

**TOWN OF PALM BEACH RETIREMENT SYSTEM**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

# 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, 2017 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 Plan'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 Plan'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, 2017, 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 2016 financial statements, and our report dated March 6, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, 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 38-44 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*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's financial statements. The accompanying combining statement of fiduciary net position, combining statement of changes in fiduciary net position and the schedules of administrative and investment expenses are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining statement of fiduciary net position, 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 February 21, 2018 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 solely 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 the effectiveness of the Plan's 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  
February 21, 2018

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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, 2017 compared to the fiscal year ended September 30, 2016.

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.

### Financial Highlights

- The Net Position held in trust for pension benefits totaled \$209,822,728 as of September 30, 2017, compared to the Net Position as of September 30, 2016 of \$194,010,680.
- The Town of Palm Beach Retirement System (the Plan) recorded an increase in Net Position of \$15,812,048 for fiscal year ended September 30, 2017 compared to the increase in Net Position of \$3,246,190 recorded as of fiscal year ended September 30, 2016.
- The plan 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, 2017 for the General Employees and Lifeguards plan was 70.29%, the Police Officers plan was 67.13% and the Firefighters plan was 59.93%. This compares to the September 30, 2016 ratios of: General Employees and Lifeguards plan 68.72%, Police Officers plan 63.03%, and Firefighters plan 59.77%.
- For fiscal year ended 2017, the Town's contribution to the Plan increased by \$4,010,162. The fiscal year 2016 Town contribution increased by \$500,271 from the previous year. The Town budgeted and contributed an extraordinary contribution in 2017 of \$2,800,000 to reduce the unfunded actuarial accrued liability (UAAL).
- Net investment income for fiscal year 2017 was \$22,070,534 compared to investment income of \$14,058,495 in fiscal year 2016.
- Benefit payments for fiscal year 2017 were \$16,258,261 compared to \$15,587,355 in fiscal year 2016.
- Administrative expense for fiscal year 2017 totaled \$425,985 compared to \$450,395 in fiscal year 2016.

### Plan Highlights

The Retirement Board's new Investment Consultant, AndCo, worked with the board to develop a new asset allocation and select money managers for this new allocation. For the fiscal year ended September 30, 2017, the net investment return of the portfolio was 10.92% for the year, which was higher than the target index of 7.3%.

## 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, 2017 amounted to \$209,822,728 and a summary of fiduciary net position is shown below.

### Summary of Fiduciary Net Position

	FY2017	FY2016	Increase (Decrease) 2016 to 2017	
			Amount	Percent
<b>Assets</b>				
Cash	\$ 2,157,701	\$ 2,139,616	\$ 18,085	1%
Receivables	553,708	156,118	397,590	255%
Investments	209,442,211	193,542,367	15,899,844	8%
Prepaid expenses	<u>20,848</u>	<u>24,499</u>	<u>(3,651)</u>	-15%
<b>Total Assets</b>	212,174,468	195,862,600	16,311,868	8%
<b>Total Liabilities</b>	<u>2,351,740</u>	<u>1,851,920</u>	<u>499,820</u>	27%
<b>Net Position Held in Trust for Pension Benefits</b>	<u>\$209,822,728</u>	<u>\$194,010,680</u>	<u>\$ 15,812,048</u>	8%

The largest portion of the Plan's assets (99%) consists of investments at fair value. The balance of total assets includes cash (short-term investments), accrued interest and dividends receivable and amounts due from brokers for securities sold. Investments increased by \$15,899,844 from FY16. Liabilities total \$2,351,740 at September 30, 2017. The liabilities are comprised of accounts payable and accrued liabilities (\$109,901), due to the Town (\$2,046,476) and amounts due to brokers for securities purchased (\$195,363).

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

### Summary of Changes in Fiduciary Net Position

	FY2017	FY2016	Increase (Decrease) 2016 to 2017	
			Amount	Percent
<b>Additions</b>				
Contributions				
Town	\$ 10,887,085	\$ 6,876,923	\$ 4,010,162	58%
Member	<u>963,707</u>	<u>541,133</u>	<u>422,574</u>	78%
Total Contributions	11,850,792	7,418,056	4,432,736	60%
<b>Investment Income, Net</b>	<u>22,070,534</u>	<u>14,058,495</u>	<u>8,012,039</u>	57%
<b>Total Additions</b>	<u>33,921,326</u>	<u>21,476,551</u>	<u>12,444,775</u>	58%
<b>Deductions</b>				
Benefits paid and distributions	17,614,048	17,648,526	(34,478)	0%
Refunds of participants' contributions	69,245	131,440	(62,195)	-47%
Administrative expense	<u>425,985</u>	<u>450,395</u>	<u>(24,410)</u>	-5%
<b>Total Deductions</b>	<u>18,109,278</u>	<u>18,230,361</u>	<u>(121,083)</u>	-1%
<b>Net Increase</b>	15,812,048	3,246,190	12,565,858	387%
<b>Net Position - Beginning of Year</b>	<u>194,010,680</u>	<u>190,764,490</u>	<u>3,246,190</u>	2%
<b>Net Position - End of Year</b>	<u>\$ 209,822,728</u>	<u>\$ 194,010,680</u>	<u>\$ 15,812,048</u>	8%

