

TOWN OF PALM BEACH RETIREMENT SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

TOWN OF PALM BEACH RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Trustees and Plan Administrator
Town of Palm Beach Retirement System
Palm Beach, Florida

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, 2014 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan, as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans, an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

As discussed in Note 7 to the financial statements, management analyzed the Plan's Ordinances in conjunction with GASB Statement No. 67 and determined that the Deferred Retirement Option Program (DROP) should be included in the Pension Trust Fund. The beginning net position restricted for pension benefits has been increased/restated to account for this adjustment. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the employer net pension liability and related ratios, schedules of employer contributions, and schedule of investment returns on pages 4–8 and 34–40 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 2, 2015 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 2, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Palm Beach, we offer readers of the Town of Palm Beach Retirement System Fund'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, 2014 compared to the fiscal year ended September 30, 2013.

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 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 \$216,001,372 as of September 30, 2014, compared to the restated Net Position as of September 30, 2013 of \$210,469,896.
- The Town of Palm Beach Retirement System Fund recorded an increase in Net Position of \$5,531,476 for fiscal year ended September 30, 2014 compared to the increase in Net Position of \$11,174,234 recorded as of fiscal year ended September 30, 2013.
- The funded ratio as of the September 30, 2014 actuarial valuation for the General Employee and Lifeguards plan was 81%, the Police plan was 73% and the Fire-Rescue plan was 68%. This compares to the September 30, 2013 valuation ratios of: General Employee and Lifeguards plan 80%, Police plan 74%, and Fire-Rescue plan 68%.
- For fiscal year 2014, Town's contribution to the plan increased by \$2,026,900. The fiscal year 2013 Town contribution increased by \$1,095,116.
- Net investment income for fiscal year 2014 was \$14,505,472 compared to \$23,831,760 in fiscal year 2013.
- Benefit payments for fiscal year 2014 were \$12,913,740 compared to \$15,076,584 in fiscal year 2013.
- Administrative expense for fiscal year 2014 totaled \$412,391 compared to \$417,651 in fiscal year 2013.

Plan Highlights

During the year, the Retirement Board continued to work with the Investment Consultant, Segal Rogerscasey, to consolidate the investments of the General Employees, Police and Firefighter Retirement Plans into one consolidated Retirement System plan. For the fiscal year ended September 30, 2014, the net investment return of the portfolio was 7.03% for the year, which was lower than the Target Index of 8.86%. During the period, the portfolio was changing to reflect the asset allocation model chosen for the consolidated fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Palm Beach Retirement System Fund's financial statements. The Town of Palm Beach Retirement System Fund 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 employer net pension liability and related ratios, a schedule of employer 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. 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 Fund'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*. The Town had a deferred inflow of resources at September 30, 2014 of \$1,238,633 representing advanced Town contributions. 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 Fund 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. 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 Employer 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 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 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 included financial management, consultant and custodial fees.

Financial Analysis

The total net position held in trust for pension benefits at September 30, 2014 amounted to \$216,001,372 and a summary of fiduciary net position is shown below.

Summary of Fiduciary Net Position

| | FY2014 | FY2013 | Increase (Decrease) 2013 to 2014 | |
|---|-----------------------|-----------------------|-------------------------------------|---------|
| | | | Amount | Percent |
| Assets | | | | |
| Cash and cash equivalents | \$ 3,196,153 | \$ 2,872,623 | \$ 323,530 | 11% |
| Receivables | 41,189 | 85,338 | (44,149) | -52% |
| Investments, at fair value | 214,254,907 | 200,071,879 | 14,183,028 | 7% |
| Prepaid expenses | 63,414 | 83,245 | (19,831) | -24% |
| Total Assets | 217,555,663 | 203,113,085 | 14,442,578 | 7% |
| Total Liabilities and Deferred Inflow of Resources | | | | |
| | 1,554,291 | 4,652,321 | (3,098,030) | -67% |
| Net Position Held in Trust for Pension Benefits | | | | |
| | <u>\$ 216,001,372</u> | <u>\$ 198,460,764</u> | <u>\$ 17,540,608</u> | 9% |

The largest portion of the Plan's assets (98%) consists of investments at fair value. The balance of total assets includes cash and short-term investments, accrued interest and dividends receivable and amounts due from brokers for securities sold. Investments at fair value increased by \$14,183,028 from FY13 due to the recording of DROP assets held with ICMA (\$13,395,678) and the appreciation of investments (\$787,350). Liabilities total \$420,702 at September 30, 2014. The amount due to brokers decreased by \$2,035,997 due to the timing of investments purchased in FY13. The liabilities are comprised of accounts payable and amounts due to brokers for securities purchased. Deferred Inflows total \$1,238,633 and consist of advanced Town contributions. During FY14, the Town used \$930,687 of the advanced contributions to offset the Town's employer contribution amount. A prior period adjustment increased net

position held in trust for pension benefits by \$12,009,132. The adjustment recognized the DROP investments held by ICMA that previously were not accounted for in the Pension Trust.

