

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

# TOWN OF PALM BEACH RETIREMENT SYSTEM

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**INDEPENDENT AUDITORS' REPORT**

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**INDEPENDENT AUDITORS' REPORT**

Board of Trustees and Plan Administrator  
**Town of Palm Beach Retirement System**

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Town of Palm Beach Retirement System (the Plan), which comprise the statement of fiduciary net position as of September 30, 2016 and the related statement of changes in fiduciary net position for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan, as of September 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Prior Year Comparative Information*

We have previously audited the Town of Palm Beach Retirement System's 2015 financial statements, and our report dated March 7, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the year ended September 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the town's net pension liability and related ratios, schedules of town contributions, and schedule of investment returns on pages 4-8 and 37-43 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.

#### *Supplementary Information*

The combining statement of fiduciary net position, the combining statement of changes in fiduciary net position and the schedules of administrative and investment expenses, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017 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 other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Marcum LLP*

West Palm Beach, FL  
March 6, 2017

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## Management's Discussion and Analysis

As management of the Town of Palm Beach (the Town), we offer readers of the Town of Palm Beach Retirement System's financial statements this narrative overview and analysis of the financial activities of the Town of Palm Beach Retirement System for the fiscal year ended September 30, 2016 compared to the fiscal year ended September 30, 2015.

Prior to April 1, 2012, the Town had three separately managed pension plans. On April 1, 2012, the three retirement boards were consolidated into the Town of Palm Beach Retirement System Board of Trustees. This Board now oversees all of the Town's pension assets and retirement programs. The accounting records were consolidated as of October 1, 2012 and this financial statement reflects the Town of Palm Beach Retirement System.

### Financial Highlights

- The Net Position held in trust for pension benefits totaled \$194,010,680 as of September 30, 2016, compared to the Net Position as of September 30, 2015 of \$190,764,490.
- The Town of Palm Beach Retirement System (the Plan) recorded an increase in Net Position of \$3,246,190 for fiscal year ended September 30, 2016 compared to the decrease in Net Position of \$25,236,882 recorded as of fiscal year ended September 30, 2015.
- The fiduciary net position as a percentage of the total pension liability in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans* (funded ratio), as of September 30, 2016 for the General Employee and Lifeguards plan was 69%, the Police plan was 63% and the Fire-Rescue plan was 60%. This compares to the September 30, 2015 ratios of: General Employee and Lifeguards plan 71%, Police plan 66%, and Fire-Rescue plan 63%.
- For fiscal year ended 2016, Town's contribution to the Plan increased by \$500,271. The fiscal year 2015 Town contribution increased by \$307,309.
- Net investment income for fiscal year 2016 was \$14,058,495 compared to an investment loss of \$8,432,050 in fiscal year 2015.
- Benefit payments for fiscal year 2016 were \$15,587,355 compared to \$14,203,995 in fiscal year 2015.
- Administrative expense for fiscal year 2016 totaled \$450,395 compared to \$447,474 in fiscal year 2015.

### Plan Highlights

During the year, the Retirement Board hired a new Investment Consultant, The Bogdhan Group, to oversee the investments of the General Employees, Police and Firefighter Retirement Plans. For the fiscal year ended September 30, 2016, the net investment return of the portfolio was 7.8% for the year, which was higher than the Target Index of 7.4%.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Palm Beach Retirement System's (the Plan) financial statements. The Town of Palm Beach Retirement System financial statements consist of a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position and Notes to the Financial Statements.

The Plan presents three types of required supplementary schedules, which provide historical trend information about the Plan. The three schedules are as follows: schedule of changes in the town's net pension liability and related ratios, a schedule of town contributions and a schedule of investment returns.

The Plan prepares its financial statements on the accrual basis of accounting and in accordance with generally accepted accounting principles in the United States of America as applied to governmental pension plans. These statements provide information about the Plan's overall financial status.

## Description of the Financial Statements

The *Statement of Fiduciary Net Position* presents information on the Town of Palm Beach Retirement System's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two reported as *net position held in trust for pension benefits*. This statement is a snapshot of the financial position of the Plan at that specific point in time and reflects the resources available to pay retirees and beneficiaries at that point in time. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Palm Beach Retirement System is improving or deteriorating.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net position changed during the most recent fiscal year. Additions consist of contributions to the Plan and net investment income or loss. Deductions consist of refunds, benefit payments, share plan distributions and administrative expenses.

The *Notes to the Financial Statements* are presented to provide the information necessary for a full understanding of the financial statements. They include additional information not readily evident in the statements themselves such as a description of the Plan, contributions, significant accounting policies, funding policy and investment risk disclosure.

There are also three *Required Supplementary Schedules* included in this report as required by the Governmental Accounting Standards Board. The *Schedule of Changes in the Town's Net Pension Liability and Related Ratios* presents historical trend information about the actuarially determined funded status of the Plan from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to fund benefit payments as they become due. The *Schedule of Town Contributions* presents historical trend information about the annual contributions of employers and percentage of such contributions in relation to the covered payroll. The *Schedule of Investment Returns* provides historical trend information on the annual money-weighted rate of return.

Additional information is presented as part of the *Supplementary Information*. This section is not required but management has chosen to include it. It includes a Combining Statement of Fiduciary Net Position, a Combining Statement of Changes in Fiduciary Net Position, and Schedules of Administrative Expenses and Investment Expenses. The Combining Statement of Fiduciary Net Position presents the breakdown of assets, liabilities, and deferred inflows between the General Employees, Police Officers and Firefighter groups. The Combining Statement of Changes in Fiduciary Net Position presents a breakdown of additions and deductions for each of the employee groups. The Schedule of Administrative Expenses presents the expenses incurred in the administration of the Plan. The Schedule of Investment Expenses presents the expenses incurred in managing and monitoring the investments of the Plan and includes financial management, consultant and custodial fees.

## Financial Analysis

The total net position held in trust for pension benefits at September 30, 2016 amounted to \$194,010,680 and a summary of fiduciary net position is shown below.

### Summary of Fiduciary Net Position

	FY2016	FY2015	Increase (Decrease) 2015 to 2016	
			Amount	Percent
<b>Assets</b>				
Cash and cash equivalents	\$ 537,558	\$ 581,116	\$ (43,558)	-7%
Receivables	156,118	166,686	(10,568)	-6%
Investments, at fair value	193,542,367	191,305,990	2,236,377	1%
Prepaid expenses	<u>24,499</u>	<u>59,994</u>	<u>(35,495)</u>	-59%
<b>Total Assets</b>	194,260,542	192,113,786	2,146,756	1%
<b>Total Liabilities and Deferred Inflow of Resources</b>	<u>249,862</u>	<u>1,349,296</u>	<u>(1,099,434)</u>	-81%

### Net Position Held in Trust for

The largest portion of the Plan's assets (99%) consists of investments at fair value. The balance of total assets includes cash and cash equivalents (short-term investments), accrued interest and dividends receivable and amounts due from brokers for securities sold. Investments at fair value increased by \$3,426,534 from FY15. Liabilities total \$249,862 at September 30, 2016. The liabilities are comprised of accounts payable (\$121,687) and amounts due to brokers for securities purchased (\$128,175).

