

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

FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

YEAR ENDED SEPTEMBER 30, 2017

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees of the  
City of Palm Beach Gardens Firefighters' Pension Fund

We have audited the accompanying financial statements of the City of Palm Beach Gardens Firefighters' Pension Fund, which comprise the statement of fiduciary net position as of September 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Firefighters' Pension Fund as of September 30, 2017, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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**INDEPENDENT AUDITOR'S REPORT** (Continued)

**Other Matters**

*Prior Year Comparative Information*

We have previously audited the City of Palm Beach Gardens Firefighters' Pension Fund's 2016 financial statements, and our report dated April 19, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-7 and the schedules of contributions from employers and other contributors, schedule of investment returns and schedules of changes in the employer's net pension liability and related ratios on pages 24-26 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 financial statements as a whole. The schedule of administrative expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 audited standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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**INDEPENDENT AUDITOR'S REPORT** (Continued)

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 2, 2018, on our consideration of the City of Palm Beach Gardens Firefighters' Pension Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 City of Palm Beach Gardens Firefighters' Pension Fund's internal control over financial reporting and compliance.

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

Weston, Florida  
April 2, 2018

# CITY OF PALM BEACH GARDENS

## FIREFIGHTERS' PENSION FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents Management's Discussion and Analysis (MD&A) of the City of Palm Beach Gardens Firefighters' Pension Fund (the Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal year ended September 30, 2017. 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: the 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 net results from operations for fiscal year 2017 reflected the following financial activities:

- Net position restricted for pension was \$94,459,444, which was 16% greater than 2016 total net position.
- Total contributions for the year were \$3,983,614, which was 3% lower than the 2016 contributions. The amount of employer contributions varies from year to year and is actuarially determined. Participant contributions were 6% of their compensation.
- Total interest and dividend earnings were \$2,369,142, which was 17% higher than the 2016 earnings.
- Net investment income was \$11,594,418, which was 88% greater than the 2016 income.
- Benefits paid were \$1,648,698, which was 7% greater than the benefits paid during 2016.

# 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, 2017 was \$94,459,444, a 16% increase from fiduciary net position at September 30, 2016.
- Total investments at September 30, 2017 were \$93,531,797, a 15% increase from the investments at September 30, 2016.

The table below presents a condensed comparative statements of fiduciary net position as of September 30:

	2017	2016	% Change
Cash	\$ 328,003	\$ -	100%
Receivables	789,132	353,787	123%
Investments, at fair value	93,531,797	81,252,674	15%
Total assets	94,648,932	81,606,461	16%
Accounts payable	142,055	93,862	51%
Accounts payable - purchase of investments	47,433	167,812	(72%)
Total liabilities	189,488	261,674	(28%)
Net position restricted for pensions	\$ 94,459,444	\$ 81,344,787	16%

### *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.

- Revenues (additions to the fiduciary net position) for the Plan were \$15,578,105, which was made up of total contributions of \$3,983,614 plus net investment income of \$11,594,418 and other income of \$73.
- Expenses (deductions from the fiduciary net position) increased from \$1,900,507 during 2016 to \$2,463,448 during 2017.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### *Statement of Changes in Fiduciary Net Position* (Continued)

The table below presents a condensed comparative of the changes in fiduciary net position for the year ended September 30:

	2017	2016	% Change
Total contributions	\$ 3,983,614	\$ 4,116,804	(3%)
Net investment income	11,594,418	6,155,704	88%
Other income	73	3,052	(98%)
Total additions	15,578,105	10,275,560	52%
Total deductions	2,463,448	1,900,507	30%
Net increase	13,114,657	8,375,053	57%
Net position restricted for pensions – beginning	81,344,787	72,969,734	11%
Net position restricted for pensions – ending	\$ 94,459,444	\$ 81,344,787	16%

### *Asset Allocation*

The table below indicates the Plan investment policy limitations and actual asset allocations as of September 30, 2017:

	Investment policy	Actual Allocation
Domestic equities	40% -60%	52%
International equities	5% -15%	8%
Fixed income	10% -30%	26%
International fixed income	0% -10%	1%
Real estate	5% -15%	11%
Other assets	0% -10%	0%
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 (the 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 May 2017.

