

# **AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**



**FINANCIAL STATEMENTS**  
September 30, 2015 and 2014

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
September 30, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
**Avon Park Firefighters' Retirement System**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Avon Park Firefighters' Retirement System, a component unit of the City of Avon Park, Florida, as of and for the year ended September 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Avon Park Firefighters' Retirement System as of September 30, 2015 and 2014, and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matters***

As discussed in Note 1, these financial statements present only the Avon Park Firefighters' Retirement System and do not purport to, and do not present fairly the financial position of the City of Avon Park, Florida, as of September 30, 2015 and 2014, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of changes in net pension liability and related ratios, schedule of contributions and the schedule of investment returns beginning on page 11 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Brynjulfson CPA, P.A.*

Brynjulfson CPA, P.A.  
Auburndale, Florida  
March 9, 2016

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**STATEMENTS OF PLAN NET POSITION**  
as of September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 86,153	\$ 57,392
Receivables:		
Contributions receivable:		
Plan members	33,093	-
State of Florida	41,577	46,301
Accrued income	11,001	9,572
Due from broker	83,632	-
Total receivables	<u>169,303</u>	<u>55,873</u>
Prepaid benefit payments	17,939	18,507
Investments, at fair market value:		
Multi-sector fixed income mutual funds	188,597	197,804
U.S. Government and agencies	630,926	567,705
Corporate and foreign bonds	902,133	811,454
Common equity securities	<u>2,962,335</u>	<u>3,025,406</u>
Total investments	<u>4,683,991</u>	<u>4,602,369</u>
Total assets	4,957,386	4,734,141
<b>LIABILITIES</b>		
Due to broker	94,314	-
Unearned pension contribution	-	<u>42,358</u>
Total liabilities	<u>94,314</u>	<u>42,358</u>
<b>NET POSITION, restricted for pension benefits</b>	<u>\$ 4,863,072</u>	<u>\$ 4,691,783</u>

See accompanying notes to financial statements

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN PLAN NET POSITION**  
for the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ADDITIONS</b>		
Contributions:		
City	\$ 412,081	\$ 342,083
Plan members	33,093	33,750
State of Florida	<u>41,577</u>	<u>46,301</u>
Total contributions	<u>486,751</u>	<u>422,134</u>
Investment income	<u>517</u>	<u>474,932</u>
Less investment expenses:		
Performance evaluation fees	15,500	15,500
Custodial fees	2,958	3,432
Investment management fees	<u>18,285</u>	<u>16,880</u>
Total investment expenses	<u>36,743</u>	<u>35,812</u>
Net investment income (loss)	<u>(36,226)</u>	<u>439,120</u>
Total additions	<u>450,525</u>	<u>861,254</u>
<b>DEDUCTIONS</b>		
Administrative expenses:		
Legal	8,005	9,673
Administrator	14,200	13,850
Actuarial	18,660	8,548
Insurance and other expenses	2,214	-
Travel and training	18,968	16,888
Audit	<u>4,050</u>	<u>5,030</u>
Total administrative expenses	66,097	53,989
Payments to retirees and participants	<u>213,139</u>	<u>203,603</u>
Total deductions	<u>279,236</u>	<u>257,592</u>
<b>NET INCREASE IN PLAN NET POSITION</b>	171,289	603,662
<b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>		
Beginning of year	4,691,783	4,088,121
End of year	<u>\$ 4,863,072</u>	<u>\$ 4,691,783</u>

See accompanying notes to financial statements

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**NOTE 1 - PLAN DESCRIPTION**

The **Avon Park Firefighters' Retirement System** is the administrator of a single-employer defined benefit pension plan (the "Plan") established by the City of Avon Park, Florida, (the "City") for the benefit of its municipal firefighters. The Plan is administered by a board of trustees comprised of two Firefighters elected by a majority of the Plan members, two City residents appointed by the City Council, and a fifth member chosen by a majority of the trustees. The Plan contains only the assets of the firefighters' pension plan which is a component unit of the City of Avon Park, Florida because it exists solely to provide benefits to employees of the City. Accordingly, assets of the plan are included in the City's basic financial statements and are blended with those of the other fiduciary funds of the City. The plan was established by City ordinance as provided under Chapter 175, Laws of the State of Florida, and can be amended or terminated by City ordinance. Actuarial liabilities are determined by consulting actuaries. Investments of the Plan are maintained with a third-party custodian.