The data relating to the change in net position is shown below:

### Summary of Changes in Fiduciary Net Position

	FY2016	FY2015	Increase (Decrease) 2015 to 2016	
			Amount	Percent
<b>Additions</b>				
Contributions				
Town	\$ 6,876,923	\$ 6,376,652	\$ 500,271	8%
Member	541,133	591,047	(49,914)	-8%
	<u>7,418,056</u>	<u>6,967,699</u>	<u>450,357</u>	<u>6%</u>
<b>Investment Income (Loss), Net</b>	<u>14,058,495</u>	<u>(8,432,050)</u>	<u>22,490,545</u>	<u>-267%</u>
<b>Total Additions</b>	<u>21,476,551</u>	<u>(1,464,351)</u>	<u>22,940,902</u>	<u>-1567%</u>
<b>Deductions</b>				
Benefits paid and distributions	17,648,526	23,196,158	(5,547,632)	-24%
Refunds of participants' contributions	131,440	128,899	2,541	2%
Administrative expense	450,395	447,474	2,921	1%
	<u>18,230,361</u>	<u>23,772,531</u>	<u>(5,542,170)</u>	<u>-23%</u>
<b>Total Deductions</b>	<u>18,230,361</u>	<u>23,772,531</u>	<u>(5,542,170)</u>	<u>-23%</u>
<b>Net Increase (Decrease)</b>	3,246,190	(25,236,882)	28,483,072	-113%
<b>Net Position - Beginning of Year</b>	<u>190,764,490</u>	<u>216,001,372</u>	<u>(25,236,882)</u>	<u>-12%</u>
<b>Net Position - End of Year</b>	<u>\$ 194,010,680</u>	<u>\$ 190,764,490</u>	<u>\$ 3,246,190</u>	<u>2%</u>

Net position of the Town of Palm Beach Retirement System increased by \$3,246,190 for FY2016. This increase was due to investment gains from interest and dividends and a net appreciation in fair value of investments amounting to \$14,058,495 net of investment expenses. This amount is greater than FY15 due to an improvement in performance in the portfolio from the prior year. Contributions by the Town and the employees totaled \$7,418,056. This amount increased \$450,357 from FY15. The Town's actuarially determined contribution increased due to increases in retirement activity, and smoothing investment losses. Member contributions decreased by \$49,914, due to a decrease in employee service purchases that occurred in FY15. Deductions for benefit payments and DROP and Share plan distributions amounted to \$17,648,526. This amount decreased due to the ICMA Drop accounts owned by the retired members expensed in FY15 that did not occur in FY16. Administrative expense amounted to \$450,395 an increase of \$2,921 from FY15. The increase is the result of an increase in salaries and benefits allocated to the fund.

## Economic Factors and Future Rates

The employer actuarially determined contribution to the Plan for FY2017 increased by \$1,502,016. A portion of the increase is due to the change in the mortality tables and the approved changes in non-union public safety pension plan. In addition, the Town Council approved a transfer of \$2,500,000 from the Town's unassigned fund balance to the Retirement Fund to start to accelerate the reduction in the unfunded actuarial accrued liability. Beginning with the 2016 actuarial valuation, the investment return assumption will decrease from 7.5% to 7.4% and continue each year in .1% increments until it reaches the ultimate assumption goal of 7%. In addition, the wage assumption will decrease from 3.5% to 3.25% for the 2016 valuation and then 3% for the 2017 valuation and 2.75% for the 2018 valuation.

## Asset Allocation

At the end of the fiscal year ended September 30, 2016, the domestic equity comprised 19.2% of the total portfolio and international equity was 27.6% of the total portfolio. The allocation to fixed income securities was 20.7%. Alternative assets comprised 20.2% of the portfolio. Real estate comprised 11.7% of the total portfolio.

The target asset allocation range versus the actual allocation is shown below:

	<i>Target</i>	<i>2016 Actual</i>
Domestic Equity	15.0%	19.2%
International Equity	25.0%	27.6%
Domestic Bonds	22.5%	20.7%
Alternative Assets	27.5%	20.2%
Real Estate Funds	10.0%	11.7%
Cash	0%	.6%

## Requests for Information

This financial report is designed to provide a general overview of the Town of Palm Beach Retirement System Fund's finances for all those with an interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Finance Department  
Town of Palm Beach  
360 South County Road  
Palm Beach, Florida 33480  
(561) 838-5444**

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## **FINANCIAL STATEMENTS**

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# TOWN OF PALM BEACH RETIREMENT SYSTEM

## STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2016

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)

	2016	2015
<b>Assets</b>		
<b>Cash</b>	\$ 537,558	\$ 581,116
<b>Investments, at Fair Value</b>		
Short term investment fund	1,751,722	1,190,157
Fixed income securities	40,185,497	45,741,365
Common stock	18,295,498	19,535,346
Domestic equity funds	18,150,864	18,407,423
International equity funds	53,446,990	48,218,493
Inflation hedging funds	3,298,993	7,997,509
Hedge funds	21,386,145	21,691,539
Private equity funds	15,970,409	13,884,186
Real estate funds	<u>21,056,249</u>	<u>14,639,972</u>
<b>Total Investments</b>	<u>193,542,367</u>	<u>191,305,990</u>
<b>Receivables</b>		
Interest and dividends	21,897	26,821
Due from broker for securities sold	<u>134,221</u>	<u>139,865</u>
<b>Total Receivables</b>	<u>156,118</u>	<u>166,686</u>
<b>Prepaid Expenses</b>	<u>24,499</u>	<u>59,994</u>
<b>Total Assets</b>	<u>194,260,542</u>	<u>192,113,786</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	121,687	804,924
Due to broker for securities purchased	<u>128,175</u>	<u>55,739</u>
<b>Total Liabilities</b>	<u>249,862</u>	<u>860,663</u>
<b>Deferred Inflows of Resources</b>		
Advanced Town contributions	<u>--</u>	<u>488,633</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<u>249,862</u>	<u>1,349,296</u>
<b>Net Position Held in Trust for Pension Benefits</b>	<u>\$ 194,010,680</u>	<u>\$ 190,764,490</u>

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

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	2016	2015
<b>Additions</b>		
<b>Contributions</b>		
Town	\$ 6,876,923	\$ 6,376,652
Member	<u>541,133</u>	<u>591,047</u>
<b>Total Contributions</b>	<u>7,418,056</u>	<u>6,967,699</u>
<b>Investment Income (Loss)</b>		
Net appreciation (depreciation) in fair value of investments	13,248,261	(9,700,074)
Interest and dividends	1,368,443	1,778,887
Share investment earnings	--	49,402
Other	<u>13,310</u>	<u>53,994</u>
	14,630,014	(7,817,791)
Less: investment expenses	<u>(571,519)</u>	<u>(614,259)</u>
<b>Net Investment Income (Loss)</b>	<u>14,058,495</u>	<u>(8,432,050)</u>
<b>Total Additions</b>	<u>21,476,551</u>	<u>(1,464,351)</u>
<b>Deductions</b>		
Benefit payments	15,587,355	14,203,995
Transfer to Share reserve account	--	49,402
Share distributions	74,464	82,553
DROP distributions	1,986,707	8,860,208
Refunds of participants' contributions	131,440	128,899
Administrative expenses	<u>450,395</u>	<u>447,474</u>
<b>Total Deductions</b>	<u>18,230,361</u>	<u>23,772,531</u>
<b>Net Increase (Decrease) in Net Position</b>	<u>3,246,190</u>	<u>(25,236,882)</u>
<b>Net Position Held in Trust for Pension Benefits</b>		
Beginning of year	<u>190,764,490</u>	<u>216,001,372</u>
End of year	<u>\$ 194,010,680</u>	<u>\$ 190,764,490</u>

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

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## **NOTES TO FINANCIAL STATEMENTS**

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# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *BASIS OF ACCOUNTING*

The financial statements of the Town of Palm Beach Retirement System (the Plan) are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Town contributions are recognized when due pursuant to the actuarial valuation. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

#### *METHODS USED TO VALUE INVESTMENTS*

Investments are recorded at fair value in the statement of fiduciary net position. The diversity of the investment types in which the Plan has entered into requires a range of techniques to determine fair value. For more detail regarding the methods used to measure the fair value of investments refer to the fair value hierarchy in Note 4.

