

April 9, 2015

Board of Trustees
City of Marco Island
Police Officers' Pension Plan
50 Bald Eagle Dr.
Marco Island, FL 34145

RE: GASB Statement No. 67 and No. 68 – City of Marco Island Police Officers' Pension Plan

Dear Board:

We are pleased to present to the Board the GASB Statement No. 67 and No. 68 measured as of September 30, 2014 for the City of Marco Island Police Officers' Pension Plan.

The calculation of the liability associated with the benefits referenced in this report was performed for the purpose of satisfying the requirements of GASB No.67 and No.68 and is not applicable for purposes, such as determining the plans' funding requirements. A calculation of the plan's liability for other purposes may produce significantly different results.

The total pension liability, net pension liability, and certain sensitivity information shown in this report are based on an actuarial valuation performed as of October 1, 2013. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending September 30th, 2014 to obtain the beginning amount using generally accepted actuarial principles. There were no assumption changes that required an adjustment to the roll-forward liabilities. It is our opinion that the assumptions used for this purposes are internally consistent, reasonable, and comply with the requirements under GASB No.67 and No.68.

Certain schedules should include a 10-year history of information. As provided for in GASB No. 67 and No.68, this historical information is only presented for the years in which the information was measured in conformity with the requirements of GASB No. 67. The historical information in this report will begin with the information presented for the fiscal year ending September 30th, 2014.

To the best of our knowledge, these statements are complete and accurate and are in accordance with generally recognized actuarial practices and methods.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact me at 239-433-5500.

Respectfully submitted,

Foster & Foster, Inc.

By: _____



Douglas H. Lozen, EA, MAAA
Enrolled Actuary #14-7778

DHL/lke
Enclosures

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2014

<u>ASSETS</u>	MARKET VALUE
Cash and Cash Equivalents:	
Checking Account	19,616
Money Market	591,985
Cash	1,363
Total Cash and Equivalents	612,964
Receivables:	
State Contributions	145,004
Investment Income	14,263
Total Receivable	159,267
Investments:	
U. S. Bonds and Bills	1,090,924
Federal Agency Guaranteed Securities	100,059
Corporate Bonds	1,073,965
Stocks	4,334,669
Total Investments	6,599,617
Total Assets	7,371,848
<u>LIABILITIES</u>	
Payables:	
Administrative Expenses	2,030
Prepaid City Contribution	115,726
Total Liabilities	117,756
NET POSITION RESTRICTED FOR PENSIONS	7,254,092

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2014
Market Value Basis

ADDITIONS

Contributions:

Member	22,489	
City	672,567	
State	145,004	
Total Contributions		840,060
Investment Income:		
Net Increase in Fair Value of Investments	465,959	
Interest & Dividends	129,853	
Less Investment Expense ¹	(61,712)	
Net Investment Income		534,100
Total Additions		1,374,160

DEDUCTIONS

Distributions to Members:

Benefit Payments	169,633	
Refunds of Member Contributions	10,778	
Total Distributions		180,411
Administrative Expense		35,433
Total Deductions		215,844
Net Increase in Net Position		1,158,316
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of the Year		6,095,776
End of the Year		7,254,092

¹Investment Related expenses include investment advisory, custodial and performance monitoring fees.

NOTES TO THE FINANCIAL STATEMENTS

(For the Year Ended September 30, 2014)

Plan Description

Plan Administration

The City of Marco Island Police Officers' Pension Plan is a defined benefit pension plan administered by a Board of Trustees. The Board consists of 5 Trustees, 2 who are appointed by the City Council, 2 of whom are full-time Police Officers, elected by a majority of the members of the Plan, and a fifth Trustee who is elected by the first 4 Trustees.

Plan Membership as of October 1, 2013:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	9
Inactive Plan Members Entitled to but Not Yet Receiving Benefits	11
Active Plan Members	34
	<hr/>
	54
	<hr/>

Benefits Provided

The Plan provides retirement, termination, disability and death benefits.

Normal Retirement:

Date: Earlier of: 1) age 55 and 6 years of Credited Service, or 2) 25 years of Credited Service, regardless of age.

Benefit: 3.00% of Average Final Compensation times Credited Service.

Early Retirement:

Eligibility: Age 50 and 6 Years of Credited Service.

Benefit: Accrued benefit, reduced 3.00% for each year prior to Normal Retirement.

Vesting (Termination):

Schedule: 100% after 6 years of Credited Service.

Benefit Amount: Member will receive the vested portion of his/her accrued benefit payable at the otherwise Normal Retirement Date.

Disability:

Eligibility: Service Incurred: Covered from Date of Employment.

Non-Service Incurred: 8 years of Credited Service.

