retirement Option Plan (continued)

During the period of DROP participation, the member's DROP account is credited monthly 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, 2014, there were 100 DROP participants with a total balance of \$19,954,540. At September 30, 2013, there were 87 DROP participants with a total balance of \$17,763,710.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 1 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Contributions

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, 2014, determined using the actuarial valuation dated October 1, 2012, were 42.82% of covered payroll. Employer contributions for the year ended September 30, 2013, determined using the actuarial valuation dated October 1, 2011, were 42.67% 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 October 1. Benefit payments and refunds to members are recognized when due and payable in accordance with the terms of the Plan.

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Board implemented the following GASB Statement during the year ended September 30, 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plan – An Amendment of GASB No. 25*

This Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*. This Statement enhances note disclosures and Required Supplementary Information (RSI) and requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in RSI schedules.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. Certain investments for which no sale was reported on that date are valued at the last reported bid price. Mutual and commingled funds that do not have an established market are reported at the net asset value of shares held at year end. Real estate partnerships are valued at current market prices, and real estate investment fair value is reported based on the latest independent appraisal information. 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS

The Plan did not hold investments in any one organization that represent 5 percent or more of the Plan's fiduciary net position.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of fiduciary 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) until then. The Plan has no items that qualify for reporting in this category.

In addition to liabilities, the statement of fiduciary 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 had one item that qualified for reporting in this category in 2013.

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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS

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

Investment Portfolio	2014		2013	
	Fair Value	Percentage of Distribution	Fair Value	Percentage of Distribution
Cash and Short-Term Investments				
Cash deposits	\$ 362,994	0.12%	\$ 2,622,394	0.92%
Short-term investments	2,980,496	0.96%	3,797,020	1.34%
Total Cash and Short-Term Investments	3,343,490	1.07%	6,419,414	2.26%
Common Stock	125,180,348	40.13%	116,406,455	40.97%
U.S. Government Securities				
U.S. Treasury Securities:				
U.S. Treasury notes	4,803,399	1.54%	3,770,293	1.33%
U.S. Treasury bonds	1,031,550	0.33%	924,262	0.33%
Total U.S. Treasury Securities	5,834,949	1.87%	4,694,555	1.65%
U.S. Government Sponsored Agencies:				
Mortgage-backed Securities				
Federal National Mortgage Association	10,462,789	3.35%	8,805,242	3.10%
Government National Mortgage Association	2,234,718	0.72%	2,962,817	1.04%
Federal Home Loan Mortgage Corporation	2,932,025	0.94%	2,284,615	0.80%
Total Mortgage-backed Securities	15,629,532	5.01%	14,052,674	4.95%
Total U.S. Government Securities	21,464,481	6.88%	18,747,229	6.60%
Corporate Bonds and Debentures				
Corporate obligations	22,553,491	7.23%	22,005,359	7.75%
Commercial mortgage-backed securities	1,275,274	0.41%	1,023,273	0.36%
Asset-backed securities	2,332,024	0.75%	1,290,850	0.45%
Total Corporate Bonds and Debentures	26,160,789	8.39%	24,319,482	8.56%
Commingled Funds				
Long/Short equity fund of funds	45,368,829	14.54%	40,396,301	14.22%
International equity funds	32,767,249	10.50%	30,723,645	10.81%
High yield fixed income fund	5,601,675	1.80%	5,207,259	1.83%
Mutual funds	27,277,245	8.74%	22,012,631	7.75%
Total Commingled Funds	111,014,998	35.59%	98,339,836	34.62%
Real Estate Direct Investment Partnership	24,778,100	7.94%	19,859,834	6.99%
Total Investments	308,598,716	98.93%	277,672,836	97.74%
Total Cash and Investments	\$ 311,942,206	100.00%	\$ 284,092,250	100.00%

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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 September 18, 2014 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:

	<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			

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENT POLICY (CONTINUED)

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 12½% of their portfolio in sponsored American Depository Receipts and other foreign stock listed on the New York Stock Exchange and the NASDAQ.

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.

CONCENTRATION OF CREDIT RISK FOR EQUITIES

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. At September 30, 2014 and 2013, the portfolio met the corporate single issuer and quality ratings limitations of the policy.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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:

Fixed Income Investments/Moody's Credit Rating	2014		2013	
	Fair Value	Weighted Average Maturity	Fair Value	Weighted Average Maturity
Short-Term Securities <i>Not rated</i>	\$ 2,980,496		\$ 3,797,021	
U.S. Government Securities				
U.S. Treasury Securities:				
U.S. Treasury notes Aaa	4,803,399		3,770,293	
U.S. Treasury bonds Aaa	1,031,550		924,262	
Total U.S. Treasury Securities	<u>5,834,949</u>	10.73	<u>4,694,555</u>	11.18
U.S. Government Sponsored Agencies:				
Mortgage-backed Securities				
Federal National Mortgage Association Aaa	10,462,789		8,805,242	
Government National Mortgage Association Aaa	2,234,718		2,962,817	
Federal Home Loan Mortgage Corp Aaa	2,932,025		2,284,615	
Total Mortgage-backed Securities	<u>15,629,532</u>	24.62	<u>14,052,674</u>	25.56
Corporate Bonds and Debentures				
Corporate obligations				
Aaa	--		394,070	
Aa	1,746,129		1,461,415	
A	11,852,206		12,044,051	
Baa	8,955,156		8,105,823	
Total Corporate Obligations	<u>22,553,491</u>	7.62	<u>22,005,359</u>	5.92
Commercial mortgage-backed securities				
Aaa	1,275,274		346,146	
Not rated	--		677,126	
Total Commercial Mortgage-Backed Securities	<u>1,275,274</u>	28.14	<u>1,023,272</u>	28.47
Asset-backed securities				
Aaa	2,332,024		1,230,598	
Not rated	--		60,252	
Total Asset-Backed Securities	<u>2,332,024</u>	4.48	<u>1,290,850</u>	3.49
High Yield Fixed Income Fund Ba3	<u>5,601,675</u>		<u>5,207,259</u>	
Total Fixed Income Portfolio	<u>\$ 56,207,441</u>		<u>\$ 52,070,990</u>	

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FIXED INCOME SECURITY INVESTMENT GUIDELINES AND RISK (CONTINUED)

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, 2014 and 2013, the portfolio met the credit rating limitations of the policy as presented in the preceding table.