Unrealized gains and losses are presented as net appreciation or depreciation in fair value of investments on the statement of changes in fiduciary net position along with gains and losses realized on sales of investments. Purchases and sales of securities are reflected on a trade-date basis. Interest income is recognized as earned and dividend income is recorded as of the ex-dividend date. Realized gains and losses on the sale of investments are based on average cost identification method.

#### *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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *COMPARATIVE INFORMATION/RECLASSIFICATIONS*

The financial statements include certain prior-period comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2015, from which the information was derived.

Certain amounts in the prior year financial statements, primarily related to the investment categories on the statement of fiduciary net position, have been reclassified to conform with the presentation in the current year financial statements.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS*

##### *GASB Statement No. 72, Fair Value Measurement and Application*

This Statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB 72 results in increased disclosures related to the fair value measurement of investments (see Note 4).

### NOTE 2 – PLAN DESCRIPTION

The Town of Palm Beach (the Town) is the administrator of a single-employer Public Employee Retirement System defined benefit pension plan established to provide pension benefits for its employees. The Town's retirement system was first established on July 1, 1947, by an ordinance of the Town of Palm Beach. The Plan is considered part of the Town's financial reporting entity and is included in the Town's financial statements as a pension trust fund. The Plan was amended by ordinance 4-2012, effective April 1, 2012 providing that the retirement system be administered by a single board of trustees and ordinance No. 6-2012, effective May 1, 2012 amending participant benefits.

Effective April 1, 2012, the general employees and lifeguard employees board of trustees, police officer board of trustees, and firefighter board of trustees were eliminated and a new consolidated board of trustees was created. The existing contracts, investment holdings, assets and liabilities of the general employees' and lifeguard employees', police officers', and firefighters' retirement plans were transferred and became contracts, investment holdings, assets and liabilities of the new board. In conjunction with the new board consolidation, effective May 1, 2012, an amended consolidated hybrid retirement plan with a defined contribution component was established, covering all employees of the Town. The new consolidated plan is known as the Town of Palm Beach Retirement System, effective May 1, 2012. Effective October 1, 2016, non-bargaining public safety employees on that date were authorized to retire under normal retirement after reaching age 56, and all service accrued after that date is calculated at an accrual rate of 2.75%.

The Plan is administered by the Town of Palm Beach Retirement System Board of Trustees. There are nine members on the Board of Trustees. The Trustees consist of (a) one employee who is a member of the benefit group general or benefit group lifeguard elected by the members of those benefit groups (b) one employee who is a member of the benefit group firefighter elected by the members of that benefit group (c) one employee

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

who is a member of the benefit group police officer elected by the members of that benefit group (d) five residents of the Town who are not officers or employees of the Town, retirees or beneficiaries of the retirement system, appointed by the Town Council and (e) the Town Manager or, in the Town Manager's absence, the Acting Town Manager, who shall serve as a voting ex-officio member. All employees working in excess of 1,040 hours per year are covered by the Plan. The Town Council is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. Notwithstanding the consolidation of funds, the board provides separate accounting of the assets and liabilities of each employee group and all actuarial valuation studies performed on and after April 1, 2012 include a separate accounting of the assets and liabilities attributable to the groups.

At September 30, 2015, the date of the most recent actuarial valuation, the plan membership consisted of the following:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Total</u>
Inactive plan members and beneficiaries currently receiving benefits	208	95	103	406
Inactive plan members entitled but not yet receiving benefits	21	24	29	74
Active plan member	<u>162</u>	<u>52</u>	<u>49</u>	<u>263</u>
<b>Total Plan Membership</b>	<u>391</u>	<u>171</u>	<u>181</u>	<u>743</u>

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

#### ***GENERAL EMPLOYEES***

##### **Normal Retirement**

###### ***Eligibility***

###### **Grandfathered and April 30, 2012 frozen accrued benefits.**

*General:* 30 or more years of service, regardless of age; or, age 55 with 10 or more years of credited service.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

#### **Normal Retirement (continued)**

##### *Eligibility (continued)*

*Lifeguards:* Age 50 with 10 or more years of service. The 10 year vesting was waived for active employees frozen benefits as of May 1, 2013. Members with at least 10 years of credited service who retire after 2/9/93 are eligible when the individual's age plus credited service totals 65 years or more.

##### *New Plan benefits accrued after April 30, 2012.*

*General:* Age 65 with 10 or more years of service.

*Lifeguards:* Age 65 with 10 or more years of service.

##### ***Pension Amount***

##### *Grandfathered and April 30, 2012 frozen accrued benefits.*

*General:* Average final compensation (AFC) times the sum of a) 2.75% for service earned after 9/30/90, to a maximum of 82.5%, plus 2.35% for service earned on or before 9/30/90 for the first 30 years of service, plus, b) 1.0% for service in excess of 30 years.

*Lifeguards:* Average final compensation times the sum of a) 2.85% for the first 25 years of service with a maximum of 71.25% of AFC, plus, b) 1.0% for service in excess of 25 years.

##### *New Plan benefits accrued after April 30, 2012.*

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for life. Member can elect for reduced monthly survivorship benefit.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

#### **Normal Retirement (continued)**

##### *Type of Average Final Compensation*

Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

#### **DROP Retirement**

***Eligibility*** – Same as Normal Retirement and completed within 5 years from election of DROP participation.

***Pension Amount*** – Members that entered or eligible for the DROP before May 1, 2012: 98% of the member's accrued benefit at the date of election to participate in DROP. Grandfather DROP participants entering on or after May 1, 2012 receive 98% of member's accrued benefit. Other members that entered the DROP on or after May 1, 2012: 100% of the members accrued benefit at the date of election to participate in DROP. Member contributions must be left on deposit in the System. As of September 30, 2016, there were 27 members in the DROP and the value was \$2,477,770 which is included in the Plan's net position.

#### **Early Retirement (General)**

***Eligibility*** – Grandfathered and frozen benefits at age 50 with 10 or more years of credited service. Frozen accrued benefits as of April 30, 2012 are vested immediately. New Plan provisions eligibility is age 60 with 10 or more years of credited service.

***Pension Amount*** – Grandfathered and frozen benefits computed as a normal retirement benefit but reduced 6/10 of 1% (3/10 of 1% if service credit is 20 or more years) for each month early retirement precedes the member's projected normal retirement date. The new Plan provides for an actuarial equivalent reduction.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

#### **Deferred Retirement (Vested Termination Benefit)**

*Eligibility* – 10 or more years of service (waived for frozen benefits). Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the Plan; failure to do so results in forfeiture of the vested benefit.

*Pension Amount* – Computed as for normal retirement, based upon service and average final compensation at time of termination.

#### **Duty Disability Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* – To earliest normal retirement eligibility date: Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation. At earliest normal retirement eligibility date: computed as a regular retirement. The minimum shall be applicable for at least 5 years if the member attains such age for retirement less than 5 years after duty disability benefits commence.