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

Summary of Changes in Fiduciary Net Position

| | FY2014 | FY2013 | Increase (Decrease) 2013 to 2014 | |
|---|-----------------------|-----------------------|-------------------------------------|---------|
| | | | Amount | Percent |
| Additions | | | | |
| Contributions | | | | |
| Town of Palm Beach | \$ 6,069,343 | \$ 3,976,907 | \$ 2,092,436 | 53% |
| Member | 551,874 | 744,011 | (192,137) | -26% |
| | 6,621,217 | 4,720,918 | 1,900,299 | 40% |
| Investment Income, Net | 14,505,472 | 23,831,760 | (9,326,288) | -39% |
| Total Additions | 21,126,689 | 28,552,678 | (7,425,989) | -26% |
| Deductions | | | | |
| Benefits paid and distributions | 15,132,286 | 16,841,553 | (1,709,267) | -10% |
| Refunds of participants' contributions | 50,536 | 119,240 | (68,704) | -58% |
| Administrative expense | 412,391 | 417,651 | (5,260) | -1% |
| Total Deductions | 15,595,213 | 17,378,444 | (1,783,231) | -10% |
| Net Increase | 5,531,476 | 11,174,234 | (5,642,758) | -50% |
| Net Position - Beginning of Year, Restated | 210,469,896 | 187,286,530 | 23,183,366 | 12% |
| Net Position - End of Year | <u>\$ 216,001,372</u> | <u>\$ 198,460,764</u> | <u>\$ 17,540,608</u> | 9% |

Net position of the Town of Palm Beach Retirement System increased by \$5,531,476 for FY2014. This increase was due to investment income from interest and dividends and a net appreciation in fair value of investments amounting to \$14,505,472 net of investment expenses. This amount is less than FY13 due to a reduction in performance in the portfolio from the prior year. Contributions by the Town and the employees totaled \$6,621,217. This amount increased \$2,092,436 from FY13. The Town's actuarially determined contribution increased due to increases in retirement activity, smoothing investment losses and a reduction in employee contribution rates. Member contributions decreased by \$192,137, due to a reduction in employee contribution rates approved by the Town Council. Deductions for benefit payments and DROP and Share plan distributions amounted to \$15,237,330. This amount decreased due to a reduction in share distributions from the plan. Administrative expense amounted to \$412,391 a decrease of \$5,260 from FY13.

Economic Factors and Future Rates

The employer actuarially determined contribution to the Plan for FY2015 increased by \$307,309. This amount is offset by a transfer from the prepaid contribution reserve of \$750,000. The Town accumulated a prepaid reserve due to the “overpayment” to the fund by systematically contributing the actuarial determined amount rather than the State required amount calculated as a percent of payroll. The increase is due to increased retirement activity.

Asset Allocation

At the end of the fiscal year ended September 30, 2014, the domestic equity comprised 19.55% of the total portfolio and international equity was 17.01% of the total portfolio. The allocation to fixed income securities was 27.05%. Alternatives and hedge funds comprised 12.7% of the portfolio. Commodities, real estate, and private equity comprised 8.57% of the total portfolio

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

| | <i>Target Range</i> | <i>2014 Actual</i> | <i>2013 Actual</i> |
|----------------------|---------------------|------------------------|------------------------|
| Domestic Equity | 10-20% | 19.55% | 27.21% |
| International Equity | 15-35% | 17.01% | 27.00% |
| Fixed Income | 12-34% | 27.05% | 26.11% |
| Alternatives | 10-20% | 12.70% | 15.00% |
| Commodities | 0-6% | 2.28% | 2.45% |
| Real Estate | 5-15% | 2.27% | 1.14% |
| Private Equity | 5-15% | 4.02% | 1.71% |
| Cash | 0% | 4.59% | -.62% |

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**

FINANCIAL STATEMENTS

TOWN OF PALM BEACH RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2014

Assets

Cash and Cash Equivalents \$ 3,196,153

Investments, at Fair Value

| | |
|---|-------------------|
| Domestic fixed income funds | 62,224,665 |
| Common stock | 13,611,747 |
| Domestic equity funds | 24,743,050 |
| International equity funds | 55,501,119 |
| Inflation hedging funds | 8,617,613 |
| Hedge funds | 22,850,099 |
| Private equity funds | 8,108,157 |
| Real estate funds | 5,202,779 |
| Mutual funds - Deferred Retirement Option Program | <u>13,395,678</u> |

Total Investments 214,254,907

Receivables

| | |
|-------------------------------------|---------------|
| Interest and dividends receivable | 17,689 |
| Due from broker for securities sold | <u>23,500</u> |