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, 2014 and 2013, 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, 2014 and 2013, the weighted average maturity in years for each investment type is included in the preceding table.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FIXED INCOME SECURITY INVESTMENT GUIDELINES AND RISK (CONTINUED)

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, 2014 and 2013, 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 fiduciary 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.

RATE OF RETURN

For the year ended September 30, 2014 the annual money-weighted rate of return on Plan investments, net of plan investment expense, was 9.21 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculation are determined on a monthly basis.

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 fiduciary position as Deductions. Amounts transferred from other plans are presented as Contributions.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 5 – NET PENSION LIABILITY OF THE CITY

The components of the net pension liability of the City on September 30, 2014, were as follows:

Total pension liability	\$400,350,201
Plan fiduciary net position	<u>(312,071,251)</u>
Net Pension Liability	<u>\$ 88,278,950</u>
Plan fiduciary net position as a percentage of Total Pension Liability	<u>77.95%</u>

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of October 1, 2013 updated to September 30, 2014 using the following actuarial assumptions applied to all measurement periods.

Inflation	3.00%
Salary Increases	4.60% - 4.70%
Investment Rate of Return	8.00%

Mortality for non-Disabled Members is assumed to follow the fully generational RP-2000 (Retirement Plans-2000) Tables using Projection Scale AA, Combined Healthy. The RP-2000 Tables are sex-distinct. Disabled mortality is based on the 1994 Group Annuity Mortality Table (with no projected mortality improvements) set forward 5 years.

LONG-TERM EXPECTED RATE OF RETURN

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 are summarized in the following table:

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

NOTE 5 – NET PENSION LIABILITY OF THE CITY (CONTINUED)

LONG-TERM EXPECTED RATE OF RETURN (CONTINUED)

Asset Class	Long Term Expected Real Rate of Return
Core Bonds	2.84%
U.S. Large Cap Equity	7.77
U.S. Small Cap Equity	9.03
International Developed Equity	8.76
Emerging Market Equity	10.09
Long/Short Equity	7.64
Core Real Estate	5.30

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability of the City, calculated using the discount rate of 8 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Discount Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
Net pension liability	\$140,193,641	\$88,278,950	\$45,596,798

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

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

	September 30, 2014
Total Pension Liability	
Service cost	\$ 8,842,600
Interest	30,257,546
Changes of benefit terms	--
Differences between expected and actual experience	--
Changes of assumptions	--
Contributions - Buy back	28,668
Benefit payments, including refunds of member contributions	(16,310,699)
Net Change in Total Pension Liability	<u>22,818,115</u>
Total Pension Liability - Beginning	377,532,086
Total Pension Liability - Ending (a)	<u><u>\$ 400,350,201</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 13,182,553
Contributions - state	2,868,153
Contributions - employee	2,985,855
Contributions - buy back	28,668
Transfer from General Plan	132,304
Net investment income	26,241,511
Benefit payments, including refunds of member contributions	(16,310,699)
Administrative expense	(362,469)
Net Change in Plan Fiduciary Net Position	<u>28,765,876</u>
Plan Fiduciary Net Position - Beginning	283,305,375
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 312,071,251</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 88,278,950</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.95%
Covered Employee Payroll	\$ 29,273,086
Net Pension Liability as a Percentage of Covered-Employee Payroll	301.57%

Note to Schedule:

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS

	September 30, 2014
Actuarially determined contribution	\$ 14,226,720
Contributions in relation to the actuarially determined contribution	16,050,706
Contribution deficiency (excess)	\$ (1,823,986)
Covered-employee payroll	\$ 29,273,086
Contributions as a percentage of covered-employee payroll	54.83%

Notes to Schedule

Valuation date: October 1, 2012

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age.
Amortization method	Level Percentage of Pay, Closed
Remaining amortization period	30 Years (as of 10/01/2012).
Asset valuation method	The Actuarial Value of Assets is determined using a 4-year smoothing method, with an 80%/115% corridor.
Inflation	3.0% per year.
Investment return	8.0%, compounded annually, net of investment related expenses.
Payroll growth projection	4.5% per annum
Mortality	Healthy Mortality is based on the RP-2000 (Retirement Plans-2000) Tables projected according to the year of valuation. The RP-2000 Tables are sex- distinct.

Note to Schedule:

This schedule is presented as required by accounting principles generally accepted in the United States, however, until a full 10-year trend is compiled, information is presented for those years available.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

	September 30, 2014
Annual money-weighted rate of return, net of investment expense	9.21%

Note to Schedule:

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

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

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 financial statements of the City of Boca Raton Police and Firefighters' Retirement System (the Plan), as of and for the year ended September 30, 2014 and the related notes to the financial statements, and have issued our report thereon dated March 26, 2015.

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 26, 2015