Net position of the Town of Palm Beach Retirement System increased by \$15,812,018 for FY2017. This increase was due to investment gains from interest and dividends and a net appreciation in fair value of investments amounting to \$22,070,534 net of investment expenses. This amount is greater than FY16 due to an improvement in the performance of the portfolio from the prior year. Contributions by the Town and the employees totaled \$11,850,792. This amount increased \$4,432,736 from FY16. The Town's actuarially determined contribution increased due to increases in retirement activity, and smoothing investment losses and the Town contributed an additional \$2,800,000 extraordinary contribution to reduce the UAAL. Member contributions increased by \$422,574, due to a change in the benefits for police officers and firefighters, which also increased their contributions from 2.47% to 10%. Deductions for benefit payments and DROP and Share plan distributions amounted to \$17,614,048. This amount decreased due to the fewer Drop and Share account distributions in FY17. Administrative expense amounted to \$425,985 a decrease of \$24,410 from FY16. The decrease is the result of decreases in fiduciary insurance and legal fees.

## Economic Factors and Future Rates

The employer actuarially determined contribution to the Plan for FY2018 increased by \$1,346,643. 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 adopted a policy to require annual appropriations of the annual required contribution plus \$5,420,000 with the total capped at \$16 million. This policy was adopted to reduce the UAAL and improve the funded ratio of the plan. Beginning with the 2016 actuarial valuation, the investment return assumption will decrease from 7.5% to 7.4% and continue to decrease each year in 0.1% increments until it reaches the ultimate assumption goal of 7.0%. For 2017, the investment return assumption is 7.3%. In addition, the wage assumption will decrease from 3.5% to 3.25% for the 2016 valuation and then 3.0% for the 2017 valuation and 2.75% for the 2018 valuation.

## Asset Allocation

At the end of the fiscal year ended September 30, 2017, domestic equity investments comprised 33.9% of the total portfolio, international equity was 19.7% of the total portfolio and emerging markets equity was 6% of the total portfolio. The allocation to fixed income securities was 11.6%. Alternative assets comprised 6.3% of the portfolio, private equity was 7.3% of the portfolio and real estate comprised 12.4% of the total portfolio.

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

	<i>Target</i>	<i>2017 Actual</i>
Domestic Equity	35.0%	33.9%
Developed Equity	15.0%	19.7%
Emerging Equity	5.0%	6.0%
Domestic Bonds	17.5%	11.6%
Alternative Assets	10.0%	6.3%
Real Estate Funds	10.0%	12.4%
Private Equity	7.5%	7.3%
Cash	0%	2.8%

## 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, 2017

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Cash</b>	\$ 2,157,701	\$ 2,139,616
<b>Investments</b>		
Short term investment fund	6,566,160	1,751,722
Fixed income securities	24,207,768	40,185,497
Common stock	20,282,997	18,295,498
Domestic equity funds	49,814,659	18,150,864
International and emerging market equity funds	53,856,662	53,446,990
Inflation hedging funds	--	3,298,993
Hedge funds	12,858,855	21,386,145
Private equity funds	17,895,688	15,970,409
Real estate funds	<u>23,959,422</u>	<u>21,056,249</u>
<b>Total Investments</b>	<u>209,442,211</u>	<u>193,542,367</u>
<b>Receivables</b>		
Interest and dividends	38,609	21,897
Due from broker for securities sold	<u>515,099</u>	<u>134,221</u>
<b>Total Receivables</b>	<u>553,708</u>	<u>156,118</u>
<b>Prepaid Expenses</b>	<u>20,848</u>	<u>24,499</u>
<b>Total Assets</b>	<u>212,174,468</u>	<u>195,862,600</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	109,901	121,687
Due to the Town	2,046,476	1,602,058
Due to broker for securities purchased	<u>195,363</u>	<u>128,175</u>
<b>Total Liabilities</b>	<u>2,351,740</u>	<u>1,851,920</u>
<b>Net Position Held in Trust for Pension Benefits</b>	<u>\$ 209,822,728</u>	<u>\$ 194,010,680</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, 2017

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2016)