#### **Non-Duty Disability Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – Computed as for normal retirement.

#### **Duty Death Before Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retiree's AFC and the aggregate amount paid to children for the month.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

#### **Non-Duty Death Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18 (dependent child to age 25 if there is a surviving spouse payment).

#### **Automatic Death After Retirement Pension**

*Grandfathered and April 30, 2012 frozen accrued benefits.*

To Surviving Child(ren): 25% of the retiree's pension payable to age 18, not to exceed an equal share of 75% of the retiree's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

To Surviving Spouse: The difference, if any, between 75% of the deceased retiree's pension and the aggregate amount paid to any surviving children for the month.

*New Plan benefits accrued after April 30, 2012.*

Reduced optional forms of payment are available upon election of survivorship at retirement.

#### **Post-Retirement Cost-of-Living Adjustments**

*Grandfathered and April 30, 2012 frozen accrued benefits.*

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Pensions effective after 9/30/90 are increased 2.0% annually based on the total pension payable subsequent to an initial 3-year deferral period.

*New Plan benefits accrued after April 30, 2012.*

None.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS*

#### **Normal Retirement**

#### *Eligibility*

#### Grandfathered and April 30, 2012 frozen accrued benefits.

20 or more years of service, regardless of age; or, age 50 with 10 or more years of credited service (10 year vesting was waived for active employees frozen benefits as of May 1, 2013); or, members with at least 10 years of credited service who retire after 9/30/90 are eligible when the individual's age plus credited service totals 65 years or more.

#### Plan benefits accrued after April 30, 2012.

Age 65 with 10 or more years of service.

#### Plan benefits accrued after September 30, 2016.

Age 56 with 10 or more years of service (if employed on October 1, 2016 or commenced service after September 30, 2016).

#### *Pension Amount*

#### Grandfathered and April 30, 2012 frozen accrued benefits.

Average final compensation multiplied by:

- a) 3.5% per year of credited service to a maximum of 25 years, and
- b) 2.0% per year of credited service plus two percent of average final compensation for credited service, if any, in excess of 43.75 years.

The normal form of pension is a pension payable for 10 years certain. Also see Automatic Death after Retirement heading.

#### Plan benefits accrued after April 30, 2012.

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for the life of member. Member may elect on actuarially reduced survivorship benefit.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

#### **Normal Retirement (continued)**

#### *Pension Amount (continued)*

#### Plan benefits accrued after September 30, 2016.

Average final compensation multiplied by 2.75% per year of credited service after September 30, 2016.

#### *Average Final Compensation*

#### Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

#### New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

#### **DROP Retirement**

*Eligibility* – Same as Normal Retirement and completed within 5 years of election of participation.

*Pension Amount* – 100% of the member's accrued benefit at the date of election to participate in DROP.

Member contributions must be left on deposit in the Plan. As of September 30, 2016, there were 11 members in the DROP and the value was \$1,855,953 which is included in the Plan's net position.

#### **Deferred Retirement (Vested Termination Benefit)**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits). Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the Plan; failure to do so results in forfeiture of the vested benefit. Frozen accrued benefits as of April 30, 2012 are vested immediately.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

##### **Deferred Retirement (Vested Termination Benefit) (continued)**

*Pension Amount* – Computed as for normal retirement, based upon service and average final compensation at time of termination.

##### **Duty Disability Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* - Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation.

##### **Non-Duty Disability Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – Computed as for normal retirement, not less than 30% of final average compensation.

##### **Duty Death Before Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or an equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retirant's AFC and the aggregate amount paid to children for the month.

##### **Non-Duty Death Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

##### **Automatic Death After Retirement Pension**

*Grandfathered and April 30, 2012 frozen accrued benefits.*

To Surviving Child(ren): 25% of the retirant's pension payable to age 18, not to exceed an equal share of 75% of the retirant's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

To Surviving Spouse: The difference, if any, between 75% of the deceased retirant's pension and the aggregate amount paid to any surviving children for the month.

*New Plan benefits accrued after April 30, 2012.*

Reduced optional forms of payment are available upon election of survivorship at retirement.

##### **Post-Retirement Cost-of-Living Adjustments**

*Grandfathered and April 30, 2012 frozen accrued benefits.*

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3 year deferral period.

*New Plan benefits accrued after April 30, 2012.*

None.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### ***FIREFIGHTERS***

#### **Normal Retirement**

#### ***Eligibility***

#### **Grandfathered and April 30, 2012 frozen accrued benefits.**

20 or more years of service, regardless of age; or, age 50 with 10 or more years of credited service (10 year vesting was waived for active employees frozen benefits as of May 1, 2013); or, members with at least 10 years of credited service who retire after 9/30/90 are eligible when the individual's age plus credited service totals 65 years or more.

#### **New Plan benefits accrued after April 30, 2012.**

Age 65 with 10 or more years of service.

#### **New Plan benefits accrued after September 30, 2016 (non-bargaining members only).**

Age 56 with 10 or more years of service (if employed on October 1, 2016 or commenced service after September 30, 2016).

#### ***Pension Amount***

#### **Grandfathered and April 30, 2012 frozen accrued benefits.**

Average final compensation multiplied by the greater of,  
a) 3.5% per year of credited service to a maximum of 25 years, or  
b) 2.0% per year of credited service to a maximum of 50 years.

#### **Plan benefits accrued after April 30, 2012.**

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for 10 years certain. Also, see Automatic Death after Retirement heading.

#### **New Plan benefits accrued after September 30, 2016 (non-bargaining members only).**

Average Final Compensation multiplied by 2.75% per year of credited service after September 30, 2016.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *FIREFIGHTERS (CONTINUED)*

#### **Normal Retirement (continued)**

#### *Average Final Compensation*

#### Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

#### New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

#### **DROP Retirement**

*Eligibility* – Same as Normal Retirement and completed within 5 years of election.

*Pension Amount* – 100% of the member's accrued benefit at the date of election to participate in DROP. Member contributions must be left on deposit in the Plan. As of September 30, 2016, there were 16 members in the DROP with a value of \$4,027,784 which is included in the Plan's net position.

#### **Deferred Retirement (Vested Termination Benefit)**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits). Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the Plan; failure to do so results in forfeiture of the vested benefit. Frozen accrued benefits as of April 30, 2012 are vested immediately.

*Pension Amount* – Computed as for normal retirement, based upon service and average final compensation at time of termination.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *FIREFIGHTERS (CONTINUED)*

##### **Duty Disability Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* – Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation.

##### **Non-Duty Disability Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – Computed as for normal retirement.

##### **Duty Death Before Retirement**

*Eligibility* – No age or service requirements.

*Pension Amount* – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or an equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retirant's AFC and the aggregate amount paid to children for the month.

##### **Non-Duty Death Before Retirement**

*Eligibility* – 10 or more years of credited service (waived for frozen benefits).

*Pension Amount* – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

##### **Automatic Death After Retirement Pension**

Grandfathered and April 30, 2012, frozen accrued benefits.

To Surviving Child(ren): 25% of the retirant's pension payable to age 18, not to exceed an equal share of 75% of the retirant's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### ***FIREFIGHTERS (CONTINUED)***

#### **Automatic Death After Retirement Pension (continued)**

*Grandfathered and April 30, 2012, frozen accrued benefits (continued).*

To Surviving Spouse: The difference, if any, between 75% of the deceased retirant's pension and the aggregate amount paid to any surviving children for the month.

*New Plan benefits accrued after April 30, 2012.*

Reduced optional forms of payment are available.