Benefit: Benefit accrued to date of disability but not less than 42% of Average Final Compensation (if Service Incurred).

Pre-Retirement Death Benefits:

Vested: Monthly accrued benefit payable to designated beneficiary for 10 years beginning at the otherwise Normal Retirement Date.

Non-Vested: Refund of accumulated contributions.

Cost-of-Living Increase (COLA):

3.00% automatic lifetime COLA, beginning the first July 1st following the later of termination or otherwise Normal Retirement Date. The Benefit Supplement is not subject to the COLA.

Benefit Supplement:

\$3.00 per month per year of Credited Service, subject to minimum benefit of \$30.00 per month and maximum benefit of \$90.00 per month.

Contributions

Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Chapter 112, Florida Statutes.

Investments

Investment Policy:

The following was the Board's adopted asset allocation policy as of September 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	55%
International Equity	10%
<u>Fixed Income</u>	<u>35%</u>
<u>Total</u>	<u>100%</u>

Concentrations:

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

Rate of Return:

For the year ended September 30, 2014 the annual money-weighted rate of return on Pension Plan investments, net of pension plan investment expense, was 8.56 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NET PENSION LIABILITY OF THE SPONSOR

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

Total Pension Liability	\$ 9,530,334
Plan Fiduciary Net Position	<u>\$ (7,254,092)</u>
Sponsor's Net Pension Liability	<u>\$ 2,276,242</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	76.12%

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	6.00%
Investment Rate of Return	7.50%

RP2000, Combined Healthy – sex distinct. Disabled lives are set forward five years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

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:

Asset Class	Long Term Expected Real Rate of Return
Domestic Equity	7.80%
International Equity	7.70%
Fixed Income	2.30%

Discount Rate:

The discount rate used to measure the total pension liability was 7.50 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.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Sponsor's Net Pension Liability	\$ 3,721,610	\$ 2,276,242	\$ 1,092,364

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years

	<u>09/30/2014</u>
Total Pension Liability	
Service Cost	570,609
Interest	671,200
Change in Excess State Money	-
Change in Funding Standard Account	-
Share Plan Allocation	-
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Contributions - Buy Back	-
Benefit Payments, Including Refunds of Employee Contributions	(180,411)
Net Change in Total Pension Liability	1,061,398
Total Pension Liability - Beginning	8,468,936
Total Pension Liability - Ending (a)	<u><u>\$ 9,530,334</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	672,567
Contributions - State	145,004
Contributions - Employee	22,489
Contributions - Buy Back	-
Net Investment Income	534,100
Benefit Payments, Including Refunds of Employee Contributions	(180,411)
Administrative Expense	(35,433)
Other	-
Net Change in Plan Fiduciary Net Position	1,158,316
Plan Fiduciary Net Position - Beginning	6,095,776
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 7,254,092</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 2,276,242</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.12%
Covered Employee Payroll	\$ 2,093,651
Net Pension Liability as a Percentage of covered Employee Payroll	108.72%

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years

	09/30/2014
Actuarially Determined Contribution	817,571
Contributions in Relation to the	
Actuarially Determined Contributions	817,571
Contribution Deficiency (Excess)	\$ -
Covered Employee Payroll	\$ 2,093,651
Contributions as a Percentage of	
Covered Employee Payroll	39.05%

Notes to Schedule

Valuation Date: 10/01/2012 (AIS 04/01/2015)
 Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Funding Method:	Entry Age Normal Actuarial Cost Method.
Amortization Method:	Level percentage of pay, closed.
Remaining Amortization Period:	33 Years (as of 10/01/2012).
Actuarial Asset Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value returns, net of fees. It is possible that over time this technique will produce an insignificant bias above or below Market Value.
Inflation:	3.00% per year.
Salary Increases:	6.0% per year until the assumed retirement age. Projected salary at retirement is increased 20% to account for non-regular compensation.
Payroll Increase:	3% per year.
Interest Rate:	7.5% per year compounded annually, net of investment related expenses.
Retirement Age:	Earlier of Age 55 and 6 years of service or 25 years of service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.
Early Retirement:	Commencing with the earliest Early Retirement Date (Age 50 with 6 years of service), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.

Termination Rates:	See Table Below.
Disability Rates:	See Table Below. It is assumed that 75% of disablements and active Member deaths are service related.
Mortality:	RP2000, Combined Healthy – sex distinct. Disabled lives are set forward five years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
Other Information:	Termination and Disability Rate Table.

<u>Age</u>	<u>% Terminating During the Year</u>	<u>% Becoming Disabled During the Year</u>
20	17.2%	0.051%
30	15.0%	0.058%
40	8.2%	0.121%
50	1.7%	0.429%

SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years

	<u>09/30/2014</u>
Annual Money-Weighted Rate of Return	
Net of Investment Expense	8.56%

NOTES TO THE FINANCIAL STATEMENTS
(For the Year Ended September 30, 2014)

General Information about the Pension Plan

Plan Description

Full-time employees who are classified as full-time sworn police officers participate in the System as a condition of employment.

