

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
FINANCIAL STATEMENTS	
Statements of Fiduciary Net Position	7
Statements of Changes in Fiduciary Net Position	8
NOTES TO FINANCIAL STATEMENTS	9-17
SUPPLEMENTARY INFORMATION	
Schedules of Administrative expenses	19
Schedules of Contributions from Employer and Other Contributors	20
Schedules of Investment Returns	21
Schedules of Changes in the Employer's Net Pension Liability and Related Ratios	22
COMPLIANCE REPORT	
Independent Auditor's 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	24-25

KABAT · SCHERTZER
DE LA TORRE · TARABOULOS
— & —
C O M P A N Y

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Palm Beach Gardens Firefighters' Pension Fund
Palm Beach Gardens, Florida

We have audited the accompanying financial statements of the City of Palm Beach Gardens Firefighters' Pension Fund, which are comprised of the statements of fiduciary net position as of September 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years 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.

Auditor's Responsibility

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

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

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

KABAT · SCHERTZER
DE LA TORRE · TARABOULOS
— & —
C O M P A N Y

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Palm Beach Gardens Firefighters' Pension Fund as of September 30, 2015 and 2014 and the changes in its fiduciary net position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and required supplemental information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information in management's discussion and analysis or the supplementary schedules, the schedule of administrative expenses, the schedule of contributions from the employer and other contributors, the schedule of investment returns, or the schedule of changes in the employer's net pension liability and related ratios because the limited procedures we performed did not provide us with sufficient evidence to express an opinion or provide any assurance on them.

KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & Co.

Weston, Florida
February 12, 2016

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents the Management's Discussion and Analysis (MD&A) of the City of Palm Beach Gardens Firefighters' Pension Fund (Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal year ended September 30, 2015. Please read it in conjunction with the Plan financial statements, which immediately follow.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: MD&A, the basic financial statements, notes to the financial statements and other required supplementary information.

The financial statements provide both long-term and short-term information about the Plan's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Plan's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Under GAAP, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred and appreciation (depreciation) of assets is recognized in the Statement of Changes in Fiduciary Net Position. All assets and liabilities associated with the operation of the Plan are included in the Statement of Fiduciary Net Position.

The Statement of Fiduciary Net Position reports fiduciary net position and how it has changed. A net asset is the difference between the asset and any related liabilities. It is one measurement of the financial health or current position of the Plan.

Financial Highlights

The Plan's financial statements net results from operations for fiscal year 2015 reflected the following financial activities:

- Total fiduciary net position was \$72,969,734, which was 5% greater than 2014 total fiduciary net position.
- Total contributions were \$4,918,575, which was 17% greater than the 2014 contributions.
- Total interest and dividend earnings were \$2,229,437, which was 22% greater than the 2014 earnings.
- Net investment income was \$775,398, which was 89% lower than the 2014 income.
- Total benefits paid were \$1,946,837, which was 6% greater than the benefits paid during 2014.
- Employer and employee contributions for the year were \$4,918,575, which was 17% greater than the 2014 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Participant contributions were 6% of their compensation.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Fiduciary Net Position

The following condensed comparative Statement of Fiduciary Net Position is a snap shot of account balances at the fiscal year end of the Plan. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for Plan benefits.

The Plan continues to be evaluated for actuarial soundness by the actuary of the Plan. It should be noted that retirement system funding is based on a long-term perspective and that temporary fluctuations in the market are to be expected.

- Fiduciary net position at September 30, 2015 was \$72,969,734, a 5% increase from fiduciary net position at September 30, 2014.
- Total investments at September 30, 2015 were \$70,007,033, a 6% increase from the investments at September 30, 2014.