#### **Post-Retirement Cost-of-Living Adjustments**

*Grandfathered and April 30, 2012, frozen accrued benefits.*

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Other adjustments have been made periodically. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3 year deferral period.

*New Plan benefits accrued after April 30, 2012.*

None.

#### **Share Account**

Effective October 1, 2003, the Town Council authorized the establishment of individual member Share accounts for firefighters actively employed by the Town. These accounts were funded annually using Chapter 175 monies that have not been otherwise committed for benefits for firefighter members. As of September 30, 2016, \$843,345 was held in Share accounts included in the Plan's net position.

On July 22, 2009, the Board passed and adopted a resolution that permits the plan participants to self-direct their Share accounts. The Board approved that the self-directed Share accounts be administered by ICMA Retirement Corporation (ICMA). As of September 30, 2016, \$2,270,214 reflects the amount of self-directed investments held outside the Plan. Members are eligible to take distributions after separation from service. No new member accounts shall be established as of May 1, 2012.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 3 – CONTRIBUTIONS

#### *GENERAL MEMBER CONTRIBUTIONS*

The contribution requirement of the plan members are established and may be amended by the Town Council. All employees, except grandfathered and union firefighters hired on or after May 1, 1992, are required to contribute 2.47% of their compensation. Grandfathered employees contribute 6.47% of their compensation.

#### *FIRE MEMBER CONTRIBUTIONS*

Effective May 1, 2012, union firefighters are required to contribute 4.82%, and all non-union firefighters contribute 2.47% of their annual covered salary.

#### *POLICE MEMBER CONTRIBUTIONS*

Effective May 1, 2012, police officers are required to contribute 2.47% of their annual covered salary. Grandfathered employees contribute 6.98% of their compensation.

#### *TOWN CONTRIBUTIONS*

The Town is expected to contribute such additional amounts as are necessary on an actuarial basis to fund the Plan's expenses, normal cost and to amortize the unfunded actuarial accrued liability.

Prior to March 14, 2012, pursuant to Florida Statutes, Chapters 175 and 185, contributions from the State of Florida Department of Insurance consist of an excise tax imposed by the Town upon certain casualty insurance companies on the gross amount of receipts of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the Town. The allowable portion of the State contribution was used to reduce the Town's contribution when received. Effective March 14, 2012, the Town withdrew from participation under Chapters 175 and 185.

### NOTE 4 – INVESTMENTS

#### *TYPES OF INVESTMENTS*

Florida statutes and the Plan investment policy authorize the Trustees to invest funds in various investments. The Plan's investment policy establishes asset classes and stipulates the following maximum portfolio percentages:

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *TYPES OF INVESTMENTS (CONTINUED)*

Authorized Investments	Allowable Range %	Target %
Domestic equity funds	10%-20%	15%
Developed equity funds	10%-20%	15%
Emerging markets equity funds	5%-15%	10%
Fixed income securities	12%-22%	17.5%
High Yield Fixed Income Fund	0%-6%	2.5%
TIPS (Treasury Inflation Protected Securities / Bond Mutual Fund)	0%-6%	2.5%
Hedge funds	10%-20%	15%
Commodities	0%-6%	2.5%
Real estate funds	5%-15%	10%
Private equity funds	5%-15%	10%
Cash	0% - 100%	0%

#### *INTEREST RATE RISK*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities.

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2016:

	Fair Value	Remaining Maturity			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	Greater Than 10 Years
<b>Fixed Income Securities</b>	<u>\$40,185,496</u>	<u>\$ --</u>	<u>\$20,352,249</u>	<u>\$19,833,247</u>	<u>\$ --</u>

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *CREDIT RISK*

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

The following tables disclose credit ratings of the fixed income securities, at September 30, 2016, as applicable:

Credit Rating by Standard & Poor's	Fair Value
AA +	\$ 11,600,783
AAA	14,906,077
AA	1,602,230
A	2,787,035
A-	1,017,613
BBB+	1,221,135
BBB	3,997,790
BBB-	1,017,613
BB	203,523
Not rated	<u>1,831,697</u>
<b>Total Fixed Income Securities</b>	<b><u>\$ 40,185,496</u></b>

#### *CONCENTRATION OF CREDIT RISK*

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of Plan net position at September 30, 2016.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *CUSTODIAL CREDIT RISK*

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Plan's deposits are covered by depository insurance or are collateralized by securities held with a financial institution in the Plan's name. The Plan is only exposed to custodial credit risk for uncollateralized cash that are not covered by federal depository insurance.

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the Plan, and are held either by the counterparty or the counterparty's trust department or agent but not in the Plan's name.

Consistent with the Plan's investment policy, the investments are held by Plan's custodial banks and registered in the Plan's name. All of the Plan's deposits are insured and or collateralized by a financial institution separate from the Plan's depository financial institution.

#### *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 that such change could materially affect the amounts reported in the statement of fiduciary net position. The Plan, through its investment advisor, monitors the Plan's investment 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, 2016, the annual money-weighted rate of return on Plan investments, net of pension plan investment expenses was 7.80%.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Inputs to the dollar-weighted rate of return valuation are determined on a monthly basis.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *FAIR VALUE HIERARCHY*

Fair value is defined as 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. The Plan categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 – Investments' fair values based on prices quoted in active markets for identical assets

Level 2 – Investments' fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.

Level 3 – Investments' fair values based upon unobservable inputs.

The following is a description of the fair value techniques for the Plan's investments. Level 1 and 2 prices are obtained from various pricing sources by the Plan's custodian bank:

Short-term investments, which consist of money market funds, are reported at amortized cost which is fair value.

Equity securities traded on national or international exchanges are valued at the last reported sales price or current exchange rates (Level 1). This includes common stock, and REITS.

The Plan has investments in alternative asset classes including funds of hedge funds, private equity funds and real estate funds which hold a variety of investment vehicles that do not have readily available market quotations. These investments are measured at net asset value based on their proportionate share of the value of the investments as determined by the fund managers and are valued according to methodologies which include pricing models, discounted cash flow models and similar techniques.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *FAIR VALUE HIERARCHY (CONTINUED)*

The following is a summary of the fair value hierarchy of the fair value of investments as of September 30, 2016:

Investment Instruments Measured at Fair Value

Investments by Fair Value Level	9/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Equity securities</b>				
Common stock	\$ 17,482,255	\$ 17,482,255	\$ --	\$ --
REITS	862,847	862,847	--	--
<b>Total Equity Securities</b>	<b>18,345,102</b>	<b>18,345,102</b>	--	--
<b>Mutual funds</b>				
International	16,827,990	16,827,990	--	--
Fixed income	19,833,247	19,833,247	--	--
REITS	10,021,180	10,021,180	--	--
<b>Total Mutual Funds</b>	<b>46,682,417</b>	<b>\$ 46,682,417</b>	\$ --	\$ --
<b>Investments Measured at the Net Asset Value (NAV)*</b>				
Commingled domestic equity fund	18,150,864			
Commingled funds - emerging markets	20,507,420			
Fixed income collective trust	20,352,249			
Private equity - International equity	16,111,579			
Private equity - Secondary markets	5,669,347			
Private equity - real estate	12,377,266			
<b>Hedge funds</b>				
Inflation	3,298,993			
Multi-strategy	21,386,146			
Venture capital	2,047,521			
Hybrid	6,861,741			
Total investments measured at NAV	126,763,126			
Money market funds (exempt)	1,751,722			
<b>Total Investments</b>	<b>\$ 193,542,367</b>			

\* As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investments in the Statement of Fiduciary Net Position.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *FAIR VALUE HIERARCHY (CONTINUED)*

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient, including their related unfunded commitments and redemption restrictions.