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, 2017 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

## STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2017  
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CASH</b>	\$ 328,003	\$ -
<b>RECEIVABLES:</b>		
Accounts receivable - employer	165,810	-
Accounts receivable - Chapter 175	483,485	114,372
Accounts receivable - employee	16,346	14,459
Accrued investment income	123,491	134,097
Accounts receivable - sale of investments	-	90,859
<b>TOTAL RECEIVABLES</b>	<u>789,132</u>	<u>353,787</u>
<b>INVESTMENTS, AT FAIR VALUE:</b>		
Money market funds	1,886,127	2,364,165
Equity securities	53,413,581	43,995,895
U.S. government obligations	5,388,889	4,842,771
Mortgage backed securities	3,475,694	3,471,657
Collateralized mortgage obligations	270,199	376,547
Corporate bonds	6,396,379	6,075,729
Foreign bonds	675,425	199,600
Fixed income mutual funds	7,006,672	6,644,390
Real estate funds	9,533,459	8,808,132
Equity common trust fund	5,485,372	4,473,788
<b>TOTAL INVESTMENTS, AT FAIR VALUE</b>	<u>93,531,797</u>	<u>81,252,674</u>
<b>TOTAL ASSETS</b>	<u>94,648,932</u>	<u>81,606,461</u>
<b>LIABILITIES</b>		
<b>ACCOUNTS PAYABLE</b>	142,055	93,862
<b>ACCOUNTS PAYABLE - PURCHASE OF INVESTMENTS</b>	<u>47,433</u>	<u>167,812</u>
<b>TOTAL LIABILITIES</b>	<u>189,488</u>	<u>261,674</u>
<b>NET POSITION RESTRICTED FOR PENSIONS</b>		
<b>NET POSITION RESTRICTED FOR PENSIONS:</b>		
Net position restricted for defined benefits	77,771,065	68,223,275
Net position restricted for DROP benefits	6,664,705	3,905,337
Net position restricted for share benefits	10,023,674	9,216,175
<b>TOTAL NET POSITION RESTRICTED FOR PENSIONS</b>	<u>\$ 94,459,444</u>	<u>\$ 81,344,787</u>

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

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED SEPTEMBER 30, 2017  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ADDITIONS:</b>		
Contributions:		
Employer	\$ 3,048,414	\$ 3,088,512
Chapter 175	483,485	568,403
Employee	451,715	459,889
Total contributions	<u>3,983,614</u>	<u>4,116,804</u>
Investment income:		
Net appreciation in fair value of investments	9,698,081	4,577,258
Interest and dividend income	2,369,142	2,017,005
Total investment income	12,067,223	6,594,263
Less: investment expenses	472,805	438,559
Net investment income	<u>11,594,418</u>	<u>6,155,704</u>
Other income	73	3,052
<b>TOTAL ADDITIONS</b>	<u>15,578,105</u>	<u>10,275,560</u>
<b>DEDUCTIONS:</b>		
Benefit payments	1,648,698	1,542,582
DROP distributions	233,047	43,064
Share plan distributions	471,314	217,871
Administrative expenses	110,389	96,990
<b>TOTAL DEDUCTIONS</b>	<u>2,463,448</u>	<u>1,900,507</u>
<b>NET INCREASE IN NET POSITION RESTRICTED FOR PENSION</b>	13,114,657	8,375,053
<b>NET POSITION RESTRICTED FOR PENSIONS - BEGINNING</b>	<u>81,344,787</u>	<u>72,969,734</u>
<b>NET POSITION RESTRICTED FOR PENSIONS - ENDING</b>	<u>\$ 94,459,444</u>	<u>\$ 81,344,787</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

YEAR ENDED SEPTEMBER 30, 2017

### 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 (See Note 4 for discussion of fair value measurements).

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 appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

#### *Basis of Accounting and Use of Estimates*

The accompanying financial statements have been prepared using the accrual basis accounting. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, benefit obligations and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

#### *Concentration of Credit Risks*

Financial instruments which potentially expose the Plan to concentration of credit risk, as defined by GAAP, consist primarily of cash, contribution receivables and related income.