Total Receivables 41,189

Prepaid Expenses 63,414

Total Assets 217,555,663

Liabilities

| | |
|--|----------------|
| Accounts payable and accrued liabilities | 154,620 |
| Due to broker for securities purchased | <u>161,038</u> |

Total Liabilities 315,658

Deferred Inflows of Resources

| | |
|-----------------------------|------------------|
| Advanced Town contributions | <u>1,238,633</u> |
|-----------------------------|------------------|

Total Liabilities and Deferred Inflows of Resources 1,554,291

Net Position Held in Trust for Pension Benefits \$ 216,001,372

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, 2014

Additions

Contributions

| | |
|--------|----------------|
| Town | \$ 6,069,343 |
| Member | <u>551,874</u> |

| | |
|----------------------------|------------------|
| Total Contributions | <u>6,621,217</u> |
|----------------------------|------------------|

Investment Income

| | |
|---|--------------|
| Net appreciation in fair value of investments | 13,036,346 |
| Interest and dividends | 2,028,362 |
| Share investment earnings | 50,960 |
| Other | <u>9,113</u> |

| | |
|---------------------------|------------------|
| Less: investment expenses | <u>(619,309)</u> |
|---------------------------|------------------|

| | |
|------------------------------|-------------------|
| Net Investment Income | <u>14,505,472</u> |
|------------------------------|-------------------|

| | |
|------------------------|-------------------|
| Total Additions | <u>21,126,689</u> |
|------------------------|-------------------|

Deductions

| | |
|--|----------------|
| Benefit payments | 12,913,740 |
| Transfer to Share reserve account | 50,960 |
| Share distributions | 309,514 |
| DROP distributions | 1,858,072 |
| Refunds of participants' contributions | 50,536 |
| Administrative expenses | <u>412,391</u> |

| | |
|-------------------------|-------------------|
| Total Deductions | <u>15,595,213</u> |
|-------------------------|-------------------|

| | |
|---------------------|------------------|
| Net Increase | <u>5,531,476</u> |
|---------------------|------------------|

Net Position Held in Trust for Pension Benefits

| | |
|---|-------------------|
| Beginning of year, as previously reported | 198,460,764 |
| Prior period adjustment - refer to Note 7 | <u>12,009,132</u> |

| | |
|--------------------------------|--------------------|
| Beginning of year, as restated | <u>210,469,896</u> |
|--------------------------------|--------------------|

| | |
|-------------|------------------------------|
| End of year | <u><u>\$ 216,001,372</u></u> |
|-------------|------------------------------|

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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.

CASH EQUIVALENTS

The Plan considers all highly liquid investments with an original maturity of one year or less when purchased, to be cash equivalents.

METHODS USED TO VALUE INVESTMENTS

Investments are recorded at fair value in the statement of fiduciary net position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The diversity of the investment types in which the Plan has entered into requires a range of techniques to determine fair value. The overall valuation processes and information sources by major investment classification authorized by the Plan are as follows:

- Debt securities: Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporate bonds and notes, and fixed income funds. These securities can typically be valued using the close or last traded price on a specific date (quoted prices in active markets). When quoted prices are not available, fair value is determined based on valuation models that use inputs that include market observable inputs. These inputs included recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the investment's type.
- Equity securities: These include common stocks and domestic and international equity funds. Domestic securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at year end. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on yields currently available on comparable securities of issuers with similar credit ratings.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

METHODS USED TO VALUE INVESTMENTS (CONTINUED)

- Inflation hedging funds: The fair values of these investments are based on quoted net asset values of the shares as of September 30, 2014.
- Alternative investments: These investments include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists. To value these investments, management, in consultation with the general partner and investment advisors, determines the fair values for the individual investments based upon the partnership's or limited liability company's most recent available financial information adjusted for cash flow activities through the year. Real estate fair values are based on the most recent appraisal available. The estimated fair value of these investments may differ from values that would have been used had a ready market existed.

Unrealized gains and losses are presented as net appreciation 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.

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Board implemented the following GASB Statement during the year ended September 30, 2014 that had an impact on the financial statements:

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

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefit provided through the plan (net pension liability), about which information is required to be presented.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (CONTINUED)

The Board implemented the following GASB Statements during the fiscal year ended September 30, 2014, which did not have a significant impact on the financial statements:

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

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

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 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.

Prior to April 1, 2012, separate pension plans were maintained for the general and lifeguard employees, police officers, and firefighters. 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 was established, covering all employees of the Town. The new consolidated plan is known as the Town of Palm Beach Retirement System (the Plan).

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

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 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 consolidated 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, 2013, 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 | 195 | 95 | 97 | 387 |
| Inactive plan members entitled but not yet receiving benefits | 14 | 17 | 13 | 44 |
| Active plan member | <u>160</u> | <u>47</u> | <u>50</u> | <u>257</u> |
| | <u>369</u> | <u>159</u> | <u>160</u> | <u>688</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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

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.

