

**CITY OF PALM BEACH GARDENS  
POLICE OFFICERS' PENSION FUND**

**A PENSION TRUST FUND OF THE  
CITY OF PALM BEACH GARDENS, FLORIDA**

**FINANCIAL STATEMENTS AND  
ACCOMPANYING INFORMATION**

*For the Years Ended September 30, 2015 and 2014*

*And Report of Independent Auditor*

CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND  
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## **Report of Independent Auditor**

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

### **Report on the Financial Statements**

We have audited the accompanying statements of fiduciary net position of the City of Palm Beach Gardens Police Officers' Pension Fund (the "Fund") 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 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 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 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 fiduciary net position of the City of Palm Beach Gardens Police Officers' Pension Fund as of September 30, 2015 and 2014 and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *City of Palm Beach Gardens Audit*

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Palm Beach Gardens, Florida, as of September 30, 2015 and 2014, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed on 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, who 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 audit of the basic 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.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary information listed on the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic 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 June 1, 2016 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Orlando, Florida  
June 1, 2016

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

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

*YEARS ENDED SEPTEMBER 30, 2015 and 2014*

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As management of the City of Palm Beach Gardens Police Officers' Pension Fund (the "Fund"), we offer readers of the Fund's financial statements this narrative overview of the financial activities of the Fund for the years ended September 30, 2015 and 2014. This narrative is intended to supplement the Fund's financial statements, and we encourage readers to consider the information presented here in conjunction with these statements, which begin on page 9.

## **Overview of the financial statements**

The following discussion and analysis are intended to serve as an introduction to the Fund's financial statements. The financial statements are:

- Statements of Fiduciary Net Position
- Statements of Changes in Fiduciary Net Position
- Notes to the Financial Statements

This report also contains the following "Required Supplementary Information" to the financial statements:

- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedules of Annual Contributions and Net Pension Liability
- Schedule of Money-Weighted Rate of Return
- Notes to Required Supplementary Information

The financial statements contained in the report are described below:

- The Statements of Fiduciary Net Position is a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the statement date. The resulting Net Position value (Assets – Liabilities = Net Position) represents the value of assets held in trust for pension benefits.
- The Statements of Changes in Net Position displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (Decrease) in Net Position. This Net Increase (Decrease) in Net Position reflects the change in the net asset value of the Statement of Plan Net Position from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements.
- The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to the comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Fund operates and provide additional levels of detail for select financial statement items (See Notes to Financial Statements on pages 11 to 17 of this report.)

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

*YEARS ENDED SEPTEMBER 30, 2015 and 2014*

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Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this financial report includes two additional "Required Supplementary Information" schedules with historical trend information.

- The Schedule of Changes in Net Pension Liability and Related Ratios (page 18) includes information about the sources of changes to the net pension liability and to the changes in Fund fiduciary net position. It also provides information regarding the fiduciary net position as a percentage of covered employee payroll and the net pension liability as a percentage of covered payroll.
- The Schedules of Annual Contributions and Net Pension Liability (page 19) presents information regarding the value of total annual contributions required to be paid by the City and the actual performance of the City in meeting this requirement.
- The Money-Weighted Rate of Return (page 20) provides information regarding the Fund rate of return.
- The Notes to the Required Supplementary Information (page 21) provide background information and explanatory detail to aid in understanding the required supplementary schedules.

## **Financial highlights**

- The net position of the Fund exceeded its liabilities at the close of the fiscal years ended September 30, 2015 and 2014 with \$74,092,896 and \$72,626,331 in net position restricted for pension benefits, respectively.
- Net position increased by \$1,466,565 or 2.0 percent during 2015, primarily due to the current year's contributions and investment income.
- Net position increased by \$8,050,878 or 12.5 percent during 2014, primarily due to the current year's contributions and investment income.
- For the year ended September 30, 2015 Plan net position was 77.02% of the total pension liability of \$96,205,516. Net pension liability was \$22,112,620 which was 450.48% of covered payroll.
- For the year ended September 30, 2014 Plan net position was 79.81% of the total pension liability of \$90,998,913. Net pension liability was \$18,372,582 which was 403.91% of covered payroll.
- Additions to fiduciary net position for the year ended September 30, 2015 were \$4,880,158 which includes member, employer and state contributions of \$3,954,404 and net income from investment activities totaling \$925,754.
- Additions to fiduciary net position for the year ended September 30, 2014 were \$10,449,500 which includes member, employer and state contributions of \$3,650,572 and net income from investment activities totaling \$6,798,928.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED SEPTEMBER 30, 2015 and 2014

- Deductions from plan net position increased to \$3,413,593 in 2015. Most of the increase relates to increased benefit payments made in 2015.
- Deductions from plan net position increased to \$2,398,622 in 2014. Most of the increase relates to increased benefit payments made in 2014.