	2017	2016
<b>Additions</b>		
<b>Contributions</b>		
Town	\$ 10,887,085	\$ 6,876,923
Member	<u>963,707</u>	<u>541,133</u>
<b>Total Contributions</b>	<u>11,850,792</u>	<u>7,418,056</u>
<b>Investment Income</b>		
Net appreciation in fair value of investments	21,560,863	13,248,261
Interest and dividends	1,016,043	1,368,443
Other	<u>3,309</u>	<u>13,310</u>
	22,580,215	14,630,014
Less: investment expenses	<u>(509,681)</u>	<u>(571,519)</u>
<b>Net Investment Income</b>	<u>22,070,534</u>	<u>14,058,495</u>
<b>Total Additions</b>	<u>33,921,326</u>	<u>21,476,551</u>
<b>Deductions</b>		
Benefit payments	16,258,261	15,587,355
Share distributions	--	74,464
DROP distributions	1,355,787	1,986,707
Refunds of participants' contributions	69,245	131,440
Administrative expenses	<u>425,985</u>	<u>450,395</u>
<b>Total Deductions</b>	<u>18,109,278</u>	<u>18,230,361</u>
<b>Net Increase in Net Position</b>	<u>15,812,048</u>	<u>3,246,190</u>
<b>Net Position Held in Trust for Pension Benefits</b>		
Beginning of year	<u>194,010,680</u>	<u>190,764,490</u>
End of year	<u>\$ 209,822,728</u>	<u>\$ 194,010,680</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, 2017

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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 except for money market funds which are reported at amortized cost. 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.

#### *DUE TO THE TOWN*

The Plan uses the Town as a paying agent for the payment of all investment and administrative expenses, refunds of retirement contributions and payouts of DROP and Share account balances. The Plan reimburses the Town on an annual basis. The amounts due to the Town as of September 30, 2017 and 2016 were \$2,046,476 and \$1,602,058, respectively.

#### *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 summarized 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, 2016, from which the information was derived. Certain 2016 amounts have been reclassified to conform with the presentation in the 2017 financial statements.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION

The Town of Palm Beach (the Town) is the sponsor of a single-employer Public Employee Retirement System defined benefit pension plan established to provide pension benefits for its employees. The Town of Palm Beach retirement system board of trustees serves as administrator of the retirement plan. 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%. Effective May 1, 2017, all active and DROP participating General Employee and Life Guards on and after that date were authorized to retire under normal retirement after reaching age 62, and all service accrued after that date is calculated at an accrual rate of 1.70%. Effective August 12, 2017, bargaining public safety employees and those participating in DROP on and after 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% (vested terminated employees on date of enactment continue to qualify for normal retirement at age 65).

The Plan is currently 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

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

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, 2016, the date of the most recent actuarial valuation, the plan membership consisted of the following:

	General	Police	Fire	Total
Inactive plan members and beneficiaries currently receiving benefits	213	98	104	415
Inactive plan members entitled but not yet receiving benefits	31	22	35	88
Active plan member	<u>169</u>	<u>48</u>	<u>51</u>	<u>268</u>
<b>Total Plan Membership</b>	<u>413</u>	<u>168</u>	<u>190</u>	<u>771</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.

*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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

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

###### *Eligibility (continued)*

###### 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.

###### Plan benefits accrued after April 30, 2017

*General and DROP:* Age 62 with 10 or more years of service.

Lifeguards and DROP: Age 62 with 10 or more years of service.

Vested terminated employees on date of enactment continue to qualify for normal retirement at 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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

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

##### *Pension Amount (continued)*

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

Average final compensation (AFC) times the sum of 1.25% for service after this date.

##### Plan benefits accrued after April 30, 2017.

Average final compensation (AFC) times the sum of 1.70% for service earned after this date.

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

##### *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.

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

Average final compensation for benefits based on credited service on or after May 1, 2012 means the total amount of compensation paid a member during the final 60 consecutive months of credited service, divided by five.

#### **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, 2017, there were 27 members in the DROP and the value was \$3,283,209 which is included in the Plan's investment balance in the statement of fiduciary net position.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

##### **Early Retirement**

*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.

##### **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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (CONTINUED)*

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

*Eligibility* – No age or service requirements.

*Pension Amount* – A pension to each surviving child of 25% of the member's computed benefit not to exceed 50% or equal share of 75% of the member's computed benefit 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 computed benefit 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 (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.

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

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

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *GENERAL EMPLOYEES (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. 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.

*Plan benefits accrued after April 30, 2012.*

None.

#### *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).

Vested terminated employees on date of enactment continue to qualify for normal retirement at age 65 with 10 or more years of service.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

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

##### *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.

##### 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.

##### 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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

##### **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, 2017, there were 10 members in the DROP and the value was \$2,041,876 which is included in the investment balance in the statement of fiduciary 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.

##### **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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (CONTINUED)*

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

*Eligibility* – No age or service requirements.

*Pension Amount* – A pension to each surviving child of 25% of the member's computed benefit not to exceed 50% or an equal share of 75% of the member's computed benefit 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 computed benefit 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.

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.

*Plan benefits accrued after April 30, 2012.*

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

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *POLICE OFFICERS (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. 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.

*Plan benefits accrued after April 30, 2012.*

None.