Lifeguards: Age 50 with 10 or more years of service. 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 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, 2014

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, election must be made within 7 years of the date the member first reaches normal retirement eligibility, and completed within the earlier of 5 years or 10 years from normal retirement eligibility.

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. 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. As of September 30, 2014, there were 50 members in the DROP and the value was \$5,148,726 which is included in the Plan's net position.

EARLY RETIREMENT (GENERAL):

Eligibility – 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 – 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, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; 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.

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, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

NON-DUTY DEATH BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

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.

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, 2014

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; 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.

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.

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 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, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

POLICE OFFICERS (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, election must be made within 7 years of the date the member first reaches normal retirement eligibility, and completed the earlier of 5 years or ten years from normal retirement eligibility.

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

Distributions – Monthly amounts are paid from the Retirement System into self-directed member accounts. As of September 30, 2014, there were 23 members in the DROP and the value was \$4,467,797 which is included in the Plan's net position.

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of credited service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; 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, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

POLICE OFFICERS (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.

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.

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, 2014

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, 2014

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; 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.

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.

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 10 years certain. Also, see Automatic Death after Retirement heading.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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, election must be made within 7 years of the date the member first reaches normal retirement eligibility.

Pension Amount – 100% of the member's accrued benefit at the date of election to participate in DROP. As of September 30, 2014, there were 15 members in the DROP with a value of \$3,782,155 which is included in the Plan's net position.

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of credited service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; 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.

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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS (continued)

NON-DUTY DISABILITY BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

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.

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.

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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS (continued)

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.

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS (CONTINUED):

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, 2014, \$847,737 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, 2014, \$2,389,618 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.

NOTE 3 – CONTRIBUTIONS

GENERAL MEMBER CONTRIBUTIONS

The contribution requirement of the plan members are established and may be amended by the Town Council. General employees and lifeguard employees hired before May 1, 1992 are required to contribute 4.47% and 5.21% of their compensation, respectively. All general employee and lifeguard employees hired on or after 5/1/1992 are required to contribute 2.47% and 3.21% of their compensation, respectively.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 3 – CONTRIBUTIONS (CONTINUED)

FIRE MEMBER CONTRIBUTIONS

Effective May 1, 2012, firefighters are required to contribute 4.82% of their annual covered salary.

POLICE MEMBER CONTRIBUTIONS

Effective May 1, 2012, police officers are required to contribute 4.98% of their annual covered salary.

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, 2014

NOTE 4 – INVESTMENTS

TYPES OF INVESTMENTS

| Authorized Investments | Allowable Range % | Target % |
|---|----------------------|-------------|
| Domestic equity funds | 10%-20% | 15% |
| Developed equity funds | 10%-20% | 15% |
| Emerging markets equity funds | 5%-15% | 10% |
| Domestic fixed income funds | 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% | 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, 2014:

| | Fair Value | Remaining Maturity | | | |
|--------------------------------|----------------------|----------------------|---------------------|----------------------|--------------------------|
| | | Less Than 1 Year | 1 - 5 Years | 6 - 10 Years | Greater Than 10 Years |
| Domestic fixed income funds | <u>\$ 62,224,665</u> | <u>\$ 47,767,504</u> | <u>\$ 4,452,871</u> | <u>\$ 10,004,290</u> | <u>\$ --</u> |

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

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 by investment type, at September 30, 2014, as applicable:

| Credit Rating by Standard & Poor's | Fair Value | Domestic Fixed Income Funds |
|---------------------------------------|---------------------|--------------------------------|
| AAA | \$ 9,138,031 | \$ 9,138,031 |
| AA | 756,988 | 756,988 |
| A | 5,387,973 | 5,387,973 |
| BBB | 12,310,137 | 12,310,137 |
| BB | 1,870,206 | 1,870,206 |
| Not rated | <u>32,761,330</u> | <u>32,761,330</u> |
| Total Fixed Income Securities | <u>\$62,224,665</u> | <u>\$62,224,665</u> |

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, 2014.

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 and cash equivalents that are not covered by federal depository insurance.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 4 – INVESTMENTS (CONTINUED)

CUSTODIAL CREDIT RISK (CONTINUED)

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, 2014, the annual money-weighted rate of return on Pension Plan investments, net of pension plan investment expenses was 7.09%.

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, 2014

NOTE 5 –NET PENSION LIABILITY

The components of the net pension liability at September 30, 2014:

| | General Employees | Police Officers | Firefighters |
|---|----------------------|---------------------|---------------------|
| Total pension liability | \$98,887,496 | \$88,409,367 | \$88,237,386 |
| Plan fiduciary net position | <u>84,908,713</u> | <u>68,013,491</u> | <u>63,079,168</u> |
| Net pension liability | <u>\$13,978,783</u> | <u>\$20,395,876</u> | <u>\$25,158,218</u> |
| Plan fiduciary net position as a percentage of total pension liability | 85.86% | 76.93% | 71.49% |
| Net pension liability as a percentage of covered payroll | 144.13% | 590.51% | 685.26% |

SIGNIFICANT ACTUARIAL ASSUMPTIONS

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

Interest rates:

| | |
|-----------------------------------|-------|
| Single discount rate | 7.50% |
| Long-term expected rate of return | 7.50% |
| Long-term municipal bond rate | 4.11% |

Mortality:

RP-2000 Combined Healthy Mortality Table for males and females.