	2015	2014	% Change
Cash and cash equivalents	\$ 1,596,574	\$ 1,680,803	(5%)
Receivables	2,194,167	1,987,182	10%
Other assets	200	1,175	(83%)
Investments, at fair value	70,007,033	65,973,105	6%
Total assets	73,797,974	69,642,265	6%
Accounts payable	86,989	70,087	24%
Accounts payable - purchase of investments	741,251	260,720	184%
Total liabilities	828,240	330,807	150%
Net position	\$ 72,969,734	\$ 69,311,458	5%

Statement of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary net position presents the effect of Plan transactions that occurred during the fiscal year. On the statement, additions to the Plan minus deductions from the plan equal net increase or decrease in fiduciary net position.

The funding objective is to meet long-term obligations and fund all Plan benefits.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Changes in Fiduciary Net Position (Continued)

- Revenues (additions to the fiduciary net position) for the Plan were \$5,696,801, which was made up of employer and employee contributions of \$4,918,575 plus net investment income of \$775,398 and other income of \$2,828.
- Expenses (deductions from the fiduciary net position) increased from \$1,930,400 during 2014 to \$2,038,525 during 2015.

	2015	2014	% Change
Total contributions	\$ 4,918,575	\$ 4,195,959	17%
Net investment income	775,398	7,036,319	(89%)
Other income	2,828	3,579	(21%)
Total additions	5,696,801	11,235,857	(49%)
Total deductions	2,038,525	1,930,400	6%
Net increase	3,658,276	9,305,457	(61%)
Net position – beginning	69,311,458	59,107,217	17%
Prior period adjustment	-	898,784	(100%)
Net position – ending	\$ 72,969,734	\$ 69,311,458	5%

Asset Allocation

The table below indicates the Plan investment policy limitations and actual asset allocations as of September 30, 2015:

Type of Investment	Investment policy	Actual Allocation
Domestic equities	45%-65%	53%
International equities	5%-15%	8%
Fixed Income	15%-35%	21%
International fixed income	0%-10%	5%
Real estate	5%-15%	11%
Cash and cash equivalents	0%-5%	2%

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold.

The Board of Trustees (Board) recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's financial condition enables the Board to adopt a long-term investment perspective.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Investment Activities

Investment income is vital to the Plan for current and future financial stability. Therefore, the Board has a fiduciary responsibility to act prudently when making Plan investment decisions. To assist the Board in this area, the Board retains investment managers who supervise and direct the investment of the assets. The Board also retains an investment monitor to evaluate and report on quarterly basis compliance by the investment managers with the investment policy of the Board and investment performance of the Plan. The investment policy statement was last amended in January 2014.

The Board and its investment consultant review portfolio performance in compliance with the investment policy statement quarterly. Performance is evaluated both individually by money manager style and collectively by investment type and for the aggregate portfolio.

Financial Analysis Summary

The investment activities, for the fiscal year ended September 30, 2015 are a function of the underlying market, money managers' performance and the investment policy's asset allocation model. The Plan has consistently implemented a high quality, conservative approach.

Contacting the Plan's Financial Management

This financial analysis is designed to provide the Board, plan participants and the marketplace credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or you need additional financial information, please contact the administrator of the Plan:

The Resource Center, LLC
c/o City of Palm Beach Gardens Firefighters' Pension Fund
4360 Northlake Boulevard, Suite 206
Palm Beach Gardens, Florida 33410