The City of Marco Island Police Officers' Pension Plan is a defined benefit pension plan administered by a Board of Trustees. The Board consists of 5 Trustees, 2 who are appointed by the City Council, 2 of whom are full-time Police Officers, elected by a majority of the members of the Plan, and a fifth Trustee who is elected by the first 4 Trustees.

Plan Membership as of October 1, 2013:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	9
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Active Plan Members	34
	<hr/>
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Benefits Provided

The Plan provides retirement, termination, disability and death benefits.

Normal Retirement:

Date: Earlier of: 1) age 55 and 6 years of Credited Service, or 2) 25 years of Credited Service, regardless of age.

Benefit: 3.00% of Average Final Compensation times Credited Service.

Early Retirement:

Eligibility: Age 50 and 6 Years of Credited Service.

Benefit: Accrued benefit, reduced 3.00% for each year prior to Normal Retirement.

Vesting (Termination):

Schedule: 100% after 6 years of Credited Service.

Benefit Amount: Member will receive the vested portion of his/her accrued benefit payable at the otherwise Normal Retirement Date.

Disability:

Eligibility: Service Incurred: Covered from Date of Employment.

Non-Service Incurred: 8 years of Credited Service.

Benefit: Benefit accrued to date of disability but not less than 42% of Average Final Compensation (if Service Incurred).

Pre-Retirement Death Benefits:

Vested: Monthly accrued benefit payable to designated beneficiary for 10 years beginning at the otherwise Normal Retirement Date.

Non-Vested: Refund of accumulated contributions.

Cost-of-Living Increase (COLA):

3.00% automatic lifetime COLA, beginning the first July 1st following the later of termination or otherwise Normal Retirement Date. The Benefit Supplement is not subject to the COLA.

Benefit Supplement:

\$3.00 per month per year of Credited Service, subject to minimum benefit of \$30.00 per month and maximum benefit of \$90.00 per month.

Contributions

Remaining amount required in order to pay current costs and amortize unfunded past service cost, if any, as provided in Chapter 112, Florida Statutes.

Net Pension Liability

The Sponsor's net pension liability was measured as of September 30, 2014.

The total pension liability used to calculate the net pension liability was determined as of that date.

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	6.00%
Investment Rate of Return	7.50%

RP2000, Combined Healthy – sex distinct. Disabled lives are set forward five years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	55.00%	7.80%
International Equity	10.00%	7.70%
Fixed Income	35.00%	2.30%
	<u>100.00%</u>	

Discount Rate:

The discount rate used to measure the total pension liability was 7.50 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.

CHANGES IN NET PENSION LIABILITY

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at September 30, 2013	\$ 8,468,936	\$ 6,095,776	\$ 2,373,160
Changes for a Year:			
Service Cost	570,609		570,609
Interest	671,200		671,200
Change In Excess State Money	-		-
Change In Funding Standard Account	-		-
Share Plan Allocation	-		-
Differences Between Expected and Actual Experience	-		-
Changes of Assumptions	-		-
Changes of Benefit Terms	-		-
Contributions - Employer		672,567	(672,567)
Contributions - State		145,004	(145,004)
Contributions - Employee		22,489	(22,489)
Contributions - Buy Back	-	-	-
Net Investment Income		534,100	(534,100)
Benefit Payments, Including Refunds of Employee Contributions	(180,411)	(180,411)	-
Administrative Expense		(35,433)	35,433
Other Changes	-	-	-
New Changes	1,061,398	1,158,316	(96,918)
Balances at September 30, 2014	\$ 9,530,334	\$ 7,254,092	\$ 2,276,242

Sensitivity of the net pension liability to changes in the discount rate.

	Current Discount		
	1% Decrease	Rate	1% Increase
	6.50%	7.50%	8.50%
Sponsor's Net Pension Liability	\$ 3,721,610	\$ 2,276,242	\$ 1,092,364

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in a separately issued Plan financial report.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2015 the Sponsor will recognize a pension expense of \$618,456. On September 30, 2015 the Sponsor reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	-	-
Changes of Assumptions	-	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	42,807
Total	<u>\$ -</u>	<u>\$ 42,807</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2016	\$ (10,702)
2017	\$ (10,702)
2018	\$ (10,702)
2019	\$ (10,701)
2020	\$ -
Thereafter	\$ -