## Analysis of financial activities

The Fund's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits.

Contributions from the City of Palm Beach Gardens are made at levels determined by the Fund's actuary. Because of projected benefit obligations, the City's contribution requirement has increased. The Fund's investment portfolio produced lower returns in 2015 compared to 2014. Net position restricted for pension benefits increased by \$1,466,565 in 2015, compared to an increase of \$8,050,878 in 2014.

Fiduciary Net Position (Table 1)							
As of September 30, 2015, 2014 and 2013							
	2015	2014	2013	Increase (Decrease)		Increase (Decrease)	
				2015 to 2014		2014 to 2013	
				\$	%	\$	%
Current and Other Assets	\$ 1,766,589	\$ 1,692,923	\$ 1,141,290	\$ 73,666	4.4%	\$ 551,633	48.3%
Investments, at fair value	72,556,777	70,977,595	63,484,503	1,579,182	2.2%	7,493,092	11.8%
<b>Total Assets</b>	<b>74,323,366</b>	<b>72,670,518</b>	<b>64,625,793</b>	<b>1,652,848</b>	<b>2.3%</b>	<b>8,044,725</b>	<b>12.4%</b>
Total Liabilities	230,470	44,187	50,340	186,283	421.6%	(6,153)	(12.2%)
<b>Net Position</b>	<b>\$ 74,092,896</b>	<b>\$ 72,626,331</b>	<b>\$ 64,575,453</b>	<b>\$ 1,466,565</b>	<b>2.0%</b>	<b>\$ 8,050,878</b>	<b>12.5%</b>

As the years roll forward and total assets and liabilities grow, investment income will continue to play an important roll in funding future retirement benefits. Therefore, investment return over the long term is critical to the funding status of the retirement Fund.

During 2015, the Fund's investment portfolio returned gains of approximately 1.3 percent. It is important to remember that a retirement plan's funding is based on a long time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Fund be able to meet an expected earnings yield of 7.1 percent annual return on investments.

Based on our latest actuarial analysis for the year ended September 30, 2015, the Plan's total pension liability exceeds its Plan net position by \$22.1 million, producing a plan net position as a percent of total pension liability of 77.02%.

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEARS ENDED SEPTEMBER 30, 2015 and 2014

**Financial analysis – summary**

As previously noted, net position viewed over time may serve as a useful indication of the Fund's financial position (See Table 1 above.) At the close of fiscal year 2015, the assets of the Fund exceeded its current liabilities by \$74,092,896, shown as net position held in trust for pension benefits. The net position is available to meet the Fund's ongoing obligation to plan participants and their beneficiaries.

**Net position**

The Fund's net position is established from employer and member contributions, and the accumulation of investment income, net of investment and administrative expenses and benefit payments.

**Additions to plan net position**

As noted above, net position needed to finance retirement benefits are accumulated through collecting employer and member contributions and through investment earnings (net of investment expenses.) The additions totaled \$4,880,158 for the year ended September 30, 2015. This was \$5,569,342 less than the prior year, primarily due to decreased investment returns.

Additions to Net Position (Table 2)							
For the years ended September 30, 2015, 2014 and 2013							
	2015	2014	2013	Increase (Decrease)		Increase (Decrease)	
				2015 to 2014		2014 to 2013	
				\$	%	\$	%
Employer contributions	\$ 3,007,780	\$ 2,712,635	\$ 2,700,762	\$ 295,145	10.9%	\$ 11,873	0.4%
Member contributions	422,145	391,188	432,301	30,957	7.9%	(41,113)	(9.5%)
State of Florida contributions	524,479	546,749	475,215	(22,270)	(4.1%)	71,534	15.1%
Net Investment income (loss)	925,754	6,798,928	7,925,673	(5,873,174)	(86.4%)	(1,126,745)	(14.2%)
<b>Total additions</b>	<b>\$ 4,880,158</b>	<b>\$ 10,449,500</b>	<b>\$ 11,533,951</b>	<b>\$ (5,569,342)</b>	<b>(53.3%)</b>	<b>\$ (1,084,451)</b>	<b>(9.4%)</b>

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

YEARS ENDED SEPTEMBER 30, 2015 and 2014

**Deductions from plan net position**

The Fund was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to employees who terminate employment, and the cost of administering the Fund.