There was a limited experience study performed October 23, 2012 which was based on an actuarial valuation dated September 30, 2011.

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, 2014 are summarized in the following table:

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 5 –NET PENSION LIABILITY (CONTINUED)

LONG-TERM EXPECTED RATE OF RETURN (CONTINUED)

| Asset Class | Target Allocation | Long-Term Expected Rate of Return |
|--|-------------------|-----------------------------------|
| Domestic equity funds | 15.0% | 7.5% |
| Developed equity funds | 15.0% | 7.7% |
| Emerging markets equity funds | 10.0% | 9.4% |
| Domestic fixed income funds | 17.5% | 4.6% |
| High Yield Fixed Income Fund | 2.5% | 6.5% |
| TIPS (Treasury Inflation Protected Securities / Bond Mutual Fund) | 2.5% | 4.3% |
| Hedge funds | 15.0% | 6.5% |
| Commodities | 2.5% | 4.9% |
| Real estate funds | 10.0% | 6.3% |
| Private equity funds | 10.0% | 11.3% |
| Cash | <u>0.0%</u> | 0.0% |
| | <u>100.0%</u> | |

DISCOUNT RATE

A single discount rate of 7.50% 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 7.50%. 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 pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 5 – NET PENSION LIABILITY (CONTINUED)

DISCOUNT RATE (CONTINUED)

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:

SENSITIVITY OF NET PENSION LIABILITY TO THE SINGLE DISCOUNT RATE ASSUMPTION

| | 1% Decrease 6.50% | Current Single Discount Rate Assumption 7.50% | 1% Increase 8.50% |
|-------------------|-------------------------|--|-------------------------|
| General employees | \$24,466,712 | \$13,978,783 | \$5,168,796 |
| Police officers | 30,466,819 | 20,395,876 | 12,076,701 |
| Firefighters | 35,513,034 | 25,158,218 | 16,666,120 |

NOTE 6 – TAX STATUS

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

NOTE 7 – PRIOR PERIOD ADJUSTMENT

Management analyzed the Plan's ordinances in conjunction with GASB Statement No. 67 and determined that the Deferred Retirement Option Program (DROP) should be included in the Pension Trust Fund. GASB Statement No. 67 requires assets credited to individual member accounts pursuant to a DROP to be included in the fiduciary net position reported by the defined benefit plan. The beginning net position restricted for pension benefits has been increased/restated by \$12,009,132 to include investments and the activity related to the DROP as of October 1, 2013. The Board of Trustees of the Town of Palm Beach Retirement System, serves as the administrative board, which holds title to, supervises, administers and manages the assets of the DROP.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL EMPLOYEES AND LIFEGUARDS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | 2014 |
|--|-----------------------------|
| Total Pension Liability | |
| Service cost | \$ 733,095 |
| Interest on the total pension liability | 7,058,622 |
| Benefit changes | -- |
| Difference between expected and actual experience | -- |
| Assumption changes | -- |
| Benefit payments | (5,289,162) |
| Refunds | <u>(16,118)</u> |
| Net Change in Total Pension Liability | 2,486,437 |
| Total Pension Liability - Beginning | 91,884,309 |
| DROP Accounts - Beginning | <u>4,516,750</u> |
| Total Pension Liability - Ending (a) | <u><u>\$ 98,887,496</u></u> |
| Plan Fiduciary Net Position | |
| Employer contributions | \$ 2,018,621 |
| Employee contributions | 289,425 |
| Pension plan net investment income | 5,799,299 |
| Investment expense | (243,389) |
| Benefit payments | (5,289,162) |
| Refunds | (16,118) |
| Pension plan administrative expense | <u>(162,070)</u> |
| Net Change in Plan Fiduciary Net Position | 2,396,606 |
| Plan Fiduciary Net Position - Beginning | 77,995,357 |
| Prior Year Adjustment | <u>4,516,750</u> |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$ 84,908,713</u></u> |
| Net Pension Liability Ending (a) | <u><u>\$ 13,978,783</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension liability | 85.86% |
| Covered Employee Payroll | \$ 9,698,419 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 144.13% ⁽¹⁾ |

⁽¹⁾The Net Pension Liability as a percent of Covered Payroll is less than was reported last year under the Unfunded Actuarially Accrued Liability as a percent of Covered Payroll used by the predecessor GASB reporting standards. This number is separate from funding and can be misleading, particularly during the last five years with the decreases in active members and the corresponding decreases in Covered Payroll. Any use of this number beyond reporting should take in account total payroll costs.