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

STATEMENTS OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 1,596,574	\$ 1,680,803
RECEIVABLES:		
Accrued investment income	193,487	173,164
Employer contributions receivable	776,824	763,394
Employee contributions receivable	10,553	11,439
Chapter 175 contributions receivable	726,993	843,533
Accounts receivable - sale of investments	486,310	195,652
TOTAL RECEIVABLES	<u>2,194,167</u>	<u>1,987,182</u>
OTHER ASSETS	<u>200</u>	<u>1,175</u>
INVESTMENTS, AT FAIR VALUE:		
U.S. Government obligations	5,859,228	4,626,171
Mortgage backed securities	3,971,395	3,994,268
Collateralized mortgage obligations	389,916	337,723
Corporate bonds	4,382,541	4,278,964
Equity securities	21,214,255	19,407,818
Equity mutual funds	16,740,596	13,850,086
International equity securities	2,232,704	2,495,672
International bonds, notes and debentures	183,451	147,295
International equity mutual funds	-	3,284,781
International fixed income mutual funds	3,397,142	3,473,887
International equity common trust funds	3,106,743	3,250,350
Commingled real estate funds	8,040,236	6,482,718
Self directed DROP investments	488,826	343,372
TOTAL INVESTMENTS, AT FAIR VALUE	<u>70,007,033</u>	<u>65,973,105</u>
TOTAL ASSETS	<u>73,797,974</u>	<u>69,642,265</u>
LIABILITIES		
ACCOUNTS PAYABLE	86,989	70,087
ACCOUNTS PAYABLE - PURCHASE OF INVESTMENTS	<u>741,251</u>	<u>260,720</u>
TOTAL LIABILITIES	<u>828,240</u>	<u>330,807</u>
NET POSITION RESTRICTED FOR PENSIONS		
NET POSITION RESTRICTED FOR PENSIONS:		
Net position restricted for DROP benefits	2,304,478	1,302,570
Net position restricted for share benefits	8,446,320	8,889,212
Net position restricted for defined benefits	62,218,936	59,119,676
TOTAL NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 72,969,734</u>	<u>\$ 69,311,458</u>

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

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ADDITIONS:		
Contributions:		
Employer	\$ 3,747,003	\$ 2,866,117
Employee	444,579	486,309
Chapter 175	<u>726,993</u>	<u>843,533</u>
Total contributions	<u>4,918,575</u>	<u>4,195,959</u>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(1,065,309)	5,547,540
Interest and dividend income	<u>2,229,437</u>	<u>1,829,298</u>
Total investment income	1,164,128	7,376,838
Less: investment expenses	<u>388,730</u>	<u>340,519</u>
Net investment income	<u>775,398</u>	<u>7,036,319</u>
Other income	<u>2,828</u>	<u>3,579</u>
TOTAL ADDITIONS	<u>5,696,801</u>	<u>11,235,857</u>
DEDUCTIONS:		
Benefit payments	1,946,837	1,833,986
Administrative expenses	<u>91,688</u>	<u>96,414</u>
TOTAL DEDUCTIONS	<u>2,038,525</u>	<u>1,930,400</u>
NET INCREASE IN NET POSITION	3,658,276	9,305,457
NET POSITION RESTRICTED FOR PENSIONS		
Beginning of year	69,311,458	59,107,217
Prior period adjustment	<u>-</u>	<u>898,784</u>
End of year	<u>\$ 72,969,734</u>	<u>\$ 69,311,458</u>

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

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation and Income Recognition

Investments are reported at fair value (see Note 3). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Purchase and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net (depreciation) appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Income Taxes

The Plan is exempt from federal income taxes under the Internal Revenue Code and, accordingly, no provision for federal income taxes has been made.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the plan has taken an uncertain position that more likely than not would not be sustained upon examination by a taxing authority. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Board believe it is no longer subject to income tax examinations for years prior to September 30, 2012.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Accounting Principles

The Plan applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

NOTE 2. DESCRIPTION OF THE PLAN

The following description of the City of Palm Beach Gardens Firefighters' Pension Fund (Plan) provides only general information. Participants should refer to the City's ordinance for more complete information.

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

The Plan is a single-employer combined defined benefit and money purchase plan covering all eligible firefighters. The plan was established by the City in accordance with a City ordinance and state statutes.

General

Management of the plan is vested in the Board. The Board consists of five trustees, two of whom are appointed by the Council of the City of Palm Beach Gardens, Florida (City), two of whom are full-time firefighters who are elected by a majority of the plan participants, and a fifth trustee who is chosen by the other four trustee. The Plan is reported in the fiduciary funds (pension trust) in the City's basic financial statements.