The Plan maintains its cash deposits at a financial institution which, from time to time, may exceed federally insured limits. The exposure of the Plan from these transactions is solely dependent upon the daily account balance and the financial strength of the respective institution. The Plan manages risk by maintaining its deposit accounts at a high quality financial institution. As of September 30, 2017, the Plan had approximately \$78,000 of deposits in excess of federally insured limits.

The Plan's investments consist of common stocks, equity common trust fund, foreign bonds, collateralized mortgage obligations, mortgage backed securities, government securities, corporate bonds, real estate, mutual funds and money market funds, which inherent in the fair market value determination, include the risk factor of credit worthiness for each individual security.

#### *Comparative Information*

The financial statements include certain prior-year comparative information. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2016 from which the information was derived.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 2. DESCRIPTION OF THE PLAN

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

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 (the 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*

Active Plan participants	102
Inactive Plan participants or beneficiaries currently receiving benefits	28
Inactive Plan participants entitled to but not yet receiving benefits	<u>3</u>
Total	<u>133</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

YEAR ENDED SEPTEMBER 30, 2017

(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 a deferred retirement option plan (DROP) while continuing their active employment as a firefighter.

Upon participation in the DROP, the participant becomes a retiree for all Plan purposes so that they cease 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 their termination of employment. Participation in the DROP plan ceases for a participant at the first to occur of (a) termination of employment or (b) 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 the participants 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

YEAR ENDED SEPTEMBER 30, 2017

(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.

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 determined as of September 30 as follows, 2.00% of salary plus the lesser of 4.80% of salary or \$507,634. 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, 2017, the balance of participant share accounts was \$10,023,674.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 2. DESCRIPTION OF THE PLAN (Continued)

#### *Rate of Return*

For the year ended September 30, 2017, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was 14.37%. 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 May 2017. The following was the Board's adopted asset allocation policy as of September 30, 2017:

<u>Type of Investment</u>	<u>Target Allocation</u>
Domestic equities	40%-60%
International equities	5%-15%
Fixed Income	10%-30%
International fixed income	0%-10%
Real estate	5%-15%
Other assets	0%-10%
Cash and cash equivalents	0%-5%

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# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 3. INVESTMENTS (Continued)

During the year ended September 30, 2017 the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$9,698,081 (reported as net appreciation in fair value of investments in the accompanying statement of changes in fiduciary net position) as follows:

Common stocks	\$16,105,833
Equity balanced mutual funds	(32,628)
U.S. government obligations	(64,033)
Mortgage backed securities	(161,825)
Collateralized mortgage obligation	(6,298)
Corporate bonds	(279,524)
Foreign bonds	(5,816)
Fixed income mutual funds	645,640
Real estate funds	(7,710,915)
Equity common trust fund	<u>1,207,647</u>
Total	<u>\$ 9,698,081</u>

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>
U.S. agencies	\$ 2,725,952	\$ 1,041,253	\$ 1,684,699	\$ -	\$ -
U.S. treasuries	2,662,937	-	85,554	147,045	2,430,338
Mortgage backed securities	3,475,694	-	-	947,624	2,528,070
Collateralized mortgage obligations	270,199	-	6,605	-	263,594
Corporate bonds	6,396,379	513,181	3,115,966	2,139,143	628,089
Fixed income mutual funds	7,006,672	1,861,295	2,180,708	2,011,683	952,986
Foreign bonds	675,425	-	232,371	214,997	228,057
Totals	<u>\$ 23,213,258</u>	<u>\$ 3,415,729</u>	<u>\$ 7,305,903</u>	<u>\$ 5,460,492</u>	<u>\$ 7,031,134</u>