#### *NON-BARGAINING 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.

*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).

Vested terminated employees not employed on October 1, 2016 continue to qualify for normal retirement at age 65 with 10 or more years of service.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *NON-BARGAINING FIREFIGHTERS (CONTINUED)*

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

##### *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.

##### 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.

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

Average final compensation for benefits based on credited service on or after May 1, 2012 means the total amount of compensation paid a member during the final 60 consecutive months of credited service, divided by five.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *BARGAINING 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, 2012); 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 August 12, 2017.

Age 56 with 10 or more years of service (if employed on August 12, 2017 or commenced service after August 12, 2017).

Vested terminated employees not employed on August 12, 2017 continue to qualify for normal retirement at 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.

##### 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, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *BARGAINING FIREFIGHTERS (CONTINUED)*

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

##### *Pension Amount (continued)*

##### Plan benefits accrued after August 12, 2017.

Average Final Compensation multiplied by 2.75% per year of credited service after August 12, 2017.

##### *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.

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

Average final compensation for benefits based on credited service on or after May 1, 2012 means the total amount of compensation paid a member during the final 60 consecutive months of credited service, divided by five.

##### **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, 2017, there were 14 members in the DROP with a value of \$4,334,463 which is included in the Plan's investment balance in the statement of fiduciary 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, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *BARGAINING 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 calculated benefit not to exceed 50% or an equal share of 75% of the member's calculated benefit 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 calculated benefit 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, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *BARGAINING FIREFIGHTERS (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 pension and the aggregate amount paid to any surviving children for the month.

*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.

*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, 2017, \$895,855 was held in Share accounts included in the investment balance in the statement of fiduciary net position.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 2 – PLAN DESCRIPTION (CONTINUED)

#### *BARGAINING FIREFIGHTERS (CONTINUED)*

##### **Share Account (continued)**

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, 2017, \$2,467,004 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. All employees, except grandfathered and union firefighters hired on or after May 1, 1992, are required to contribute 2.47% of their compensation (3.0% after May 1, 2017). 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 (variable 10% non-bargaining after October 1, 2016, bargaining after October 1, 2017).

#### *POLICE MEMBER CONTRIBUTIONS*

Effective May 1, 2012, police officers are required to contribute 2.47% of their annual covered salary (variable 10% after October 1, 2016). 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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 3 – CONTRIBUTIONS (CONTINUED)

#### *TOWN CONTRIBUTIONS (CONTINUED)*

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:

Authorized Investments	Allowable Range %	Target %
Domestic equity funds	30%-40%	35%
Developed equity funds	10%-20%	15%
Emerging markets equity funds	0%-10%	5%
Fixed income securities	10%-25%	17.5%
Alternative assets	0%-15%	10.0%
Real estate funds	0%-20%	10%
Private equity funds	0%-15%	8%
Cash	0% - 2.5%	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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

**FOR THE YEAR ENDED SEPTEMBER 30, 2017**

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *INTEREST RATE RISK (CONTINUED)*

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, 2017:

	Fair Value	Remaining Maturity			Greater Than 10 Years
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	
<b>Fixed Income Securities</b>	<u>\$24,207,768</u>	<u>\$ --</u>	<u>\$20,500,670</u>	<u>\$ 3,707,098</u>	<u>\$ --</u>

#### *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, 2017, as applicable:

Credit Rating by Standard & Poor's	Fair Value
AA +	\$ 9,840,322
AAA	4,607,965
AA	558,297
A	854,865
A-	615,020
BBB+	2,050,067
BBB	1,786,105
BBB-	1,435,047
Not rated	2,460,080
<b>Total Fixed Income Securities</b>	<u>\$ 24,207,768</u>

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *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, 2017.

#### *CUSTODIAL CREDIT RISK*

In addition to insurance provided by the Federal Depository Insurance Corporation, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are deemed as insured or collateralized.

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 the 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.

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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### NOTE 4 – INVESTMENTS (CONTINUED)

#### *RATE OF RETURN*

For the year ended September 30, 2017, the annual money-weighted rate of return on Plan investments, net of pension plan investment expenses was 11.20%.

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

#### *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.

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.