<b>Investments Measured at the NAV</b>	Fair	Unfunded	Redemption	Redemption
	Value	Commitments	Frequency (if	Notice
	<u>Value</u>	<u>Commitments</u>	<u>Currently Eligible)</u>	<u>Period (Days)</u>
Commingled domestic equity fund <sup>1</sup>	\$ 18,150,864	\$ --	Daily	1-30
Commingled funds - emerging markets <sup>1</sup>	20,507,420	--	N/A	N/A
Fixed income collective trust <sup>2</sup>	20,352,249	--	N/A	N/A
Private equity - International equity <sup>3</sup>	16,111,579	--	Monthly	30
Private equity - Secondary markets <sup>4</sup>	5,669,347	3,846,938	N/A	N/A
Private equity - real estate <sup>5</sup>	12,377,266	8,502,467	N/A	N/A
Hedge funds				
Inflation <sup>6</sup>	3,298,993	--	Monthly	1-30
Multi-strategy funds <sup>7</sup>	21,386,146	--	Monthly, Quarterly	5-95
Venture capital <sup>8</sup>	2,047,521	2,980,865	N/A	N/A
Hybrid <sup>9</sup>	<u>6,861,741</u>	3,333,750	N/A	N/A
<b>Total Investments Measured at NAV</b>	<u>\$ 126,763,126</u>			

- 1 *Commingled domestic and emerging markets equity funds* – Consisting of one domestic equity fund established to approximate the performance of the S&P 500 Index over the long term and two emerging market funds are considered commingled in nature. The funds are valued at net asset value (NAV) of the units held at the end of the period based on the fair value of the underlying investments.
- 2 *Fixed income collective trust* – This fund is invested in a core plus fixed income collective trust strategy. The fund is valued at NAV.
- 3 *Private Equity – International Fund* – the objective of this fund is to provide investors with long-term capital appreciation by selecting and investing primarily in equity securities of non-U.S. issuers. The investment is valued at NAV, redeemable on a monthly basis with 30 days prior notice required for all redemptions.
- 4 *Private Equity – Secondary markets* – consists of 3 funds invested in private equity investments through secondary markets. One of the funds focuses on acquiring high quality, mature assets with near term liquidity. These investments are valued at NAV.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *FAIR VALUE HIERARCHY (CONTINUED)*

- 5 *Private Equity – real estate* – consists of four funds. Two of the funds are closed end funds targeting high growth markets in urban, modern, green properties by acquiring undercapitalized properties and adding value through enhancements. These funds have very limited redemption rights. Another fund pursues distressed and opportunistic real estate investment opportunities. The final real estate fund focuses on acquiring assets well located but with operationally impaired assets with distressed capital structures. These funds are valued at NAV.
- 6 *Inflation Fund* – Consists of a diversified inflation hedge which focuses on providing strong performance versus broad equity and fixed income markets during rising inflation environment. The investment is redeemable on a monthly basis with notifications due by the 22<sup>nd</sup> business day of every month in advance of trade.
- 7 *Multi-Strategy funds* – The three funds in this group aim to diversify risk and reduce volatility by combining other strategies. These strategies include hedged equity, event driven, and relative value. These funds are valued at NAV per share. One fund (approximately 37% of this strategy) is eligible for redemptions quarterly with 95 days' notice. One fund (approximately 31% of this strategy) is eligible for redemptions monthly with 5 days' notice. The final fund (approximately 32% of this strategy) is eligible for redemptions quarterly with 65 days' notice.
- 8 *Venture Capital* – Consists of one fund which focuses primarily on early stage investments in start-up companies and later stage investments. A majority of the companies in the fund focus on information technology, software, media, and life sciences. Redemptions in this fund are not permitted.
- 9 *Hybrid* – Consists of three closed end investment vehicles. One fund focuses on partnership investments in U.S. based buyout, recapitalization and turnaround; one fund consists of global partnership investments in mezzanine debt, distressed debt, and venture debt and; the third fund consists predominantly of partnership investments in U.S. based venture capital and growth equity.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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### NOTE 5 –NET PENSION LIABILITY OF THE TOWN

The components of the net pension liability at September 30, 2016:

	General Employees	Police Officers	Firefighters	Total
Total pension liability	\$ 110,174,017	\$ 96,268,968	\$ 96,394,989	\$ 302,837,974
Plan fiduciary net position	75,715,712	60,680,123	57,614,845	194,010,680
<b>Net Pension Liability</b>	<b>\$ 34,458,305</b>	<b>\$ 35,588,845</b>	<b>\$ 38,780,144</b>	<b>\$ 108,827,294</b>
Plan fiduciary net position as a percentage of total pension liability	68.72%	63.03%	59.77%	64.06%
Net pension liability as a percentage of covered payroll	349.60%	970.19%	1195.88%	649.04%

#### ***SIGNIFICANT ACTUARIAL ASSUMPTIONS***

The total pension liability was determined using the following actuarial assumptions:

Interest rates:

Single discount rate	7.40%
Long-term expected rate of return	7.40%
Municipal Bond Rate	3.06%

Municipal Bond Rate:

The source of the municipal bond rate is the general obligation, 20 years to maturity, mixed quality Bond Buyer Index. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA.

Mortality:

The mortality tables used are the same as those used in the July 1, 2016 Pension Actuarial Valuation of the Florida Retirement System (FRS) for other than Special Risk members (General) and Special Risk members (Ocean Rescue). These tables are based on the RP-2000 mortality tables with white and blue collar adjustments and with mortality improvements projected for healthy lives to all future years using Scale BB.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 5 –NET PENSION LIABILITY OF THE TOWN (CONTINUED)

#### *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 expense 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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity funds	15.0%	7.50%
International equity	25.0%	8.50%
Domestic bonds	22.5%	2.50%
International bonds	0.0%	3.50%
Real estate funds	10.0%	4.50%
Alternative assets	<u>27.5%</u>	5.88%
	<u>100.0%</u>	

#### *DISCOUNT RATE*

A single discount rate of 7.40% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.40%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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.

Below is a table providing the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

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### NOTE 5 – NET PENSION LIABILITY OF THE TOWN (CONTINUED)

#### *SENSITIVITY OF NET PENSION LIABILITY TO THE SINGLE DISCOUNT RATE ASSUMPTION*

	1% Decrease 6.40%	Current Single Discount Rate Assumption 7.40%	1% Increase 8.40%
General employees	\$ 47,752,917	\$ 34,458,305	\$ 23,460,928
Police officers	47,777,281	35,588,845	25,643,879
Firefighters	51,068,229	38,780,144	28,840,642

### NOTE 6 – TAX STATUS

Management believes that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**GENERAL EMPLOYEES AND LIFEGUARDS**