Plan Participation

Inactive Plan participants or beneficiaries currently receiving benefits	32
Inactive Plan participants entitled to but not yet receiving benefits	3
Active Plan participants	<u>101</u>
Total	<u>136</u>

Eligibility

All firefighters as of the effective date, and all future new firefighters, become participants of the Plan as a condition of employment.

Benefits

The Plan provides normal retirement, early retirement, deferred retirement, disability retirement and death benefits. The benefit provisions are established and may be amended under the authority of City Ordinance.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Normal Benefits

A participant may retire with normal benefits after the earlier of age 52 with 10 years of credited service, or 25 years of credited service regardless of age. Reduced early retirement benefits are available once a participant reaches age 50 and accumulates 10 years of credited service. Normal retirement benefits are 3.0% of the participant's average final compensation times the participant's credited service years up to a maximum of 99% (75% for participants retiring on or after September 13, 2012 who were not eligible for normal retirement or who did not have an accrued pension benefit in excess of 75% of average final compensation on that date) of average final compensation. Early retirement benefits are the same as normal retirement benefits, reduced by 3.0% for each year by which the commencement of benefits precedes age 52. Average final compensation for purposes of calculating benefits is one twelfth of the average annual salary for the best five years of the last ten years of credited service. Salary means the total compensation for services rendered to the City as a firefighter reportable on the participant's W-2 form plus all tax deferred, tax-sheltered or tax exempt items of income derived from elective employee payroll deduction or salary reduction. Notwithstanding the preceding sentence, effective September 13, 2012, salary shall exclude all overtime compensation as well as payments for unused accrued sick and annual leave; provided the salary of any participant employed on September 13, 2012 shall include payment for unused accrued sick and annual leave up to the number of hours of unused sick and annual leave accrued on September 13, 2012.

Deferred Retirement Option Plan

Any participant who attains 25 years of service or age 52 with 10 years of service may elect to participate in deferred retirement option plan (DROP) while continuing his or her active employment as a firefighter.

Upon participation in the DROP, the participant becomes a retiree for all Plan purposes so that he or she ceases to accrue any further benefits under the Plan. Normal retirement payments that would have been payable to the participant as a result are accumulated and invested in the DROP plan to be distributed to the participant upon his or her termination of employment. Participation in the DROP plan ceases for a participant at the first to occur of: termination of employment or 5 years of participation.

Disability Benefits

Eligibility for disability benefits begins from the participant's date of hire, if the disability is service connected, or after 10 years of service if non-service connected. Service-incurred disability benefits are 60% of the participant's average final compensation, and not less than 2.0% of the participant's average final compensation times his or her credited service years. Non-service incurred disability benefits are 2.5% of the participant's average final compensation times his or her credited service years up to a maximum of 50% of average final compensation.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Death Benefits

The death benefit for a participant who was partially or fully vested, but had not attained at least age 50, is a payment of the participant's accrued pension benefit to the participant's beneficiary for 10 years, beginning on the date that the participant would have attained age 52 for a normal retirement benefit or age 50 for an early retirement benefit, at the option of the beneficiary. The death benefit for a participant who was not vested is a return of the participant's contributions to the participant's beneficiary.

Termination Benefits

Termination benefits for unvested participants are the return of the participant's contributions. For participants who are vested when they terminate, their vested accrued pension benefit is payable at the early or normal retirement date. Full vesting occurs at the completion of 10 years of credited service.

Cost of Living Adjustments

Beginning January 1, 2004, and each January 1 thereafter, all participants receiving benefits, excluding disability retirees, shall receive an age based cost of living adjustment. The amount will be 1.0% for participants who are age 53, 2.0% for participants who are age 54, and 3.0% for participants who are age 55 or greater. Effective January 1, 2013, the applicable percentage for participants who are age 55 or greater, and who were not employed and eligible for normal retirement on September 13, 2012, shall be 1.5%.