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

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL EMPLOYEES AND LIFEGUARDS

SCHEDULE OF CONTRIBUTIONS

| Year Ending September 30, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|------------------------------|---|------------------------|--|--------------------|--|
| 2014 | \$ 1,994,388 | \$ 2,018,621 | \$ (24,233) | \$ 9,698,419 | 20.81% |

Notes to Schedule of Contributions

Valuation Date: September 30, 2013

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:

| | |
|--------------------------------------|--|
| Actuarial Cost Method | Entry-Age Normal |
| Amortization Method | Level Percent-of-Payroll, Closed |
| Remaining Amortization Period | 18-30 years |
| Asset Valuation Method | 5-Year smoothed market |
| Inflation and Other General Increase | 3.50% |
| Salary Increases | 7.3% to 3.7% including inflation |
| Investment Rate of Return | 7.50% |
| Municipal Bond Rate | 4.11% |
| Retirement Age | Age-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2000 Combined Healthy Mortality Table for males and females. |

Other Information:

Notes There were no benefit changes or actuarial assumption changes reflected in the TPL as of September 30, 2014.

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 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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

POLICE OFFICERS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | 2014 |
|--|------------------------|
| Total Pension Liability | |
| Service cost | \$ 311,681 |
| Interest on the total pension liability | 6,321,297 |
| Benefit changes | -- |
| Difference between expected and actual experience | -- |
| Assumption changes | -- |
| Benefit payments | (4,690,744) |
| Refunds | (12,726) |
| Net Change in Total Pension Liability | 1,929,508 |
| Total Pension Liability - Beginning | 82,415,628 |
| DROP Accounts - Beginning | 4,064,231 |
| Total Pension Liability - Ending (a) | \$ 88,409,367 |
| Plan Fiduciary Net Position | |
| Employer contributions | \$ 1,979,219 |
| Employee contributions | 108,250 |
| Pension plan net investment income | 4,966,209 |
| Investment expense | (193,228) |
| Benefit payments | (4,690,744) |
| Refunds | (12,726) |
| Pension plan administrative expense | (128,668) |
| Net Change in Plan Fiduciary Net Position | 2,028,312 |
| Plan Fiduciary Net Position - Beginning | 61,920,948 |
| Prior Year Adjustment | 4,064,231 |
| Plan Fiduciary Net Position - Ending (b) | \$ 68,013,491 |
| Net Pension Liability Ending (a) | \$ 20,395,876 |
| Plan Fiduciary Net Position as a Percentage of Total Pension liability | 76.93% |
| Covered Employee Payroll | \$ 3,453,957 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 590.51% ⁽¹⁾ |

⁽¹⁾The Net Pension Liability as a percent of Covered Payroll is less than was reported last year under the Unfunded Actuarially Accrued Liability as a percent of Covered Payroll used by the predecessor GASB reporting standards. This number is separate from funding and can be misleading, particularly during the last five years with the decreases in active members and the corresponding decreases in Covered Payroll. Any use of this number beyond reporting should take in account total payroll costs.

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

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

POLICE OFFICERS

SCHEDULE OF CONTRIBUTIONS

| Year Ending September 30, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|------------------------------|---|------------------------|--|--------------------|--|
| 2014 | \$ 1,881,949 | \$ 1,979,219 | \$ (97,270) | \$ 3,453,957 | 57.30% |

Notes to Schedule of Contributions

Valuation Date: September 30, 2013

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:

| | |
|---------------------------------------|--|
| Actuarial Cost Method | Entry-Age Normal |
| Amortization Method | Level Percent-of-Payroll, Closed |
| Remaining Amortization Period | 13-30 years |
| Asset Valuation Method | 5-Year smoothed market |
| Inflation and Other General Increases | 3.50% |
| Salary Increases | 7.3% to 3.7% including inflation |
| Investment Rate of Return | 7.50% |
| Municipal Bond Rate | 4.11% |
| Retirement Age | Age-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2000 Combined Healthy Mortality Table for males and females. |

Other Information:

Notes: There were no benefit changes or actuarial assumption changes reflected in the TPL as of September 30, 2014.