Deductions from Net Position (Table 3)							
For the years ended September 30, 2015, 2014 and 2013							
	2015	2014	2013	Increase (Decrease)		Increase (Decrease)	
				2015 to 2014		2014 to 2013	
				\$	%	\$	%
Benefit payments	\$ 3,297,505	\$ 2,277,672	\$ 2,068,119	\$ 1,019,833	44.8%	\$ 209,553	10.1%
Refunds of contributions	-	6,852	32,872	(6,852)	(100.0%)	(26,020)	(79.2%)
Administrative expenses	116,088	114,098	118,659	1,990	1.7%	(4,561)	(3.8%)
<b>Total deductions</b>	<b>\$ 3,413,593</b>	<b>\$ 2,398,622</b>	<b>\$ 2,219,650</b>	<b>\$ 1,014,971</b>	<b>42.3%</b>	<b>\$ 178,972</b>	<b>8.1%</b>

Expenses for the year ended September 30, 2015 totaled \$3,413,593, an increase of 42.3 percent from 2014. The increase was primarily due to increased benefit payments in 2015. Expenses for the year ended September 30, 2014 totaled \$2,398,622. Further analysis of benefit payments is provided in Table 4 below.

Benefit Payments (Table 4)							
For the years ended September 30, 2015, 2014 and 2013							
	2015	2014	2013	Increase (Decrease)		Increase (Decrease)	
				2015 to 2014		2014 to 2013	
				\$	%	\$	%
Normal retirement payments	\$ 2,053,763	\$ 1,718,813	\$ 1,701,897	\$ 334,950	19.5%	\$ 16,916	1.0%
Disability pension payments	\$ 272,822	\$ 272,822	\$ 272,822	\$ -	0.0%	\$ -	0.0%
DROP account withdrawals	\$ 970,920	\$ 286,037	\$ 93,400	\$ 684,883	239.4%	\$ 192,637	206.2%
<b>Total benefit payments</b>	<b>\$ 3,297,505</b>	<b>\$ 2,277,672</b>	<b>\$ 2,068,119</b>	<b>\$ 1,019,833</b>	<b>44.8%</b>	<b>\$ 209,553</b>	<b>10.1%</b>

The deductions of plan net position of \$3,413,593 and additions to plan net position of \$4,880,158 resulted in an overall increase of \$1,466,565 in net position held in trust for pension benefits for the year ended September 30, 2015. The deductions of plan net position of \$2,398,622 and additions to plan net position of \$10,449,500 resulted in an overall increase of \$8,050,878 in net position held in trust for pension benefits for the year ended September 30, 2014.

# **CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND MANAGEMENT'S DISCUSSION AND ANALYSIS**

*YEARS ENDED SEPTEMBER 30, 2015 and 2014*

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## **Fiduciary responsibilities**

The Board of Trustees is the fiduciary of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of the Fund are used exclusively for the benefit of plan participants and their beneficiaries and defraying reasonable expenses of administering the Fund.

## **Requests for information**

This financial report is designed to provide the Board of Trustees, our membership, taxpayers and investment managers with an overview of the Fund's finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Palm Beach Gardens Police Officers' Pension Fund  
c/o Resource Centers LLC  
4360 Northlake Boulevard, Suite 206  
Palm Beach Gardens, FL 33410

## **BASIC FINANCIAL STATEMENTS**

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**  
**STATEMENTS OF FIDUCIARY NET POSITION**

SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 739,463	\$ 876,826
Receivables		
State of Florida	524,479	546,749
Interest and dividends	133,053	94,216
Pending trades	90,125	-
Other receivables	56,499	-
Police officers	9,904	20,279
<b>Total receivables</b>	<u>814,060</u>	<u>661,244</u>
Prepaid expenses	<u>213,066</u>	<u>154,853</u>
Investments, at fair value		
Money market funds	368,245	1,159,131
Fixed Income		
Corporate obligations	13,652,081	10,410,437
U.S. Government obligations	2,499,071	2,834,612
Mortgage/Asset backed securities	798,088	1,243,853
Municipal obligations	583,331	633,280
Collateralized mortgage obligations	73,751	319,049
Equity securities		
Domestic equities	7,680,461	8,513,682
Foreign equities	146,663	179,483
Pooled equity trust funds	34,977,640	35,133,421
International equity mutual funds	4,950,842	5,412,592
International bond mutual funds	2,094,879	2,200,483
Commingled real estate funds	4,731,725	2,937,572
Total investments	<u>72,556,777</u>	<u>70,977,595</u>
<b>Total assets</b>	<u>74,323,366</u>	<u>72,670,518</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	49,336	43,446
Pending trades payable	181,134	741
<b>Total liabilities</b>	<u>230,470</u>	<u>44,187</u>
<b>Net position restricted for pensions</b>	<u>\$ 74,092,896</u>	<u>\$ 72,626,331</u>

CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>Additions</b>		
Contributions		
City of Palm Beach Gardens	\$ 3,007,780	\$ 2,712,635
State of Florida	524,479	546,749
Police officers	422,145	391,188
Total contributions	<u>3,954,404</u>	<u>3,650,572</u>
Investment income		
Net appreciation in fair value of investments (realized and unrealized)	225,663	6,205,769
Interest and dividends	917,145	785,258
Other	1,764	3,271
	<u>1,144,572</u>	<u>6,994,298</u>
Less investment expenses	218,818	195,370
Net investment income	<u>925,754</u>	<u>6,798,928</u>
<b>Total additions</b>	<u>4,880,158</u>	<u>10,449,500</u>
<b>Deductions</b>		
Participant benefit payments	3,297,505	2,277,672
Refunds of participant contributions	-	6,852
Administration expenses	116,088	114,098
<b>Total deductions</b>	<u>3,413,593</u>	<u>2,398,622</u>
<b>Net increase</b>	1,466,565	8,050,878
<b>Net position restricted for pensions</b>		
Beginning of year	72,626,331	64,575,453
End of year	<u>\$ 74,092,896</u>	<u>\$ 72,626,331</u>

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 and 2014

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### **Note 1 - Summary of significant accounting policies**

*Reporting entity* - The City of Palm Beach Gardens Police Officers' Pension Fund (the "Fund") was established to account for the financial activity of the City of Palm Beach Gardens Police Pension Fund. The Fund is managed by a five member Board of Trustees comprised of two members appointed by the Council of the City of Palm Beach Gardens, Florida (the "City"), two members elected by/from the plan membership and one member elected by the other four members. The Fund is reported in the fiduciary funds (pension trust) in the City's basic financial statements.

*Basis of accounting* - The Fund's financial statements are prepared using the accrual basis of accounting. Contributions from the Fund's members are recognized as revenue in the period in which the contributions are due. Contributions from the City of Palm Beach Gardens, as calculated by the Fund's actuary, are recognized as revenue when due and when the City is legally required to provide the contributions. Expenses are recognized in the accounting period incurred, if measurable. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

*Method used to value investments* - Investments are reported at fair value. Money market mutual funds are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price or exchange rates. Net asset values of the pooled trust funds and commingled real estate funds are determined by the fund managers using fair market values of the underlying investments of the fund. Net appreciation (depreciation) in fair value of investments includes the difference between cost and fair value of investments held as well as the net realized gains and losses for securities which are sold. Interest and dividend income are recognized on the accrual basis when earned. Purchases and sales of investments are recorded on a trade date basis.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

### **Note 2 - Plan description and contribution information**

#### *Plan description*

The following brief description of the Fund is provided for general information purposes only. Participants should refer to City ordinances for more complete information.

The City of Palm Beach Gardens, Florida adopted this single employer defined benefit pension plan (the "Plan".) The Fund is governed by Florida Statutes Chapter 185, as revised by ordinances passed by the Palm Beach Gardens City Council. All full time police officers are covered under the Plan.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 and 2014

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### Note 2 - Plan description and contribution information (continued)

#### *Plan description (continued)*

The Plan provides retirement, death and disability benefits for its members. Benefit provisions are established and may be amended by the City of Palm Beach Gardens, in conjunction with the Palm Beach County Police Benevolent Association. A member hired before September 13, 2012 may retire with normal benefits after the earlier of age 52 with 10 years of credited service, or 20 years of credited service regardless of age. A member hired on or after September 13, 2012 may retire with normal benefits upon the attainment of age 59 and 10 years of credited service. Reduced early retirement benefits are available once a member reaches age 50 and accumulates 10 years of credited service. For members retiring prior to September 13, 2012, normal retirement benefits are 3.5% of the member's average monthly earnings times his or her credited service years, up to a maximum of 100% of average monthly earnings, plus a monthly supplemental benefit of \$12.50 per year of service. For members hired prior to September 13, 2012 and retiring on or after September 13, 2012, but not having attained the normal retirement date prior to September 13, 2012, normal retirement benefits are 3.5% of the member's average monthly earnings times his or her credited service years earned prior to September 13, 2012 plus 2.75% of the member's average monthly earnings times his or her credited service years earned on or after September 13, 2012, up to a maximum of 75% of average monthly earnings, plus a monthly supplemental benefit of \$12.50 per year of service. For members hired on or after September 13, 2012, normal retirement benefits are 2.75% of the member's average monthly earnings times his or her credited service years, up to a maximum of 75% of average monthly earnings, plus a monthly supplemental benefit of \$12.50 per year of service. Early retirement benefits are the same as normal retirement benefits, reduced by 3.0% for each year by which early retirement precedes the normal retirement date. Average monthly earnings for purposes of calculating benefits is the average of salary during the last five years of employment producing the highest average.