The plan provides retirement, disability and death benefits to all full-time Firefighters. Covered employees contribute 5% of their salary. Contributions are also provided by the State of Florida from a tax on property insurance premiums. The City contributes an amount equal to the difference between the total aggregate member contributions and the actuarial required annual contribution for the plan. The City may use actual state contributions up to \$37,096 to offset City contributions. At a minimum, the City must contribute at least 5% of member compensation. All benefits are 100% vested after ten years of credited service. Normal retirement is the earlier of age fifty-five with ten years credited service or age fifty-two with twenty-five years of credited service. Members who have attained age fifty and have completed ten years of service are eligible for early retirement at reduced benefits. Benefits at normal retirement are computed at 3.16% of the average earnings for the highest five years of the preceding ten year period times the number of years of credited service. The Plan contains an automatic cost-of-living adjustment in the amount of 3% for all retirees and beneficiaries, but excluding vested terminated members, who complete 15 years of credited service commencing on the later of the attainment of age 58 or one year after retirement and each October 1 thereafter for five consecutive years and then cease.

At October 1, 2014 and 2013, the participant data consisted of:

	<u>2014</u>	<u>2013</u>
Retirees and beneficiaries currently receiving benefits	9	8
Active employees in the DROP Plan	1	1
Vested terminated employees	1	2
Current employees:		
Vested	8	8
Non-vested	6	6
	<u>        </u>	<u>        </u>
Total	<u>        25</u>	<u>        25</u>

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS**

**BASIS OF ACCOUNTING** - The Plan's financial statements are prepared using the accrual basis of accounting.

**CONTRIBUTIONS** - Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Additional contributions required to fully meet the employer's actuarial contribution requirements for the year are accrued as a receivable from the employer at year end. Amounts funded by the State from the tax on insurance premiums are recorded in the period the underlying exchange takes place providing that the Plan has met all of the State's requirements and the State has released the funds. If these requirements are not met as of the reporting date, the State monies will be recorded when the requirements are subsequently met.

**PLAN EXPENSES** - All costs of administering the Plan are paid out of the Plan's funds. Benefit payments, contribution refunds to participants, and administrative expenses are reported as plan expenses when paid.

**METHOD USED TO VALUE INVESTMENTS** - All Plan investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. All fair values are determined by the third-party custodians. Investments in external pools are valued based on the underlying assets in the funds. Equity securities are valued based on their last reported sales price. Bonds are valued either at their last reported sales price, if traded, or by comparing them to prices of similar investments or by computing the net present value of their cash flows discounted at a rate commensurate with the risk involved. Security transactions and any resulting gains and losses are accounted for by the specific identification method on a trade-date basis.

**USE OF ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**EXEMPT TAX STATUS** - The Plan is exempt from federal income taxes under provisions of Section 501(a) of the Internal Revenue Code.

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**NOTE 3 - INVESTMENTS**

The types of investments in which the Plan may invest are governed by City Ordinance and supplemented by an investment policy adopted by the Board of Trustees. The Policy delegates the investment management authority to third-party money managers, who are authorized to invest in a broad range of asset classes with maximum concentration limitations and investment performance criteria for total fund, equity and fixed income portfolios. Independent investment consultants are retained by the Board to evaluate and report on the Plan's investment performance. The types of investments and concentrations permitted are set forth below:

<u>Authorized Investments</u>	<u>Maximum Portfolio Concentration</u>	<u>Maximum Maturity</u>	<u>Maximum Issuer Concentration</u>	<u>Lowest Permitted S&amp;P Rating</u>
Money market funds - limited to paper backed by U.S. Government	Not limited	Not limited	Not limited	A1
Fixed income securities - must be investment grade or higher	Not limited	Not limited	3.00%	*
Equities must be traded on a National exchange	75.00%	na	5.00%	Not specified
Foreign securities limited to readily marketable securities	25.00%	Not limited	Not limited	Not specified

\* - All fixed income investments shall have a minimum rating of investment grade or higher except that 15% may be below investment grade.

**Target Asset Allocation** - The following was the Board's adopted asset allocation policy as of September 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	50%
International Equity	15%
Domestic Fixed Income	30%
Global Fixed Income	5%
Total	100%

**Concentrations** - The Plan did not hold investments (other than those issued or explicitly guaranteed by the US Government) in any one organization that represented 5% or more of the Plan's fiduciary net position.