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years

	<u>09/30/2014</u>
Total Pension Liability	
Service Cost	570,609
Interest	671,200
Change in Excess State Money	-
Change in Funding Standard Account	-
Share Plan Allocation	-
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Contributions - Buy Back	-
Benefit Payments, Including Refunds of Employee Contributions	(180,411)
Net Change in Total Pension Liability	1,061,398
Total Pension Liability - Beginning	8,468,936
Total Pension Liability - Ending (a)	<u>\$ 9,530,334</u>
Plan Fiduciary Net Position	
Contributions - Employer	672,567
Contributions - State	145,004
Contributions - Employee	22,489
Contributions - Buy Back	-
Net Investment Income	534,100
Benefit Payments, Including Refunds of Employee Contributions	(180,411)
Administrative Expense	(35,433)
Other	-
Net Change in Plan Fiduciary Net Position	1,158,316
Plan Fiduciary Net Position - Beginning	6,095,776
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,254,092</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 2,276,242</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.12%
Covered Employee Payroll	\$ 2,093,651
Net Pension Liability as a Percentage of covered Employee Payroll	108.72%

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years

	09/30/2014
Actuarially Determined Contribution	817,571
Contributions in Relation to the	
Actuarially Determined Contributions	817,571
Contribution Deficiency (Excess)	\$ -
Covered Employee Payroll	\$ 2,093,651
Contributions as a Percentage of	
Covered Employee Payroll	39.05%

Notes to Schedule

Valuation Date: 10/01/2012 (AIS 04/01/2015)

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

Methods and assumptions used to determine contribution rates:

Funding Method:	Entry Age Normal Actuarial Cost Method.
Amortization Method:	Level percentage of pay, closed.
Remaining Amortization Period:	33 Years (as of 10/01/2012).
Actuarial Asset Method:	Each year, the prior Actuarial Value of Assets is brought forward utilizing the historical geometric 4-year average Market Value returns, net of fees. It is possible that over time this technique will produce an insignificant bias above or below Market Value.
Inflation:	3.00% per year.
Salary Increases:	6.0% per year until the assumed retirement age. Projected salary at retirement is increased 20% to account for non-regular compensation.
Payroll Increase:	3% per year.
Interest Rate:	7.5% per year compounded annually, net of investment related expenses.
Retirement Age:	Earlier of Age 55 and 6 years of service or 25 years of service, regardless of age. Also, any Member who has reached Normal Retirement is assumed to continue employment for one additional year.
Early Retirement:	Commencing with the earliest Early Retirement Date (Age 50 with 6 years of service), Members are assumed to retire with an immediate subsidized benefit at the rate of 5% per year.

Termination Rates:	See Table Below.
Disability Rates:	See Table Below. It is assumed that 75% of disablements and active Member deaths are service related.
Mortality:	RP2000, Combined Healthy – sex distinct. Disabled lives are set forward five years. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.
Other Information:	Termination and Disability Rate Table.

<u>Age</u>	<u>% Terminating During the Year</u>	<u>% Becoming Disabled During the Year</u>
20	17.2%	0.051%
30	15.0%	0.058%
40	8.2%	0.121%
50	1.7%	0.429%

COMPONENTS OF PENSION EXPENSE
FISCAL YEAR SEPTEMBER 30, 2015

	Net Pension Liability	Deferred Inflows	Deferred Outflows	Pension Expense
Beginning balance	\$ 2,373,160	\$ -	\$ 672,567	
Total pension liability factors:				
Service cost	570,609			570,609
Interest	671,200			671,200
Change in Excess State Money	-			-
Change in Funding Standard Account	-			-
Share Plan Allocation	-			-
Changes in Benefit terms	-			-
Contributions - buy back	-			-
Differences between expected and actual experience with regard to economic or demographic assumptions	-	-	-	-
Current year amortization		-	-	-
Changes in assumptions about future economic or demographic factors or other inputs	-	-	-	-
Current year amortization		-	-	-
Benefit payments	(180,411)			(180,411)
Net change	<u>1,061,398</u>	<u>-</u>	<u>-</u>	<u>1,061,398</u>
Plan fiduciary net position:				
Contributions - employer	672,567		(672,567)	
Contributions - state	145,004			(145,004)
Contributions - employee	22,489			(22,489)
Contributions - buy back	-			-
Net investment income	480,591			(480,591)
Difference between projected and actual earnings on pension plan investments	53,509	53,509	-	
Current year amortization		(10,702)	-	(10,702)
Benefit payments	(180,411)			180,411
Administrative expenses	(35,433)			35,433
Other	-			-
Net change	<u>1,158,316</u>	<u>42,807</u>	<u>(672,567)</u>	<u>(442,942)</u>
Ending Balance	<u>\$ 2,276,242</u>	<u>\$ 42,807</u>	<u>\$ -</u>	<u>\$ 618,456</u>