Salary means the average monthly earnings reported to the Internal Revenue Service for income tax purposes, plus deferred compensation. Beginning with salary after December 31, 2008, the definition of salary includes amounts paid by the City as differential wages to members who are absent from employment while in qualified military service. Notwithstanding the preceding two sentences, effective September 13, 2012, salary will henceforth mean base pay, excluding all other compensation, provided that the salary of any member employed on September 13, 2012 shall include payment for unused accrued sick and annual leave up to the dollar amount of unused sick and annual leave that the member has accrued as of September 13, 2012. However, in no event will the salary of any member who is employed on September 13, 2012 be less than the member's salary on September 12, 2012 as determined in accordance with the definition of salary in effect on September 12, 2012.

Any member who attains 20 years of service or age 52 with 10 years of service may elect to participate in a deferred retirement option plan (DROP) while continuing his or her active employment as a police officer. The election to enter the DROP must be made prior to completing 25 years of credited service. Upon participation in the DROP, the member 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 member as a result are accumulated and invested in the DROP plan to be distributed to the member upon his or her termination of employment. Participation in the DROP plan ceases for a member at the first to occur of: termination of employment, 30 years of credited service or 5 years of participation.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 and 2014

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### Note 2 - Plan description and contribution information (continued)

#### *Plan description (continued)*

Eligibility for disability benefits begins from the member'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 member's current compensation, and not less than the accrued pension benefit. Non-service incurred disability benefits are calculated the same as a normal retirement pension based on average monthly earnings and credited service at the time of disability, but not less than 25% of average monthly earnings or the accrued pension benefit, whichever is greater.

Pre-retirement death benefits for service related deaths are paid to the member's beneficiary for life. Benefits are calculated at 50% of the member's average monthly earnings, with a minimum equal to the accrued pension benefit (with no early retirement reduction).

Pre-retirement death benefits for non-service related deaths are paid to the member's beneficiary for life. For members with less than 5 years of contributing service at the date of death, the benefit is the return of the member's contributions without interest. For members with 5 years or more of contributing service at the date of death, the benefit is equal to that payable at early or normal retirement age. If the member is eligible for normal retirement, the benefit is equal to his or her accrued pension benefit, and is payable for life.

Termination benefits for unvested members are the return of the member's contributions. For members 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.

Membership in the Fund consisted of the following at October 1, 2014, the date of the latest actuarial valuation:

Retirees, beneficiaries, and DROP participants receiving benefits	72
Terminated employees entitled to benefits but not yet receiving them	3
Active members	<u>74</u>
Total	<u>149</u>

#### *Contributions*

Contribution requirements are established and may be amended by the City of Palm Beach Gardens in conjunction with the Palm Beach County Police Benevolent Association. Contribution requirements are based on the benefit structure established by the City. Members are required to contribute 8.6% of their covered salary. Pursuant to Chapter 185 of Florida Statutes, a premium tax on certain casualty insurance contracts written on Palm Beach Gardens properties is collected by the state and remitted to the Fund for the state's annual contribution amount. The City is required to contribute the remaining amounts necessary to finance the benefits through periodic contributions at actuarially determined rates. Administrative costs are financed through investment earnings.

A rehired member may buy back one or more years of continuous past service by paying into the Fund the amount of contributions the employee would otherwise have paid for such service, plus the investment earnings that would have been earned had such funds been invested by the Fund during that time.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2015 and 2014

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### **Note 2 - Plan description and contribution information (continued)**

#### *Contributions (continued)*

In accordance with Florida Statutes, additional premium tax revenues received by the Fund are reserved to provide future minimum or extra benefits. The State contribution for the fiscal year was \$524,479. The amount used to fund the pension plan was \$412,644 and the excess amount of \$111,835 increased the accumulated balance. Per Ordinance 9, 2014, the member contribution rate was increased from 8.60% to 19.60% of pensionable salary, and then immediately reduced back to 8.60% of pensionable salary using \$538,552 of the accumulated balance. As of September 30, 2015, the cumulative balance of additional premium tax revenues reserved to provide future benefit improvements totals \$305,511.

### **Note 3 - Deposits and investments**

#### *Deposits*

*Custodial credit risk* – Florida Statutes require the Fund to maintain its deposits with financial institutions in a qualified public depository, as determined by the Treasurer of the State of Florida. The Fund's accounts maintained in qualified public depositories are covered by federal depository insurance for an amount equal to the aggregate of each participant's ascertainable, non-contingent interest in the Fund (up to \$250,000 per participant). Amounts in excess of federal depository insurance are secured by the Public Depository Trust Fund (the "Trust Fund") maintained by the Treasurer. The Trust Fund is a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a member fails.