Funding

All participants are required to contribute 6.00% of pretax earnings.

Pursuant to Florida law, the City is ultimately responsible for the actuarially soundness of the Plan. Therefore, each year, the City must contribute an amount determined by the Board in conjunction with the Plan's actuary to be sufficient, along with the employee's contribution, to fund the defined benefits under the Plan.

Pursuant to Chapter 175, Florida Statutes, the City imposes a 1.85% tax on fire insurance premiums paid to insure real or personal property within its corporate limits. The proceeds of this tax are contributed to the Plan and allocated to the individual participants' accounts to fund the money purchase portion of the benefits.

2.0% of each participant's salary will be allocated from the state's annual contribution and credited as additional participant contributions. The remainder of the state's annual contribution will be allocated to individual participant share accounts based on years of credited service. Upon retirement, disability, death, or termination, a participant is entitled to a lump sum payment of the vested balance of his or her share account. Participant share accounts are not segregated from the other assets of the Plan. As of September 30, 2015, the balance of participant share accounts was \$8,446,320.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 2. DESCRIPTION OF THE PLAN (Continued)

Rate of Return

For the year ended September 30, 2015, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 0.94%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 3. INVESTMENTS

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Plan. The investment policy statement was last amended in January 2014. The following was the Board's adopted asset allocation policy as of September 30, 2015:

<u>Type of Investment</u>	<u>Target Allocation</u>
Domestic equities	45%-65%
International equities	5%-15%
Fixed Income	15%-35%
International fixed income	0%-10%
Real estate	5%-15%
Cash and cash equivalents	0%-5%

During the year ended September 30, 2015 the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) depreciated in value by \$1,065,309 (reported as net depreciation in fair value of investments in the accompanying Statements of Changes in Fiduciary Net Position) as follows:

U.S. government obligations	\$ 109,084
Mortgage backed	(61,874)
CMO	(12,282)
Corporate bonds	(94,751)
Equity securities	(197,489)
Equity mutual funds	(480,752)
International equity securities	41,708
International bonds	(4,973)
International equity mutual	(391,052)
International fixed income	(522,703)
International equity common trust	(143,607)
Real estate	693,382
Total	<u>\$ (1,065,309)</u>

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Continued)

NOTE 3. INVESTMENTS (Continued)

The Plan's investment policy does not use limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Plan's investments in government securities, fixed income mutual funds and corporate bonds had maturities as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More than 10</u>
Corporate bonds	\$ 4,382,541	\$ 56,773	\$ 2,296,285	\$ 1,368,238	\$ 661,245
Foreign bonds	183,451	-	90,980	59,170	33,301
Collateralized mortgage obl	389,916	-	-	7,828	382,088
Fixed income mutual funds	3,397,142	-	1,757,002	1,369,048	271,092
U.S. agencies	4,229,162	-	257,766	1,369,532	2,601,864
U.S. treasuries	<u>5,601,461</u>	<u>-</u>	<u>312,101</u>	<u>4,800,173</u>	<u>489,187</u>
Totals	<u>\$ 18,183,673</u>	<u>\$ 56,773</u>	<u>\$ 4,714,134</u>	<u>\$ 8,973,989</u>	<u>\$ 4,438,777</u>

The fixed income portfolio must be comprised of securities rated within the top four grades by Moody's or Standard & Poor's ratings services. The Plan's corporate bonds were rated by Moody's Investors Services as follows:

<u>Rating</u>	<u>Fair Value</u>
A	\$ 1,234,861
A1	257,266
A2	384,288
A3	950,929
AA	643,419
AA1	79,481
AA2	416,753
AA3	145,980
AAA	6,131,328
B	89,345
BA1	67,548
BAA1	1,370,798
BAA2	636,386
BAA3	209,757
BB	405,619
BBB	651,572
Unrated	<u>4,508,343</u>
Total	<u>\$ 18,183,673</u>

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Continued)

NOTE 3. INVESTMENTS (Continued)

The Plan limits investment in the securities of any one issuer, other than the U.S. Government and its agencies, to no more than 3% of net fiduciary position. The Plan had investments in Templeton Global Fund, a mutual fund with numerous issuers, total 4.7% of Plan assets.