The Plan has investments in alternative asset classes including 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, 2017**

### 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, 2017:

	9/30/2017	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>Investments by Fair Value Level</b>				
Equity securities				
Common stock	20,282,997	20,282,997	--	--
<b>Total Equity Securities</b>	<b>20,282,997</b>	<b>20,282,997</b>	--	--
Mutual funds				
International	19,462,816	19,462,816	--	--
Fixed income	3,707,098	3,707,098	--	--
<b>Total Mutual Funds</b>	<b>23,169,914</b>	<b>\$ 23,169,914</b>	<b>\$ --</b>	<b>\$ --</b>
<b>Investments Measured at the Net Asset Value (NAV)*</b>				
Commingled domestic equity fund	49,814,659			
Commingled funds - emerging markets	12,610,235			
Commingled funds - real estate	10,477,936			
Fixed income collective trust	20,500,670			
Private equity - International equity	21,783,611			
Private equity - Secondary markets	4,570,727			
Private equity - real estate	15,548,551			
Hedge funds				
Multi-strategy	12,858,855			
Venture capital	3,862,082			
Hybrid	7,395,814			
Total investments measured at NAV	159,423,140			
Money market funds (exempt)	6,566,160			
<b>Total Investments</b>	<b>\$ 209,442,211</b>			

\* As required by generally accepted accounting principles (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, 2017**

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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 Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (Days)
Commingled domestic equity fund <sup>1</sup>	\$ 49,814,659	\$ --	Daily	1-30
Commingled funds - emerging markets <sup>1</sup>	12,610,235	--	N/A	N/A
Commingled funds - real estate <sup>1</sup>	10,477,936	--	Quarterly	45 days
Fixed income collective trust <sup>2</sup>	20,500,670	--	N/A	N/A
Private equity - International equity <sup>3</sup>	21,783,611	--	Monthly	30
Private equity - Secondary markets <sup>4</sup>	4,570,727	5,361,633	N/A	N/A
Private equity - real estate <sup>5</sup>	15,548,551	6,011,718	N/A	N/A
Hedge funds				
Multi-strategy fund <sup>6</sup>	12,858,855	--	Quarterly	65 days
Venture capital <sup>7</sup>	3,862,082	1,572,167	N/A	N/A
Hybrid <sup>8</sup>	<u>7,395,814</u>	2,921,250	N/A	N/A
<b>Total Investments Measured at NAV</b>	<b><u>\$159,423,140</u></b>			

- 1 *Commingled funds* – Consists of a domestic equity fund established to approximate the performance of the S&P 500 Index over the long term, an emerging market fund and a strategic property fund which 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, 2017**

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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 *Multi-Strategy fund* – The fund in this group aims to diversify risk and reduce volatility by combining other strategies. The strategies include hedged equity, event driven, and relative value. The fund is valued at NAV per share and is eligible for redemptions quarterly with 65 days’ notice.
- 7 *Venture Capital* – Consists of one fund which focuses primarily on early state 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.
- 8 *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.

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

The components of the net pension liability at September 30, 2017:

	General Employees	Police Officers	Firefighters	Total
Total pension liability	\$ 116,325,350	\$ 98,384,612	\$ 103,467,979	\$ 318,177,941
Plan fiduciary net position	<u>81,764,036</u>	<u>66,045,558</u>	<u>62,013,134</u>	<u>209,822,728</u>
<b>Net Pension Liability</b>	<u>\$ 34,561,314</u>	<u>\$ 32,339,054</u>	<u>\$ 41,454,845</u>	<u>\$ 108,355,213</u>
Plan fiduciary net position as a percentage of total pension liability	70.29%	67.13%	59.93%	65.95%
Net pension liability as a percentage of covered payroll	322.57%	908.57%	1198.92%	611.10%

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

#### *SIGNIFICANT ACTUARIAL ASSUMPTIONS*

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

Interest rates:

Single discount rate	7.30%
Long-term expected rate of return	7.30%
Municipal Bond Rate	3.50%

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.

#### *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, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic equity funds	35.0%	7.50%
International equity	20.0%	8.50%
Domestic bonds	17.5%	2.50%
International bonds	0.0%	3.50%
Real estate funds	10.0%	4.50%
Alternative assets	17.5%	6.42%
	<u>100.0%</u>	

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2017

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

#### *DISCOUNT RATE*

A single discount rate of 7.30% 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 7.30%. 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:

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

	1% Decrease 6.30%	Current Single Discount Rate Assumption 7.30%	1% Increase 8.30%
General employees	\$ 48,876,863	\$ 34,561,314	\$ 23,374,173
Police officers	45,110,788	32,339,054	22,458,873
Firefighters	54,911,823	41,454,845	31,072,335