#### *Investments*

*Authorized investments* – Florida Statutes and the Fund's investment policy limit investments to certificates of deposit up to \$100,000 maximum value; money market deposit accounts; obligations issued by the United States Government or by an agency of the United States Government; bonds issued by the State of Israel; corporate stocks and bonds; mutual funds; commingled stock, bond, and money market funds; real estate investments and securities; and to be announced (TBA) securities that are issued by a Federal Agency or are of investment grade. The following investments are permissible with approval from the Board of Trustees: securities paying interest only (ID's), securities representing principal only (PO's), accrual bonds (z-tranches), inverse or reverse floaters with a multiple greater than 1.00 or less than -1.00, asset pools not domiciled in the United States, Collateralized Bond Obligations (CBO's), Collateralized Debt Obligations (CDO's), Collateralized Loan Obligations (CLO's), and companion bonds. Investments in companies identified as scrutinized companies by the Florida State Board of Administration (SBA) are prohibited, with the exception of investments in scrutinized companies that are held within commingled funds (if the commingled fund sponsor does not offer a similar fund that does not hold investments in scrutinized companies). Investments in unhedged and/or leveraged derivatives are prohibited.

*Investment Policy* – The Fund's policy in regard to the allocation of invested assets is established and may be amended by the Fund's Board of Trustees. It is reviewed quarterly with the assistance of the Fund consultant. The Board recognizes that the obligations of the Fund are long-term, and that the investment policy should be made with a view toward performance and return over a number of years. The general investment objective, then, is to obtain a reasonable total rate of return – defined as interest and dividend income plus realized and unrealized capital gains and/or losses – that exceeds the actuarial interest rate assumption on an annual basis year after year.

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

YEARS ENDED SEPTEMBER 30, 2015 and 2014

**Note 3 - Deposits and investments (continued)**

The following was the Board's adopted asset allocation policy as of September 30, 2015:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Real Annualized Return</u>
Domestic equity	55.0%	7.5%
International Equity	10.0%	8.5%
Domestic Bonds	23.5%	2.5%
International Bonds	4.0%	3.5%
Real Estate	7.5%	4.5%
	<u>100.0%</u>	

The long-term real annualized returns shown above are best estimates of arithmetic real rates of return for each major asset class as provided by the investment monitor.

At September 30, 2015, the Fund had the following investments:

	Credit rating (Moody's)	Fair value	Investment maturity (in years)			
			Less than 1	1 - 5	5 - 10	More than 10
Money market funds	Aaa-mf	\$ 368,245	\$ 368,245	\$ -	\$ -	\$ -
U.S. Government obligations	Aaa	\$ 2,499,071	-	1,306,063	264,642	928,366
Mortgage/Asset backed securities	Aaa	\$ 798,088	344,636	52,042	11,238	390,172
Corporate obligations	Aaa .. Baa2	\$ 13,652,081	302,358	4,957,534	6,483,684	1,908,505
Municipal obligations	Aa3 .. A2	\$ 583,331	162,246	209,172	-	211,913
Collateralized mortgage obligations	Aaa	73,751	-	-	-	73,751
Fixed income subtotal		\$ 17,974,567	\$ 1,177,485	\$ 6,524,811	\$ 6,759,564	\$ 3,512,707
Equity securities	N/R					
Domestic equities	N/R	7,680,461				
Foreign equities	N/R	146,663				
Pooled equity trust funds	N/R	34,977,640				
International equity mutual funds	N/R	4,950,842				
International bond mutual funds	N/R	2,094,879				
Commingled real estate funds	N/R	4,731,725				
Total investments		\$ 72,556,777				

**Note 3 - Deposits and investments (continued)**

*Interest rate risk* – This 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. Although the Fund's investment policy does not provide limitations as to maturities, the Fund minimizes risk of fair value losses in its fixed income portfolio due to rising interest rates by

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

YEARS ENDED SEPTEMBER 30, 2015 and 2014

structuring its investment portfolio so that securities mature to meet ongoing cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity; and by investing operating funds primarily in shorter-term securities or by cash flow projections.

*Credit risk* – This 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 (NSRO), such as Moody's or Standard & Poor's. The Fund's investment policy limits investments in fixed income securities, with the exception of international bond mutual funds, to securities with a Moody's rating of Aaa, Aa, or A or a Standard & Poor's rating of AAA, AA, or A. Equity investments must be traded on one or more of the recognized national exchanges and have a Value Line Investment Survey Rank for Safety rating of 1, 2, or 3 or a Standard & Poor's rating of A+, A, or A-. Money market deposits must have a Moody's rating of P1 or a Standard & Poor's rating of A1.

*Custodial credit risk* – This is the risk that in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The Fund's policy is to maintain its investments in custodial accounts that identify securities held as assets of the Fund by registering securities in the name of the Fund, or in street name or nominee name as the Fund's agent.

*Concentration of credit risk* – The Fund's investment policy limits investments in the stock of any one issuing company to 5% of the Fund's assets, and to 5% of the outstanding capital stock of any issuing company. Furthermore, investments in corporate common stock, international equities, convertible bonds, and convertible preferred issues shall not exceed 65% of the Fund's assets at cost.