**Money-weighted Rate of Return** - For the year ended September 30, 2015, the money-weighted rate of return, net of investment expenses and adjusted for the changing amounts actually invested, for the Plan was a negative 0.74%.

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**NOTE 3 - INVESTMENTS** (concluded)

Information related to interest rate risk for the Plan's fixed income investment is summarized below:

Investment Type	Fair Value	Investment Maturities (in Years) (*)			
		Less than 1	1-5	6-10	More than 10
<b>As of September 30, 2015:</b>					
Multi-sector fixed income mutual funds	\$ 188,597	\$ -	\$ -	\$ 188,597	\$ -
U.S. Government and agencies	630,926	10,010	465,475	85,057	70,384
Corporate and foreign bonds	902,133	29,977	315,151	437,355	119,650
	<u>\$ 1,721,656</u>	<u>\$ 39,987</u>	<u>\$ 780,626</u>	<u>\$ 711,009</u>	<u>\$ 190,034</u>
<b>As of September 30, 2014:</b>					
Multi-sector fixed income mutual funds	\$ 197,804	\$ -	\$ -	\$ 197,804	\$ -
U.S. Government and agencies	567,705	-	421,815	145,890	-
Corporate and foreign bonds	811,454	-	239,931	416,332	155,191
	<u>\$ 1,576,963</u>	<u>\$ -</u>	<u>\$ 661,746</u>	<u>\$ 760,026</u>	<u>\$ 155,191</u>

(\*) - The multi-sector fixed income mutual funds are reported in the time segment that corresponds with the weighted average maturity of the investment pools.

Information related to credit quality risk for the Plan's fixed income investment is summarized below:

	S&P Rating	Percentage of Portfolio
<b>As of September 30, 2015:</b>		
Multi-sector fixed income mutual funds	Not Rated	11.0%
U.S. Government and agencies	AA+	36.0%
U.S. Government and agencies	AAA	0.6%
Corporate and foreign bonds	AA+	3.2%
Corporate and foreign bonds	A+	4.8%
Corporate and foreign bonds	A	9.6%
Corporate and foreign bonds	A-	19.7%
Corporate and foreign bonds	AA-	4.7%
Corporate and foreign bonds	BBB+	6.7%
Corporate and foreign bonds	BBB	3.8%
<b>As of September 30, 2014:</b>		
Mutil-sector fixed income mutual funds	Not Rated	12.6%
U.S. Government and agencies	AA+	36.0%
Corporate and foreign bonds	AA+	2.9%
Corporate and foreign bonds	A+	5.2%
Corporate and foreign bonds	A	6.9%
Corporate and foreign bonds	A-	22.1%
Corporate and foreign bonds	AA-	2.2%
Corporate and foreign bonds	BBB+	5.3%
Corporate and foreign bonds	BBB	5.5%
Corporate and foreign bonds	Not Rated	1.3%

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

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**NOTE 4 - DEFERRED RETIREMENT OPTION PROGRAM (DROP)** - The Plan permits its members to elect to receive retirement benefits while still employed and receiving a salary. Members are eligible upon reaching normal retirement. The participant's retirement benefits are credited into an individual member account and paid out to the member upon termination or retirement not to exceed a period of up to 60 months. Amounts credited to the members' DROP accounts earn interest and remain in the pension plan's net position until paid out. Amounts held in DROP accounts as of September 30, 2015 totaled \$132,244.

**NOTE 5 - NET PENSION LIABILITY**

**Net Pension Liability** - The components of the net pension liability for the Plan as of September 30, 2015, was as follows:

Total pension liability	\$ 6,480,133
Plan fiduciary net position	<u>(4,863,072)</u>
Net pension liability	<u>\$ 1,617,061</u>
Plan fiduciary net position as a percentage of the total pension liability	75.05%

**Actuarial assumptions:**

The total pension liability was determined by an actuarial valuation on the following date and using the following assumptions:

Actuarial valuation date	October 1, 2014 updated to September 30, 2015
Inflation	3.00%
Projected salary increases	6.00%
Discount rate	7.75%
Investment rate of return	7.75%
Mortality rates	RP 2000

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2015

**NOTE 5 - NET PENSION LIABILITY** (concluded)

**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 weighing 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, 2015, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	7.50%
International Equity	8.50%
Domestic Fixed Income	2.50%
Global Fixed Income	3.50%