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 3. INVESTMENTS (Continued)

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>
A1	\$ 1,499,544
A2	1,402,947
A3	1,900,618
AA1	1,136,523
AA2	472,148
AA3	181,970
AAA	5,745,853
B1	925,304
BA1	1,609,060
BAA1	3,346,868
BAA2	702,846
BAA3	393,053
CAA1	256,505
Unrated	3,640,019
Total	<u>\$23,213,258</u>

The Plan limits investment in the securities of any one issuer, other than the U.S. Government and its agencies, to no more than 5.0% 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 9% of total investments.

### NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan categorizes its fair value measurements within the fair value hierarchy as established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market as follows:

Level 1- Inputs to the valuation methodology are based upon quoted prices for identical assets in active markets.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

Level 2- Inputs to the valuation methodology are based upon observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.

Level 3- Inputs to the valuation methodology are based upon unobservable inputs.

Following is a description of the valuation methodologies used for asset measured at fair value.

Common stocks: Valued at the closing price reported on a national or international exchange.

Mutual funds: Valued at the daily closing price as reported by the Plan. Mutual funds held by the Plan are open-ended mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Government securities and mortgage backed securities: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds, collateralized mortgage obligations and foreign bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yield of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.

Real estate and equity common trust fund: Valued at the net asset value of shares held by the Plan at year end. The Plan has investment in a private market real estate investment for which no liquid public market exists.

Money market funds: Considered short-term investments reported at cost, which approximates fair value.

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# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Plan's fair value hierarchy for investments at fair value as of September 30, 2017:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Total</u>			
<u>Investments by fair value level</u>				
Equity securities:				
Common stocks	\$ 30,413,693	\$ 30,413,693	\$ -	\$ -
Equity balanced mutual funds	1,857,453	-	1,857,453	-
Equity mutual funds	21,142,435	21,142,435	-	-
Total equity securities	<u>53,413,581</u>	<u>51,556,128</u>	<u>1,857,453</u>	<u>-</u>
Debt securities:				
U.S. treasury securities	2,662,937	2,662,937	-	-
U.S. agency securities	2,725,952	-	2,725,952	-
Mortgage backed securities	3,475,694	-	3,475,694	-
Collateralized mortgage obligations	270,199	-	270,199	-
Corporate bonds	6,396,379	-	6,396,379	-
Foreign bonds	675,425	-	675,425	-
Fixed income mutual funds	7,006,672	-	7,006,672	-
Total debt securities	<u>23,213,258</u>	<u>2,662,937</u>	<u>20,550,321</u>	<u>-</u>
Total investments by fair value level	<u>76,626,839</u>	<u>\$ 54,219,065</u>	<u>\$ 22,407,774</u>	<u>\$ -</u>
<u>Investments measured at the net asset value (NAV) <sup>(a)</sup></u>				
Real estate funds	9,533,459			
Equity common trust fund	5,485,372			
Total investments measured at the NAV	<u>15,018,831</u>			
Money market funds (exempt)	<u>1,886,127</u>			
Total investments	<u>\$ 93,531,797</u>			

(a) As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the statement of fiduciary net position.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 4. FAIR VALUE MEASUREMENTS (Continued)

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

<u>Investments Measured at the NAV</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption</u>	
			<u>Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real estate fund <sup>(1)</sup>	\$ 4,622,647	\$ -	Quarterly	10 Days
Real estate fund <sup>(2)</sup>	4,910,812	-	Quarterly	90 Days
Equity common trust fund <sup>(3)</sup>	5,485,372	-	Monthly	5 Days
Total investments measured at the NAV	<u>\$ 15,018,831</u>	<u>\$ -</u>		