*Rate of return* – For the years ended September 30, 2015 and 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.29 percent and 10.73 percent, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 4 - Designations**

Portions of the plan net position are designated for benefits that accrue in relation to the DROP plan described in Note 2. Plan net position at September 30, 2015 and 2014 consists of the following:

	2015	2014
Designated for DROP benefits (fully funded)	\$ 13,700,980	\$ 11,341,300
Undesignated Plan Net Position	60,391,916	61,285,031
Total plan net position	<u>\$ 74,092,896</u>	<u>\$ 72,626,331</u>

**Note 5 - Net pension liability of the City**

The components of the net pension liability of the City at September 30, 2015 and 2014, were as follows:

	2015	2014
Total Pension Liability	\$ 96,205,515	\$ 90,998,913
Plan Fiduciary Net Position	74,092,896	72,626,331
City's Net Pension Liability	<u>\$ 22,112,619</u>	<u>\$ 18,372,582</u>

Plan Fiduciary Net Position as a percentage of the Total Pension Liability	77.02%	79.81%
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**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**

YEARS ENDED SEPTEMBER 30, 2015 and 2014

**Note 5 - Net pension liability of the City (continued)**

*Actuarial Assumptions* – The total pension liability was determined by an actuarial valuation as of October 1, 2014, using the following actuarial assumptions with update procedures applied to roll forward the valuation to September 30, 2015:

Inflation	3.0%
Salary increases	7.5%
Investment rate of return	7.1%

Mortality rates were based on the RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected to all future years after 2000 using Scale AA.

A comprehensive experience study has not been prepared for the Fund; however, emerging demographic experience is reviewed every year in the aggregate, and adjustments are periodically made to the assumptions when deemed appropriate. The most recent changes in demographic assumptions were effective October 1, 2006 (to update the retirement rates and adopt the RP-2000 fully generational mortality table with mortality improvement projected to all future years using Scale AA). The investment return has been lowered by 0.1% each year for the past four years.

A single discount rate of 7.10% 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 7.10%. 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 the total actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.10%) was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of net pension liability to changes in the discount rate* - The following presents the net pension liability of the City, calculated using the discount rate of 7.10%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.10%) or 1-percentage higher (8.10% percent) than the current rate:

**Sensitivity of the Net Pension Liability to the Single Discount Rate Assumption**

<b>1% Decrease 6.10%</b>	<b>Current Single Discount Rate Assumption 7.10%</b>	<b>1% Increase 8.10%</b>
\$ 31,824,737	\$ 22,112,619	\$ 14,033,881

**Note 6 - Income taxes**

The Fund's tax counsel believes that the Fund is designed and is currently being operated in compliance with applicable requirements of the Internal Revenue Code and that, therefore, the Fund continues to qualify under Section 401 (a) as a tax-exempt as of September 30, 2015. Therefore, no provision for income taxes is included in the Fund's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

YEAR ENDING SEPTEMBER 30, 2015

Year Ending September 30,	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 1,206,826	\$ 1,229,681
Interest	6,504,741	6,083,570
Benefit changes	-	885,269
Difference between actual & expected experience	344,110	(56,911)
Assumption changes	875,147	-
Benefit payments	(3,297,504)	(2,277,672)
Refunds	-	(6,852)
Other (Net Decrease in State Contribution Reserve)	(426,717)	134,105
<b>Net change in total pension liability</b>	<u>5,206,603</u>	<u>5,991,190</u>
<b>Total pension liability - beginning</b>	<u>90,998,913</u>	<u>85,007,723</u>
<b>Total pension liability</b>	<u>\$ 96,205,516</u>	<u>\$ 90,998,913</u>
<b>Plan fiduciary net position</b>		
Contributions - Employer	\$ 3,007,780	\$ 2,712,635
Contributions - State of Florida	524,479	546,749
Contributions - Member	422,145	391,188
Net investment income	925,753	6,798,928
Benefit payments	(3,297,504)	(2,277,672)
Refunds	-	(6,852)
Administrative expense	(116,088)	(114,098)
Other	-	-
<b>Net changes in Plan fiduciary net position</b>	<u>1,466,565</u>	<u>8,050,878</u>
<b>Total Plan fiduciary net position - beginning</b>	<u>72,626,331</u>	<u>64,575,453</u>
<b>Total Plan fiduciary net position - ending</b>	<u>74,092,896</u>	<u>72,626,331</u>
<b>Net pension liability ending</b>	<u>\$ 22,112,620</u>	<u>\$ 18,372,582</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	77.02%	79.81%
<b>Covered employee payroll</b>	\$ 4,908,663	\$ 4,548,698
<b>Net pension liability as a percentage of covered employee payroll</b>	450.48%	403.91%

### Notes to Schedule:

\*GASB 67 requires 10 year trend information. As fiscal year 2014 is the first year of implementation, additional years will be displayed as the information becomes available.