“Foreign currency risk” is the risk that fluctuations in currency exchange rate may affect transactions conducted in currencies other than US Dollars and the carrying value of foreign investments. The Plan’s exposure to foreign currency risk derives mainly from its investments in international equity funds. The Plan owns participation in international equity funds as well as individual securities.

The investment policy limits the foreign investments to no more than 25% of the Plan’s investment balance. As of year-end, the foreign investments were 13% of total investments; however all are self-directed investments.

NOTE 4. 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 changes could materially affect the amounts reported in the statement of fiduciary net position available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 5. NET PENSION LIABILITY OF THE PLAN

The components of the net pension liability of the Plan at September 30, 2015 were as follows:

Total pension liability	\$ 93,043,038
Plan fiduciary net position	<u>72,959,180</u>
Net pension liability	<u>\$ 20,083,858</u>

Plan fiduciary net position as a percentage of the total pension liability	78.41%
---	--------

The total pension liability was determined by an actuarial valuation as of September 30, 2015 using certain actuarial assumptions, the most significant of which were 7.65% for the investment rate of return, 0%-3.7% for projected salary increases and 3.0% for inflation.

Mortality rates were based on the RP-2000 Combined Healthy Annuitant Participant Table for Males or Females, as appropriate, with mortality improvement projected to all future years after 2000 using Scale AA.

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 5. NET PENSION LIABILITY OF THE PLAN (Continued)

The long-term expected rate of return on 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 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 Plan's target asset allocation as of September 30, 2015 (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	10.00%
International equity	11.00%
Fixed Income	11.00%
Real estate	7.00%

The discount rate used to measure the total pension liability was 7.65%. The projection of cash flows used to determine the discount rate assumed that plan participant 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 participant rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan participants. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The sensitivity of the net pension liability to changes in the discount rate was measured as follows. The net pension liability of the Plan was calculated using the discount rate of 7.65%. It was also calculated using a discount rate that was 1-percentage-point lower (6.65%) and 1-percentage-point higher (8.65%) and the different computations were compared.

	1% decrease	Current discount rate	1% increase
	<u>(6.65%)</u>	<u>(7.65%)</u>	<u>(8.65%)</u>
Net pension liability	\$ 31,277,059	\$ 20,083,857	\$ 10,861,778

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 AND 2014
(Continued)

NOTE 6. PRIOR PERIOD ADJUSTMENT

In accordance with GASB 67 the DROP balances have been reclassified from liabilities to be included in the total net position restricted for pensions. The reclassification had the effect of increasing net position restricted for pensions as of September 30, 2013 by \$898,784.

Additionally, activity in the DROP accounts, including withdrawals by participants and investment earnings, are now reflected in the Statement of Changes in Fiduciary Net Position.

NOTE 7. SUBSEQUENT EVENTS

The Board evaluated subsequent events through February 12, 2016, the date that the financial statements were available to be issued.

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

SUPPLEMENTARY INFORMATION

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ADMINISTRATIVE EXPENSES:		
Accounting	\$ 8,525	\$ 14,600
Actuarial fees	25,514	24,105
Administrative fees	21,976	18,044
Conferences	3,175	3,641
Insurance	5,942	5,985
Legal Fees	15,941	21,887
Miscellaneous	<u>10,615</u>	<u>8,152</u>
TOTAL ADMINSTRATIVE EXPENSES	<u><u>\$ 91,688</u></u>	<u><u>\$ 96,414</u></u>