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 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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

FIREFIGHTERS

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| | 2014 |
|--|------------------------|
| Total Pension Liability | |
| Service cost | \$ 281,248 |
| Interest on the total pension liability | 6,324,999 |
| Benefit changes | -- |
| Difference between expected and actual experience | -- |
| Assumption changes | -- |
| Benefit payments | (5,101,421) |
| Refunds | (21,692) |
| Net Change in Total Pension Liability | 1,483,134 |
| Total Pension Liability - Beginning | 82,218,000 |
| DROP and Share Accounts - Beginning | 4,536,252 |
| Total Pension Liability - Ending (a) | \$ 88,237,386 |
| Plan Fiduciary Net Position | |
| Employer contributions | \$ 2,071,503 |
| Employee contributions | 154,199 |
| Pension plan net investment income | 4,308,313 |
| Investment expense | (182,692) |
| Benefit payments | (5,101,421) |
| Refunds | (21,692) |
| Pension plan administrative expense | (121,652) |
| Net Change in Plan Fiduciary Net Position | 1,106,558 |
| Plan Fiduciary Net Position - Beginning | 57,436,358 |
| Prior Year Adjustment | 4,536,252 |
| Plan Fiduciary Net Position - Ending (b) | \$ 63,079,168 |
| Net Pension Liability Ending (a) | \$ 25,158,218 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 71.49% |
| Covered Employee Payroll | \$ 3,671,337 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 685.26% ⁽¹⁾ |

⁽¹⁾The Net Pension Liability as a percent of Covered Payroll is less than was reported last year under the Unfunded Actuarially Accrued Liability as a percent of Covered Payroll used by the predecessor GASB reporting standards. This number is separate from funding and can be misleading, particularly during the last five years with the decreases in active members and the corresponding decreases in Covered Payroll. Any use of this number beyond reporting should take in account total payroll costs.

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

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

FIREFIGHTERS

SCHEDULE OF CONTRIBUTIONS

| Year Ending September 30, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|------------------------------|---|------------------------|--|--------------------|--|
| 2014 | \$ 2,040,491 | \$ 2,071,503 | \$ (31,012) | \$ 3,671,337 | 56.42% |

Notes to Schedule of Contributions

Valuation Date: September 30, 2013

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:

| | |
|---------------------------------------|--|
| Actuarial Cost Method | Entry-Age Normal |
| Amortization Method | Level Percent-of-Payroll, Closed |
| Remaining Amortization Period | 18-30 years |
| Asset Valuation Method | 5-Year smoothed market |
| Inflation and Other General Increases | 3.50% |
| Salary Increases | 7.3% to 3.7% including inflation |
| Investment Rate of Return | 7.50% |
| Municipal Bond Rate | 4.11% |
| Retirement Age | Age-based table of rates that are specific to the type of eligibility condition. |
| Mortality | RP-2000 Combined Healthy Mortality Table for males and females. |

Other Information:

Notes There were no benefit changes or actuarial assumption changes reflected in the TPL as of September 30, 2014.

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 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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

| | <u>2014</u> |
|---|-------------|
| Annual Money-Weighted Rate of Return, Net of Investment Expense | 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, pension plans should present information for those year for which information is available.

SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH RETIREMENT SYSTEM

COMBINING STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2014

| | General | Police Officers | Firefighters | Total |
|--|----------------------|----------------------|----------------------|-----------------------|
| Assets | | | | |
| Cash and Cash Equivalents | \$ 1,258,233 | \$ 1,002,496 | \$ 935,424 | \$ 3,196,153 |
| Investments, at Fair Value | | | | |
| Domestic fixed income funds | 24,496,045 | 19,517,202 | 18,211,418 | 62,224,665 |
| Common stock | 5,358,550 | 4,269,419 | 3,983,778 | 13,611,747 |
| Domestic equity funds | 9,740,621 | 7,760,831 | 7,241,598 | 24,743,050 |
| International equity funds | 21,849,182 | 17,408,314 | 16,243,623 | 55,501,119 |
| Inflation hedging funds | 3,392,504 | 2,702,975 | 2,522,134 | 8,617,613 |
| Hedge funds | 8,995,422 | 7,167,093 | 6,687,584 | 22,850,099 |
| Private equity funds | 3,191,947 | 2,543,181 | 2,373,029 | 8,108,157 |
| Real estate funds | 2,048,183 | 1,631,888 | 1,522,708 | 5,202,779 |
| Mutual funds - Deferred Retirement Option Program | <u>5,148,726</u> | <u>4,464,797</u> | <u>3,782,155</u> | <u>13,395,678</u> |
| Total Investments | <u>84,221,180</u> | <u>67,465,700</u> | <u>62,568,027</u> | <u>214,254,907</u> |
| Receivables | | | | |
| Interest and dividends receivable | 6,964 | 5,548 | 5,177 | 17,689 |
| Due from broker for securities sold | <u>9,251</u> | <u>7,371</u> | <u>6,878</u> | <u>23,500</u> |
| Total Receivables | <u>16,215</u> | <u>12,919</u> | <u>12,055</u> | <u>41,189</u> |
| Prepaid Expenses | <u>24,964</u> | <u>19,890</u> | <u>18,560</u> | <u>63,414</u> |
| Total Assets | <u>85,520,592</u> | <u>68,501,005</u> | <u>63,534,066</u> | <u>217,555,663</u> |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | 60,869 | 48,498 | 45,253 | 154,620 |
| Due to broker for securities purchased | <u>63,396</u> | <u>50,510</u> | <u>47,132</u> | <u>161,038</u> |
| Total Liabilities | <u>124,265</u> | <u>99,008</u> | <u>92,385</u> | <u>315,658</u> |
| Deferred Inflows of Resources | | | | |
| Advanced Town contribution | <u>487,614</u> | <u>388,506</u> | <u>362,513</u> | <u>1,238,633</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>611,879</u> | <u>487,514</u> | <u>454,898</u> | <u>1,554,291</u> |
| Net Position Held in Trust for Pension Benefits | <u>\$ 84,908,713</u> | <u>\$ 68,013,491</u> | <u>\$ 63,079,168</u> | <u>\$ 216,001,372</u> |