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**

**SCHEDULES OF ANNUAL CONTRIBUTIONS AND NET PENSION LIABILITY**

*YEAR ENDING SEPTEMBER 30, 2015*

**SCHEDULE OF CONTRIBUTIONS**

<u>FY Ending September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contribution as a % of Covered Payroll</u>
2015	\$ 3,357,659	\$ 3,420,424	\$ (62,765)	\$ 4,908,663	69.68%
2014	\$ 3,125,279	\$ 3,125,279	\$ -	\$ 4,548,698	68.71%

**SCHEDULE OF THE EMPLOYER'S NET PENSION LIABILITY**

<u>FY Ending September 30,</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability</u>	<u>Plan Net Position as a % of Total Pension Liability</u>	<u>Covered Payroll</u>	<u>Net Pension Liability as a % of Covered Payroll</u>
2015	\$ 96,205,516	\$ 74,092,896	\$ 22,112,620	77.02%	\$ 4,908,663	450.48%
2014	\$ 90,998,913	\$ 72,626,331	\$ 18,372,582	79.81%	\$ 4,548,698	403.91%

\*GASB 67 requires 10 year trend information. As fiscal year 2014 is the first year of implementation, additional years will be displayed as the information becomes available.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN

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<u>Year Ending September 30,</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2015	1.29%
2014	10.73%
2013	14.53%
2012	18.63%
2011	0.22%
2010	10.09%

\*GASB 67 requires 10-year trend information. As fiscal year 2014 is the first year of implementation, additional years will be displayed as the information becomes available.

# CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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Valuation Date                    October 1, 2014  
Measurement Date                September 30, 2015  
Note:                                Actuarially determined contribution rates are calculated as of October 1, which is two years prior to the end of the fiscal year in which contributions are reported.

### Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent, Closed
Remaining Amortization Period	21 years (single equivalent amortization period)
Asset Valuation Method	Recognizes 20% of difference between market value of assets and expected actuarial asset value
Inflation	3.0%
Salary Increases	7.50%
Investment Rate of Return	7.10%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected to all future years after 2000 using Scale AA

### Benefit changes:

Effective July 1, 2016, for members who had less than ten years of service as of September 13, 2012, eligibility for normal retirement will change from attainment of age 59 with 10 years of service to the earlier of attainment of age 55 with 10 years of service or completion of 25 years of service regardless of age.

Effective July 1, 2016, the eligibility conditions for entry into the DROP will change to allow participants to delay entry into the DROP until they have accrued the maximum benefit of 75% of Average Monthly Earnings.

Effective June 5, 2014, the member contribution rate was increased by 11% of pensionable salary (from 8.60% to 19.60%). Also effective June 5, 2014, immediately following this increase, the member contribution rate was reduced back to 8.60% of pensionable salary, using \$538,552 from the Accumulated Excess Chapter 185 Premium Tax Reserve to fund the reduction in member contributions.

### Changes in assumptions:

The investment return assumption was lowered from 7.2% to 7.1%. This rate will continue to be lowered by 0.1% each year until 6.5% is reached. This change has increased the required employer contribution by 2.25% of covered payroll.

**OTHER SUPPLEMENTARY INFORMATION**

**CITY OF PALM BEACH GARDENS POLICE OFFICERS' PENSION FUND**  
**SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES**

*YEARS ENDED SEPTEMBER 30, 2015 AND 2014*

	<u>2015</u>	<u>2014</u>
<b>Administrative Expenses</b>		
Accounting services	\$ 16,950	\$ 15,150
Actuarial services	33,325	45,596
Legal services	9,764	9,179
Administrative services	31,040	31,011
Fiduciary liability insurance	6,495	6,390
General liability insurance	1,185	
Annual membership fees	600	600
Trustee expenses	14,444	4,811
Postage	99	135
Miscellaneous expenses	200	-
Bank charges	1,986	1,226
<b>Total administrative expenses</b>	<u>\$ 116,088</u>	<u>\$ 114,098</u>
<b>Investment Expenses</b>		
Investment management fees	178,875	159,009
Custodial fees	18,197	15,649
Performance monitoring fees	21,746	20,712
<b>Total investment expenses</b>	<u>\$ 218,818</u>	<u>\$ 195,370</u>

## **OTHER REPORT**

**Report of Independent Auditor on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Trustees  
City of Palm Beach Gardens Police Officers' 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 City of Palm Beach Gardens Police Officers' Pension Fund (the "Fund") as of and for the year ended September 30, 2015, and the related notes to the financial statements, and have issued our report thereon, dated June 1, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 over financial reporting 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 Fund's financial statements are free of 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Cheryl Behrman LLP". The signature is written in a cursive, flowing style.

Orlando, Florida  
June 1, 2016