### 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**

<b>September 30,</b>	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 750,112	\$ 636,740	\$ 739,734	\$ 733,095
Interest on the total pension liability	7,948,875	7,664,270	7,096,090	7,058,622
Benefit changes	1,932,700	--	39,572	--
Difference between expected and actual experience	529,542	961,731	499,433	--
Assumption changes	1,253,789	2,296,388	7,152,240	--
Benefit payments	(6,243,450)	(6,476,789)	(9,215,159)	(5,289,162)
Refunds	(20,235)	(37,241)	(70,488)	(16,118)
<b>Net Change in Total Pension Liability</b>	6,151,333	5,045,099	6,241,422	2,486,437
<b>Total Pension Liability - Beginning</b>	110,174,017	105,128,918	98,887,496	91,884,309
<b>Prior Period Adjustment</b>	--	--	--	4,516,750
<b>Total Pension Liability - Ending (a)</b>	<u>\$ 116,325,350</u>	<u>\$ 110,174,017</u>	<u>\$ 105,128,918</u>	<u>\$ 98,887,496</u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 3,531,685	\$ 2,210,609	\$ 2,008,406	\$ 2,018,621
Employee contributions	332,457	289,317	282,284	289,425
Pension plan net investment income	8,813,057	5,708,914	(3,076,859)	5,799,299
Investment expense	(198,929)	(223,064)	(241,461)	(243,389)
Benefit payments	(6,243,450)	(6,476,789)	(9,215,159)	(5,289,162)
Refunds	(20,235)	(37,241)	(70,488)	(16,118)
Pension plan administrative expense	(166,261)	(175,570)	(175,900)	(162,070)
<b>Net Change in Plan Fiduciary Net Position</b>	6,048,324	1,296,176	(10,489,177)	2,396,606
<b>Plan Fiduciary Net Position - Beginning</b>	75,715,712	74,419,536	84,908,713	77,995,357
<b>Prior Year Adjustment</b>	--	--	--	4,516,750
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u>\$ 81,764,036</u>	<u>\$ 75,715,712</u>	<u>\$ 74,419,536</u>	<u>\$ 84,908,713</u>
<b>Net Pension Liability Ending (a)</b>	<u>\$ 34,561,314</u>	<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	70.29%	68.72%	70.79%	85.86%
Covered Employee Payroll	\$ 10,714,252	\$ 9,856,405	\$ 10,075,310	\$ 9,698,419
Net Pension Liability as a Percentage of Covered Employee Payroll	322.57%	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
2017	\$ 2,578,403	\$ 3,531,685	\$ (953,282)	\$ 10,714,252	32.96%
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, 2015  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the beginning of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2017:**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 16-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.00% wage inflation; 2.50% general  
 Salary Increases: 3.5% 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-2014 Employee and Healthy Annuitant Mortality Table for males and females, projected to 2017 using Projection Scale MP-2014

**Other Information:**

Notes: The FY 2017 contributions were determined in the September 30, 2015 Actuarial Valuation Report dated February 26, 2016.

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**

<b>September 30,</b>	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 571,802	\$ 229,514	\$ 274,361	\$ 311,681
Interest on the total pension liability	6,940,855	6,571,902	6,343,197	6,321,297
Benefit changes	--	1,149,473	83,392	--
Difference between expected and actual experience	(978,835)	489,883	637,285	--
Assumption changes	1,100,893	3,077,576	2,464,150	--
Benefit payments	(5,509,488)	(5,492,306)	(7,918,798)	(4,690,744)
Refunds	(9,583)	(27,651)	(22,377)	(12,726)
<b>Net Change in Total Pension Liability</b>	<b>2,115,644</b>	<b>5,998,391</b>	<b>1,861,210</b>	<b>1,929,508</b>
<b>Total Pension Liability - Beginning</b>	<b>96,268,968</b>	<b>90,270,577</b>	<b>88,409,367</b>	<b>82,415,628</b>
<b>Prior Period Adjustment</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>4,064,231</b>
<b>Total Pension Liability - Ending (a)</b>	<b><u>\$ 98,384,612</u></b>	<b><u>\$ 96,268,968</u></b>	<b><u>\$ 90,270,577</u></b>	<b><u>\$ 88,409,367</u></b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 3,747,478	\$ 2,306,795	\$ 2,144,662	\$ 1,979,219
Employee contributions	368,777	122,231	98,530	108,250
Pension plan net investment income	7,060,834	4,574,146	(2,464,621)	4,966,209
Investment expense	(159,377)	(178,714)	(193,415)	(193,228)
Benefit payments	(5,509,488)	(5,492,306)	(7,918,798)	(4,690,744)
Refunds	(9,583)	(27,651)	(22,377)	(12,726)
Pension plan administrative expense	(133,206)	(140,951)	(140,899)	(128,668)
<b>Net Change in Plan Fiduciary Net Position</b>	<b>5,365,435</b>	<b>1,163,550</b>	<b>(8,496,918)</b>	<b>2,028,312</b>
<b>Plan Fiduciary Net Position - Beginning</b>	<b>60,680,123</b>	<b>59,516,573</b>	<b>68,013,491</b>	<b>61,920,948</b>
<b>Prior Year Adjustment</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>4,064,231</b>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<b><u>\$ 66,045,558</u></b>	<b><u>\$ 60,680,123</u></b>	<b><u>\$ 59,516,573</u></b>	<b><u>\$ 68,013,491</u></b>
<b>Net Pension Liability Ending (a)</b>	<b><u>\$ 32,339,054</u></b>	<b><u>\$ 35,588,845</u></b>	<b><u>\$ 30,754,004</u></b>	<b><u>\$ 20,395,876</u></b>
Plan Fiduciary Net Position as a Percentage of Total Pension liability	67.13%	63.03%	65.93%	76.93%
Covered Employee Payroll	\$ 3,559,337	\$ 3,668,239	\$ 3,354,258	\$ 3,453,957
Net Pension Liability as a Percentage of Covered Employee Payroll	908.57%	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
2017	\$ 2,642,757	\$ 3,747,478	\$ (1,104,721)	\$ 3,559,337	105.29%
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, 2015  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the beginning of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2017:**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 11-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.00% wage inflation: 2.50% general  
 Salary Increases: 3.5% 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-2014 Blue Collar Employee and Healthy Annuitant Mortality Table for males and females, projected to 2017 using Projection Scale MP-2014.