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

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 636,740	\$ 739,734	\$ 733,095
Interest on the total pension liability	7,664,270	7,096,090	7,058,622
Benefit changes	--	39,572	--
Difference between expected and actual experience	961,731	499,433	--
Assumption changes	2,296,388	7,152,240	--
Benefit payments	(6,476,789)	(9,215,159)	(5,289,162)
Refunds	<u>(37,241)</u>	<u>(70,488)</u>	<u>(16,118)</u>
<b>Net Change in Total Pension Liability</b>	5,045,099	6,241,422	2,486,437
<b>Total Pension Liability - Beginning</b>	105,128,918	98,887,496	91,884,309
<b>Prior Period Adjustment</b>	<u>--</u>	<u>--</u>	<u>4,516,750</u>
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 110,174,017</u>	<u>\$ 105,128,918</u>	<u>\$ 98,887,496</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 2,210,609	\$ 2,008,406	\$ 2,018,621
Employee contributions	289,317	282,284	289,425
Pension plan net investment income	5,708,914	(3,076,859)	5,799,299
Investment expense	(223,064)	(241,461)	(243,389)
Benefit payments	(6,476,789)	(9,215,159)	(5,289,162)
Refunds	(37,241)	(70,488)	(16,118)
Pension plan administrative expense	<u>(175,570)</u>	<u>(175,900)</u>	<u>(162,070)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,296,176	(10,489,177)	2,396,606
<b>Plan Fiduciary Net Position - Beginning</b>	74,419,536	84,908,713	77,995,357
<b>Prior Year Adjustment</b>	<u>--</u>	<u>--</u>	<u>4,516,750</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 75,715,712</u>	<u>\$ 74,419,536</u>	<u>\$ 84,908,713</u>
<b>Net Pension Liability Ending (a)</b>	<u>\$ 34,458,305</u>	<u>\$ 30,709,382</u>	<u>\$ 13,978,783</u>
Plan Fiduciary Net Position as a Percentage of Total Pension liability	68.72%	70.79%	85.86%
Covered Employee Payroll	\$ 9,856,405	\$ 10,075,310	\$ 9,698,419
Net Pension Liability as a Percentage of Covered Employee Payroll	349.60%	304.80%	144.13%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**GENERAL EMPLOYEES AND LIFEGUARDS**

**SCHEDULE OF TOWN CONTRIBUTIONS**

Year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 2,066,276	\$ 2,210,609	\$ (144,333)	\$ 9,856,405	22.43%
2015	2,013,723	2,008,406	5,317	10,075,310	19.93%
2014	1,994,388	2,018,621	(24,233)	9,698,419	20.81%

**Notes to Schedule of Contributions**

Valuation Date: September 30, 2014  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the end of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2016:**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 17-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.50% wage inflation: 3.00% general  
 Salary Increases: 7.3% to 3.7% including inflation  
 Investment Rate of Return: 7.50%

Retirement Age: Age-based table of rates that are specific to the type of eligibility  
 Mortality: RP-2000 Combined Healthy Mortality Table for males and females

**Other Information:**

Notes: The FY 2016 contributions were determined in the September 30, 2014 Actuarial Valuation Report dated February 10, 2015.

**Cost-of-Living Adjustment**

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members who retire after 9/30/90 will be increased 2.0% annually based on total pension after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## REQUIRED SUPPLEMENTARY INFORMATION

### POLICE OFFICERS

#### SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY AND RELATED RATIOS

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 229,514	\$ 274,361	\$ 311,681
Interest on the total pension liability	6,571,902	6,343,197	6,321,297
Benefit changes	1,149,473	83,392	--
Difference between expected and actual experience	489,883	637,285	--
Assumption changes	3,077,576	2,464,150	--
Benefit payments	(5,492,306)	(7,918,798)	(4,690,744)
Refunds	(27,651)	(22,377)	(12,726)
<b>Net Change in Total Pension Liability</b>	5,998,391	1,861,210	1,929,508
<b>Total Pension Liability - Beginning</b>	90,270,577	88,409,367	82,415,628
<b>Prior Period Adjustment</b>	--	--	4,064,231
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 96,268,968</u>	<u>\$ 90,270,577</u>	<u>\$ 88,409,367</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 2,306,795	\$ 2,144,662	\$ 1,979,219
Employee contributions	122,231	98,530	108,250
Pension plan net investment income	4,574,146	(2,464,621)	4,966,209
Investment expense	(178,714)	(193,415)	(193,228)
Benefit payments	(5,492,306)	(7,918,798)	(4,690,744)
Refunds	(27,651)	(22,377)	(12,726)
Pension plan administrative expense	(140,951)	(140,899)	(128,668)
<b>Net Change in Plan Fiduciary Net Position</b>	1,163,550	(8,496,918)	2,028,312
<b>Plan Fiduciary Net Position - Beginning</b>	59,516,573	68,013,491	61,920,948
<b>Prior Year Adjustment</b>	--	--	4,064,231
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 60,680,123</u>	<u>\$ 59,516,573</u>	<u>\$ 68,013,491</u>
<b>Net Pension Liability Ending (a)</b>	<u>\$ 35,588,845</u>	<u>\$ 30,754,004</u>	<u>\$ 20,395,876</u>
Plan Fiduciary Net Position as a Percentage of Total Pension liability	63.03%	65.93%	76.93%
Covered Employee Payroll	\$ 3,668,239	\$ 3,354,258	\$ 3,453,957
Net Pension Liability as a Percentage of Covered Employee Payroll	970.19%	916.86%	590.51%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**POLICE OFFICERS**

**SCHEDULE OF TOWN CONTRIBUTIONS**

Year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 2,233,214	\$ 2,306,795	\$ (73,581)	\$ 3,668,239	62.89%
2015	2,144,662	2,144,662	--	3,354,258	63.94%
2014	1,881,949	1,979,219	(97,270)	3,453,957	57.30%

**Notes to Schedule of Contributions**

Valuation Date: September 30, 2014  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the end of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2016:**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 12-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.50% wage inflation: 3.00% general  
 Salary Increases: 7.3% to 3.7% including inflation  
 Investment Rate of Return: 7.50%  
 Retirement Age: Age-based table of rates that are specific to the type of eligibility  
 Mortality: RP-2000 Combined Healthy Mortality Table for males and females

**Other Information:**

Notes: The FY 2016 contributions were determined in the September 30, 2014 Actuarial Valuation Report dated February 10, 2015.  
 Cost-of-Living Adjustment: Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members who retire after 9/30/90 will be increased 2.0% annually based on total pension after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FIREFIGHTERS**

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

	2016	2015	2014
<b>Total Pension Liability</b>			
Service cost	\$ 187,387	\$ 238,556	\$ 281,248
Interest on the total pension liability	6,601,560	6,396,715	6,324,999
Benefit changes	370,169	35,550	--
Difference between expected and actual experience	1,133,752	(299,119)	--
Assumption changes	3,049,236	2,324,039	--
Benefit payments	(5,679,431)	(6,098,229)	(5,101,421)
Refunds	(66,548)	(36,034)	(21,692)
<b>Net Change in Total Pension Liability</b>	5,596,125	2,561,478	1,483,134
<b>Total Pension Liability - Beginning</b>	90,798,864	88,237,386	82,218,000
<b>Prior Period Adjustment</b>	--	--	4,536,252
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 96,394,989</u>	<u>\$ 90,798,864</u>	<u>\$ 88,237,386</u>
<b>Plan Fiduciary Net Position</b>			
Employer contributions	\$ 2,359,519	\$ 2,269,117	\$ 2,071,503
Employee contributions	129,585	210,233	154,199
Pension plan net investment income	4,346,954	(2,285,815)	4,308,313
Investment expense	(169,741)	(179,383)	(182,692)
Benefit payments	(5,679,431)	(6,098,229)	(5,101,421)
Refunds	(66,548)	(36,034)	(21,692)
Pension plan administrative expense	(133,874)	(130,676)	(121,652)
<b>Net Change in Plan Fiduciary Net Position</b>	786,464	(6,250,787)	1,106,558
<b>Plan Fiduciary Net Position - Beginning</b>	56,828,381	63,079,168	57,436,358
<b>Prior Year Adjustment</b>	--	--	4,536,252
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 57,614,845</u>	<u>\$ 56,828,381</u>	<u>\$ 63,079,168</u>
<b>Net Pension Liability Ending (a)</b>	<u>\$ 38,780,144</u>	<u>\$ 33,970,483</u>	<u>\$ 25,158,218</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.77%	62.59%	71.49%
Covered Employee Payroll	\$ 3,242,811	\$ 3,403,307	\$ 3,671,337
Net Pension Liability as a Percentage of Covered Employee Payroll	1195.88%	998.16%	685.26%