TOWN OF PALM BEACH RETIREMENT SYSTEM

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2014

| | General | Police Officers | Firefighters | Total |
|--|----------------------|----------------------|----------------------|-----------------------|
| Additions | | | | |
| Contributions | | | | |
| Town | \$ 2,018,621 | \$ 1,979,219 | \$ 2,071,503 | \$ 6,069,343 |
| Member | <u>289,425</u> | <u>108,250</u> | <u>154,199</u> | <u>551,874</u> |
| Total Contributions | <u>2,308,046</u> | <u>2,087,469</u> | <u>2,225,702</u> | <u>6,621,217</u> |
| Investment Income | | | | |
| Net appreciation in fair value of investments | 4,998,568 | 4,330,505 | 3,707,273 | 13,036,346 |
| Interest and dividends | 797,149 | 632,861 | 598,352 | 2,028,362 |
| Share investment earnings | -- | -- | 50,960 | 50,960 |
| Other | <u>3,581</u> | <u>2,843</u> | <u>2,689</u> | <u>9,113</u> |
| | 5,799,298 | 4,966,209 | 4,359,274 | 15,124,781 |
| Less: investment expenses | <u>(243,389)</u> | <u>(193,228)</u> | <u>(182,692)</u> | <u>(619,309)</u> |
| Net Investment Income | <u>5,555,909</u> | <u>4,772,981</u> | <u>4,176,582</u> | <u>14,505,472</u> |
| Total Additions | <u>7,863,955</u> | <u>6,860,450</u> | <u>6,402,284</u> | <u>21,126,689</u> |
| Deductions | | | | |
| Benefit payments | 4,791,078 | 4,043,366 | 4,079,296 | 12,913,740 |
| Transfer to Share reserve account | -- | -- | 50,960 | 50,960 |
| Share distributions | -- | -- | 309,514 | 309,514 |
| DROP distributions | 498,084 | 647,378 | 712,610 | 1,858,072 |
| Refunds of participants' contributions | 16,118 | 12,726 | 21,692 | 50,536 |
| Administrative expenses | <u>162,069</u> | <u>128,668</u> | <u>121,654</u> | <u>412,391</u> |
| Total Deductions | <u>5,467,349</u> | <u>4,832,138</u> | <u>5,295,726</u> | <u>15,595,213</u> |
| Net Increase | 2,396,606 | 2,028,312 | 1,106,558 | 5,531,476 |
| Net Position Held in Trust for Pension Benefits | | | | |
| Beginning of year, as previously reported | 77,995,361 | 61,920,948 | 58,544,455 | 198,460,764 |
| Prior period adjustment - refer to Note 7 | <u>4,516,746</u> | <u>4,064,231</u> | <u>3,428,155</u> | <u>12,009,132</u> |
| | <u>82,512,107</u> | <u>65,985,179</u> | <u>61,972,610</u> | <u>210,469,896</u> |
| Beginning of year, as restated | <u>82,512,107</u> | <u>65,985,179</u> | <u>61,972,610</u> | <u>210,469,896</u> |
| End of year | <u>\$ 84,908,713</u> | <u>\$ 68,013,491</u> | <u>\$ 63,079,168</u> | <u>\$ 216,001,372</u> |

TOWN OF PALM BEACH RETIREMENT SYSTEM

SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2014

SUPPLEMENTARY INFORMATION

Administrative Expenses

| | |
|---|------------|
| Administrator fees | \$ 150,054 |
| Legal fees | 81,116 |
| Fiduciary insurance | 51,450 |
| Audit fees and accounting fees | 23,600 |
| Salaries and employee benefits | 50,725 |
| Actuarial services | 42,500 |
| Software | 9,401 |
| Medical exams | 2,772 |
| Postage, office and miscellaneous expense | <u>773</u> |

Total Administrative Expenses \$ 412,391

Investment Expenses

| | |
|--------------------------------|----------------|
| Investment management fees | \$ 426,519 |
| Investment consultant services | 92,000 |
| Custodial fees | <u>100,790</u> |

Total Investment Expenses \$ 619,309

REPORTING SECTION

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

Board of Trustees
Town of Palm Beach Retirement System
Palm Beach, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Palm Beach Retirement System (the Plan), as of and for the year ended September 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 2, 2015