**Discount Rate** - A discount rate of 7.75% was used to measure the total pension liability of the Plan as of September 30, 2015. 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 City contributions will be made at rates equal to 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 Plan, calculated using the discount rate of 7.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	Discount Rate		
	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
City's Net Pension Liability	<u>\$ 2,411,355</u>	<u>\$ 1,617,061</u>	<u>\$ 1,027,055</u>



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**REQUIRED SUPPLEMENTARY INFORMATION**

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION (unaudited)**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

The following information presents the changes in net pension liability :

	<u>for the year ended</u>	
	<u>9/30/2015</u>	<u>9/30/2014</u>
Total pension liability		
Service cost	\$ 153,105	\$ 146,250
Interest	475,799	445,552
Change in excess State money	4,481	9,205
Differences between expected and actual experience	(104,097)	-
Employee contributions	(213,139)	(203,603)
Net change in total pension liability	<u>316,149</u>	<u>397,404</u>
Total pension liability, beginning	<u>6,163,984</u>	<u>5,766,580</u>
Total pension liability, ending	<u>\$ 6,480,133</u>	<u>\$ 6,163,984</u>
Plan fiduciary net position		
Contributions - employer	\$ 412,081	\$ 342,083
Contributions - State of Florida	41,577	46,301
Contributions - employee	33,093	33,750
Net investment income	(36,226)	439,120
Benefit payments and refunds	(213,139)	(203,603)
Administrative expenses	(66,097)	(53,989)
Net change in plan fiduciary net position	<u>171,289</u>	<u>603,662</u>
Plan fiduciary net position, beginning	<u>4,691,783</u>	<u>4,088,121</u>
Plan fiduciary net position, ending	<u>\$ 4,863,072</u>	<u>\$ 4,691,783</u>
Net pension liability	<u>\$ 1,617,061</u>	<u>\$ 1,472,201</u>
Plan fiduciary net position as a percentage of the total pension liability	75.05%	76.12%
Covered employee payroll	\$ 749,322	\$ 677,155
Net pension liability as a percentage of covered employee payroll	215.80%	217.41%

**Notes to Schedule:**

There have been no changes in benefits

There have been no changes in assumptions

For fiscal year 2014, the covered employee payroll figures were based on pensionable salary

Additional years will be added to this schedule annually until 10 years' data is presented

See Auditor's Report

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
**REQUIRED SUPPLEMENTARY INFORMATION (unaudited)**  
**SCHEDULE OF CONTRIBUTIONS**

The following information presents a schedule of contributions:

Year Ended September 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess (Deficiency)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2015	\$ 406,922	\$ 406,922	\$ -	\$ 749,322	54.31%
2014	\$ 379,179	\$ 379,179	\$ -	\$ 677,155	56.00%

Additional years will be added to this table until ten years' data is presented.

**Notes to Schedule of Contributions:**

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

Valuation date - for the September 30, 2015 contributions, the valuation date was October 1, 2013.

Actuarial cost method - the entry age method is used.

Amortization method - level percentage of pay, closed.

Remaining amortization period - 25 years as of October 1, 2013.

Asset valuation method - historical geometric four year average market value (net of fees).

Inflation - 3.0%

Salary increases - 6.0%

Investment rate of return - 7.75%

Payroll growth - 4.2%

Cost of Living - 3% automatic adjustment for five years for all retirees, excluding vested terminated members, beginning the first October 1 following the later of retirement and age 58.

Retirement age - earlier of age 55 with 10 years of service or age 52 with 25 years of service.

It is assumed member will continue employment for one additional year

Mortality - RP-2000 mortality table, sex distinct.

Termination and disability rate table:

Age	% Terminating During the year	% Becoming disabled during the year
20	6.0%	0.03%
30	5.0%	0.04%
40	2.6%	0.07%
50	0.8%	0.18%

See Auditor's Report

**AVON PARK FIREFIGHTERS' RETIREMENT SYSTEM**  
REQUIRED SUPPLEMENTARY INFORMATION (unaudited)  
SCHEDULE OF INVESTMENT RETURNS

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**Average Money-Weighted Rate of Return, Net of Investment Expenses:**

For the year ended September 30:

2015	(0.74%)
2014	9.97%

Additional years will be added to this table until ten years' data is presented.

See Auditor's Report