(1) (1)

NOTE (1): Transfers from ICMA Shares included in benefit payments

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FIREFIGHTERS**

**SCHEDULE OF TOWN CONTRIBUTIONS**

Year Ending September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 2,285,579	\$ 2,359,519	\$ (73,940)	\$ 3,242,811	72.76%
2015	2,223,584	2,223,584	--	3,403,307	65.34%
2014	2,040,491	2,071,503	(31,012)	3,671,337	56.42%

**Notes to Schedule of Contributions**

Valuation Date: September 30, 2014  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the end of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2016**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 17-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.50% wage inflation: 3.00% general  
 Salary Increases: 7.3% to 3.7% including inflation  
 Investment Rate of Return: 7.50%  
 Retirement Age: Age-based table of rates that are specific to the type of eligibility  
 Mortality: RP-2000 Combined Healthy Mortality Table for males and females

**Other Information:**

Notes: The FY 2016 contributions were determined in the September 30, 2014 Actuarial Valuation Report dated February 10, 2015.  
 Cost-of-Living Adjustment: Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Members who retire after 9/30/90 will be increased 2.0% annually based on total pension after a 3-year deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF INVESTMENT RETURNS

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	7.80%	-4.22%	7.09%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the plan will present information for those years for which information is available.*

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**SUPPLEMENTARY INFORMATION**

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**TOWN OF PALM BEACH RETIREMENT SYSTEM**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**

**SEPTEMBER 30, 2016**

	General	Police Officers	Firefighters	Total
<b>Assets</b>				
<b>Cash</b>	\$ 209,790	\$ 168,130	\$ 159,637	\$ 537,558
<b>Investments, at Fair Value</b>				
Short term investment fund	683,637	547,881	520,205	1,751,722
Fixed income securities	15,683,021	12,568,694	11,933,782	40,185,497
Common stock	7,140,105	5,722,227	5,433,166	18,295,498
Domestic equity funds	7,083,659	5,676,990	5,390,215	18,150,864
International equity funds	20,858,527	16,716,450	15,872,013	53,446,990
Inflation hedging funds	1,287,484	1,031,816	979,693	3,298,993
Hedge funds	8,346,278	6,688,879	6,350,988	21,386,145
Private equity funds	6,232,702	4,995,016	4,742,691	15,970,409
Real estate funds	8,217,532	6,585,698	6,253,019	21,056,249
<b>Total Investments</b>	<u>75,532,945</u>	<u>60,533,651</u>	<u>57,475,772</u>	<u>193,542,367</u>
<b>Receivables</b>				
Interest and dividends	8,545	6,849	6,503	21,897
Due from broker for securities sold	52,382	41,980	39,859	134,221
<b>Total Receivables</b>	<u>60,927</u>	<u>48,829</u>	<u>46,362</u>	<u>156,118</u>
<b>Prepaid Expenses</b>	<u>9,562</u>	<u>7,662</u>	<u>7,275</u>	<u>24,499</u>
<b>Total Assets</b>	<u>75,813,224</u>	<u>60,758,272</u>	<u>57,689,046</u>	<u>194,260,542</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	47,490	38,060	36,137	121,687
Due to broker for securities purchased	50,022	40,089	38,064	128,175
<b>Total Liabilities</b>	<u>97,512</u>	<u>78,149</u>	<u>74,201</u>	<u>249,862</u>
<b>Net Position Held in Trust for</b>				
<b>Pension Benefits</b>	<u>\$ 75,715,712</u>	<u>\$ 60,680,123</u>	<u>\$ 57,614,845</u>	<u>\$ 194,010,680</u>

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2016

	General	Police Officers	Firefighters	Total
<b>Additions</b>				
<b>Contributions</b>				
Town	\$ 2,210,609	\$ 2,306,795	\$ 2,359,519	\$ 6,876,923
Member	<u>289,317</u>	<u>122,231</u>	<u>129,585</u>	<u>541,133</u>
<b>Total Contributions</b>	<u>2,499,926</u>	<u>2,429,026</u>	<u>2,489,104</u>	<u>7,418,056</u>
<b>Investment Income</b>				
Net appreciation in fair value of investments	5,169,616	4,142,072	3,936,573	13,248,261
Interest and dividends	534,103	427,912	406,428	1,368,443
Other	<u>5,195</u>	<u>4,162</u>	<u>3,953</u>	<u>13,310</u>
	5,708,914	4,574,146	4,346,954	14,630,014
Less: investment expenses	<u>(223,064)</u>	<u>(178,714)</u>	<u>(169,741)</u>	<u>(571,519)</u>
<b>Net Investment Income</b>	<u>5,485,850</u>	<u>4,395,432</u>	<u>4,177,213</u>	<u>14,058,495</u>
<b>Total Additions</b>	<u>7,985,776</u>	<u>6,824,458</u>	<u>6,666,317</u>	<u>21,476,551</u>
<b>Deductions</b>				
Benefit payments	5,923,397	4,769,649	4,894,309	15,587,355
Share distributions	--	--	74,464	74,464
DROP distributions	553,392	722,657	710,658	1,986,707
Refunds of participants' contributions	37,241	27,651	66,548	131,440
Administrative expenses	<u>175,570</u>	<u>140,951</u>	<u>133,874</u>	<u>450,395</u>
<b>Total Deductions</b>	<u>6,689,600</u>	<u>5,660,908</u>	<u>5,879,853</u>	<u>18,230,361</u>
<b>Net Increase in Net Position</b>	1,296,176	1,163,550	786,464	3,246,190
<b>Net Position Held in Trust for Pension Benefits</b>				
Beginning of year	<u>74,419,536</u>	<u>59,516,573</u>	<u>56,828,381</u>	<u>190,764,490</u>
End of year	<u>\$ 75,715,712</u>	<u>\$ 60,680,123</u>	<u>\$ 57,614,845</u>	<u>\$ 194,010,680</u>

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

### SUPPLEMENTARY INFORMATION

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#### **Administrative Expenses**

Administrator fees	\$	150,000
Salaries and employee benefits		77,577
Fiduciary insurance		65,880
Legal fees		61,682
Actuarial services		56,450
Audit fees and accounting fees		22,000
Software		16,159
Postage, office and miscellaneous expense		<u>647</u>

**Total Administrative Expenses** \$ 450,395

#### **Investment Expenses**

Investment management fees	\$	373,428
Investment consultant services		126,167
Custodial fees		<u>71,924</u>

**Total Investment Expenses** \$ 571,519

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## **REPORTING SECTION**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees and Plan Administrator  
**Town of Palm Beach Retirement System**

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 Town of Palm Beach Retirement System (the Plan), as of and for the year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 6, 2017.

***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 opinion 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 and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

West Palm Beach, FL  
March 6, 2017