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTORS

AS OF SEPTEMBER 30, 2015

(UNAUDITED)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarilly determined employer contribution	\$ 3,460,519	\$ 3,404,960	\$ 3,443,143
Actual employer contribution	<u>4,251,855</u>	<u>3,404,960</u>	<u>3,911,687</u>
Annual contribution deficiency (excess)	<u>\$ (791,336)</u>	<u>\$ -</u>	<u>\$ (468,544)</u>
Covered-employee payroll	<u>\$ 9,695,082</u>	<u>\$ 7,924,041</u>	<u>\$ 8,294,732</u>
Actual contributions as a percentage of covered-employee payroll	43.86%	60.30%	47.16%

Funding method	Projected Unit Cost Method
Amortization method	Level percentage, closed
Remaining amortization period	21 Years
Asset valuation method	The Actuarial Value of Assets is calculated by recognizing 25% of the difference between the Market Value of Assets and the expected Market Value of Assets.
Inflation:	4.50%
Salary increases	3.70%
Investment rate of return	8.050%
Mortality	RP-2000 Table, sex distinct, without projection.

The accompanying independent auditor's report should be read with this supplementary schedule.

CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

SCHEDULE OF INVESTMENT RETURNS (UNAUDITED)

AS OF SEPTEMBER 30, 2015

<u>Year Ended September 30</u>	Annual money- weighted rate of return net of investment <u>expense</u>
2015	0.94%
2014	11.65%
2013	14.29%
2012	17.64%
2011	(1.61%)
2010	7.78%
2009	1.01%
2008	(12.77%)
2007	0.00%

The accompanying independent auditor's report should be read with this supplementary schedule.

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

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

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
TOTAL PENSION LIABILITY:		
Service Cost	\$ 1,760,152	\$ 1,741,473
Interest	6,786,918	6,280,207
Share Plan Allocation	222,133	304,698
Assumption Changes	(1,460,746)	-
Benefit Payments	(1,935,428)	(1,844,859)
Changes of Assumptions	<u>2,004,899</u>	<u>1,772,793</u>
NET CHANGE IN TOTAL PENSION LIABILITY	7,377,928	8,254,312
TOTAL PENSION LIABILITY - BEGINNING	<u>85,665,110</u>	<u>77,410,798</u>
TOTAL PENSION LIABILITY - ENDING	<u>93,043,038</u>	<u>85,665,110</u>
 PLAN FIDUCIARY NET POSITION:		
Contributions - Employer and State	4,473,988	3,709,659
Contributions - Member	445,465	475,442
Net investment income	835,212	6,977,925
Benefit Payments	(1,935,428)	(1,844,859)
Administrative expenses	<u>(84,807)</u>	<u>(88,142)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	3,734,430	9,230,025
PLAN FIDUCIARY NET POSITION - BEGINNING	<u>69,224,750</u>	<u>59,994,725</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>72,959,180</u>	<u>69,224,750</u>
 NET PENSION LIABILITY - ENDING	<u>\$ 20,083,858</u>	<u>\$ 16,440,360</u>
 PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY	78.41%	80.81%
 COVERED EMPLOYEE PAYROLL	\$ 9,695,082	\$ 7,924,041
 NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL	207.16%	207.47%

The accompanying independent auditor's report should be read with this supplementary schedule.

**CITY OF PALM BEACH GARDENS
FIREFIGHTERS' PENSION FUND**

COMPLIANCE REPORT

SEPTEMBER 30, 2015

KABAT · SCHERTZER
DE LA TORRE · TARABOULOS
&
C O M P A N Y

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITOR'S 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
City of Palm Beach Gardens Firefighters' Pension Fund
Palm Beach Gardens, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the City of Palm Beach Gardens Firefighters' Pension Fund (Plan), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated February 12, 2016.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

KABAT · SCHERTZER
DE LA TORRE · TARABOULOS
&
C O M P A N Y

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**INDEPENDENT AUDITOR'S 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** (Continued)

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, contracts, and grant agreements, 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KABAT, SCHERTZER, DE LA TORRE, TARABOULOS & Co.

Weston, Florida
February 12, 2016