**Other Information:**

Notes: The FY 2017 contributions were determined in the September 30, 2015 Actuarial Valuation Report dated February 26, 2016, as amended by the Actuarial Impact Statement dated August 10, 2016.

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**

<b>September 30,</b>	2017	2016	2015	2014
<b>Total Pension Liability</b>				
Service cost	\$ 342,206	\$ 187,387	\$ 238,556	\$ 281,248
Interest on the total pension liability	6,927,564	6,601,468	6,396,715	6,324,999
Benefit changes	1,163,805	370,169	35,550	--
Difference between expected and actual experience	3,372,587	1,133,752	(299,119)	--
Assumption changes	1,167,456	3,049,237	2,324,039	--
Benefit payments	(5,861,110)	(5,679,431)	(6,098,229)	(5,101,421)
Refunds	(39,427)	(66,548)	(36,034)	(21,692)
<b>Net Change in Total Pension Liability</b>	7,073,081	5,596,034	2,561,478	1,483,134
<b>Total Pension Liability - Beginning</b>	96,394,898	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>\$ 103,467,979</u>	<u>\$ 96,394,898</u>	<u>\$ 90,798,864</u>	<u>\$ 88,237,386</u>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 3,607,922	\$ 2,359,519	\$ 2,269,117	\$ 2,071,503
Employee contributions	262,473	129,585	210,233	154,199
Pension plan net investment income	6,706,324	4,346,954	(2,285,815)	4,308,313
Investment expense	(151,375)	(169,741)	(179,383)	(182,692)
Benefit payments	(5,861,110)	(5,679,431)	(6,098,229)	(5,101,421)
Refunds	(39,427)	(66,548)	(36,034)	(21,692)
Pension plan administrative expense	(126,518)	(133,874)	(130,676)	(121,652)
<b>Net Change in Plan Fiduciary Net Position</b>	4,398,289	786,464	(6,250,787)	1,106,558
<b>Plan Fiduciary Net Position - Beginning</b>	57,614,845	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>\$ 62,013,134</u>	<u>\$ 57,614,845</u>	<u>\$ 56,828,381</u>	<u>\$ 63,079,168</u>
<b>Net Pension Liability Ending (a)</b>	<u>\$ 41,454,845</u>	<u>\$ 38,780,053</u>	<u>\$ 33,970,483</u>	<u>\$ 25,158,218</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	59.93%	59.77%	62.59%	71.49%
Covered Employee Payroll	\$ 3,457,670	\$ 3,242,811	\$ 3,403,307	\$ 3,671,337
Net Pension Liability as a Percentage of Covered Employee Payroll	1198.92%	1195.88%	998.16%	685.26%
	(1)	(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
2017	\$ 2,629,230	\$ 3,607,922	\$ (978,692)	\$ 3,457,670	104.35%
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, 2015  
 Notes: Actuarially determined contribution rates are calculated as of September 30, which is 12 months prior to the beginning of the fiscal year which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates for fiscal year Ending September 30, 2017**

Actuarial Cost Method: Entry-Age Normal  
 Amortization Method: Level Percent-of-Payroll, Closed  
 Remaining Amortization Period: 16-30 years  
 Asset Valuation Method: 5-Year smoothed market  
 Inflation and Other General Increases: 3.00% wage inflation: 2.50% general  
 Salary Increases: 3.5% 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-2014 Blue Collar Employee and Healthy Annuitant Mortality Table for males and females, projected to 2017 using Projection Scale MP-2014.

**Other Information:**

Notes: The FY 2017 contributions were determined in the September 30, 2015 Actuarial Valuation Report dated February 26, 2016, as amended by the Actuarial Impact Statement dated August 10, 2016.

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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<b>September 30,</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	11.20%	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, 2017**

	General	Police Officers	Firefighters	Total
<b>Assets</b>				
<b>Cash</b>	\$ 840,816	\$ 679,176	\$ 637,709	\$ 2,157,701
<b>Investments</b>				
Short term investment fund	2,558,711	2,066,820	1,940,629	6,566,160
Fixed income securities	9,433,320	7,619,839	7,154,609	24,207,768
Common stock	7,903,909	6,384,446	5,994,642	20,282,997
Domestic equity funds	19,411,851	15,680,079	14,722,729	49,814,659
International equity funds	20,986,945	16,952,374	15,917,343	53,856,662
Hedge funds	5,010,858	4,047,561	3,800,436	12,858,855
Private equity funds	6,973,619	5,632,996	5,289,073	17,895,688
Real estate funds	9,336,544	7,541,668	7,081,210	23,959,422
<b>Total Investments</b>	<u>81,615,757</u>	<u>65,925,783</u>	<u>61,900,671</u>	<u>209,442,211</u>
<b>Receivables</b>				
Interest and dividends	15,045	12,153	11,411	38,609
Due from broker for securities sold	200,724	162,137	152,238	515,099
<b>Total Receivables</b>	<u>215,769</u>	<u>174,290</u>	<u>163,649</u>	<u>553,708</u>
<b>Prepaid Expenses</b>	<u>8,124</u>	<u>6,562</u>	<u>6,162</u>	<u>20,848</u>
<b>Total Assets</b>	<u>82,680,466</u>	<u>66,785,811</u>	<u>62,708,191</u>	<u>212,174,468</u>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	42,826	34,594	32,481	109,901
Due to the Town	797,474	644,166	604,836	2,046,476
Due to broker for securities purchased	76,130	61,493	57,740	195,363
<b>Total Liabilities</b>	<u>916,430</u>	<u>740,253</u>	<u>695,057</u>	<u>2,351,740</u>
<b>Net Position Held in Trust for</b>				
<b>Pension Benefits</b>	<u>\$ 81,764,036</u>	<u>\$ 66,045,558</u>	<u>\$ 62,013,134</u>	<u>\$ 209,822,728</u>

## TOWN OF PALM BEACH RETIREMENT SYSTEM

### COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General	Police Officers	Firefighters	Total
<b>Additions</b>				
<b>Contributions</b>				
Town	\$ 3,531,685	\$ 3,747,478	\$ 3,607,922	\$ 10,887,085
Member	<u>332,457</u>	<u>368,777</u>	<u>262,473</u>	<u>963,707</u>
<b>Total Contributions</b>	<u>3,864,142</u>	<u>4,116,255</u>	<u>3,870,395</u>	<u>11,850,792</u>
<b>Investment Income</b>				
Net appreciation in fair value of investments	8,415,205	6,742,082	6,403,576	21,560,863
Interest and dividends	396,561	317,717	301,765	1,016,043
Other	<u>1,291</u>	<u>1,035</u>	<u>983</u>	<u>3,309</u>
	8,813,057	7,060,834	6,706,324	22,580,215
Less: investment expenses	<u>(198,929)</u>	<u>(159,377)</u>	<u>(151,375)</u>	<u>(509,681)</u>
<b>Net Investment Income</b>	<u>8,614,128</u>	<u>6,901,457</u>	<u>6,554,949</u>	<u>22,070,534</u>
<b>Total Additions</b>	<u>12,478,270</u>	<u>11,017,712</u>	<u>10,425,344</u>	<u>33,921,326</u>
<b>Deductions</b>				
Benefit payments	6,052,244	4,986,041	5,219,976	16,258,261
DROP distributions	191,206	523,447	641,134	1,355,787
Refunds of participants' contributions	20,235	9,583	39,427	69,245
Administrative expenses	<u>166,261</u>	<u>133,206</u>	<u>126,518</u>	<u>425,985</u>
<b>Total Deductions</b>	<u>6,429,946</u>	<u>5,652,277</u>	<u>6,027,055</u>	<u>18,109,278</u>
<b>Net Increase in Net Position</b>	6,048,324	5,365,435	4,398,289	15,812,048
<b>Net Position Held in Trust for Pension Benefits</b>				
Beginning of year	<u>75,715,712</u>	<u>60,680,123</u>	<u>57,614,845</u>	<u>194,010,680</u>
End of year	<u>\$ 81,764,036</u>	<u>\$ 66,045,558</u>	<u>\$ 62,013,134</u>	<u>\$ 209,822,728</u>

# TOWN OF PALM BEACH RETIREMENT SYSTEM

## SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2017

### SUPPLEMENTARY INFORMATION

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#### Administrative Expenses

Administrator fees	\$ 152,500
Salaries and employee benefits	79,167
Fiduciary insurance	40,238
Legal fees	47,695
Actuarial services	69,440
Audit fees and accounting fees	26,700
Software	7,712
Postage, office and miscellaneous expense	<u>2,533</u>

**Total Administrative Expenses** \$ 425,985

#### Investment Expenses

Investment management fees	\$ 321,105
Investment consultant services	130,000
Custodial fees	<u>58,576</u>

**Total Investment Expenses** \$ 509,681

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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, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2018.

***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 Plan'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 Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Marcum LLP*

West Palm Beach, FL  
February 21, 2018