- (1) Real estate fund: The fund is an open-end diversified core real estate commingled fund that invests primarily in core institutional office, retail, industrial, and multi-family properties located throughout the United States. The investment is valued at NAV and its redemptions must be received by the fund 10 days prior to quarter end.
- (2) Real estate fund: The fund is an open-ended real estate investment fund investing primarily in core institutional office, retail, industrial, and multi-family properties located throughout the United States. The investment is valued at NAV and its redemptions must be received by the fund 90 days prior to quarter end.
- (3) Equity common trust fund: The fund is an international equity commingled fund that consists of assets invested in a diversified portfolio of foreign equity securities deemed to be undervalued by the fund's investment team. The investment is valued at NAV and its redemptions must be received by the fund 5 days prior to month end.

### NOTE 5. 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.

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

### NOTE 6. NET PENSION LIABILITY OF THE PLAN

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.

The components of the net pension liability of the Plan at September 30, 2017 were as follows:

Total pension liability	\$ 118,737,468
Plan fiduciary net position	<u>94,459,444</u>
Net pension liability	<u>\$ 24,278,024</u>
Plan fiduciary net position as a percentage of the total pension liability	79.55%

The total pension liability was determined by an actuarial valuation as of September 30, 2017 using certain actuarial assumptions, the most significant of which were 7.25% for the investment rate of return, age based for projected salary increases and 2.5% for inflation.

Mortality rates for healthy males were based on RP-2000 Generational, 10% Annuitant White Collar, 90% Anuitant Blue Collar, Scale BB.

Mortality rates for healthy females were based on RP-2000 Generational, 100% Annuitant White Collar, Scale BB.

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, 2017 (see the discussion of the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	50.00%	7.50%
International equity	10.00%	8.50%
Domestic bonds	20.00%	2.50%
International bonds	5.00%	3.50%
Real estate	10.00%	4.50%
Alternative	<u>5.00%</u>	6.03%
Total	<u>100.00%</u>	

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2017

(Continued)

**NOTE 6. NET PENSION LIABILITY OF THE PLAN (Continued)**

The discount rate used to measure the total pension liability was 7.25%. 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 7.25%. It was also calculated using a discount rate that was 1-percentage-point lower (6.25%) and 1-percentage-point higher (8.25%) and the different computations were compared.

	1% decrease	Current discount rate	1% increase
	<u>(6.25%)</u>	<u>(7.25%)</u>	<u>(8.25%)</u>
Net pension liability	\$ 39,796,491	\$ 24,293,857	\$ 11,795,782

**NOTE 7. 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.

**NOTE 8. SUBSEQUENT EVENTS**

Management has evaluated subsequent events for the Plan through April 2, 2018, the date the financial statements were available to be issued.

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

SUPPLEMENTARY INFORMATION

YEAR ENDED SEPTEMBER 30, 2017

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

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEAR ENDED SEPTEMBER 30, 2017  
(WITH COMPARATIVE TOTALS FOR YEAR ENDED SEPTEMBER 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ADMINISTRATIVE EXPENSES:</b>		
Accounting	\$ 7,280	\$ 14,280
Actuarial fees	17,790	21,688
Administrative fees	43,860	19,583
Meetings and conferences	5,233	8,012
Insurance	12,166	11,636
Legal fees	20,349	14,849
Miscellaneous	<u>3,711</u>	<u>6,942</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u>\$ 110,389</u>	<u>\$ 96,990</u>

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

# CITY OF PALM BEACH GARDENS FIREFIGHTERS' PENSION FUND

## SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTORS (UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined employer contribution	\$ 3,531,899	\$ 3,605,305	\$ 3,460,519	\$ 3,404,960	\$ 3,443,143
Actual employer contribution	<u>3,531,899</u>	<u>3,605,305</u>	<u>4,251,855</u>	<u>3,404,960</u>	<u>3,911,687</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (791,336)</u>	<u>\$ -</u>	<u>\$ (468,544)</u>
Covered-employee payroll	<u>\$ 7,497,133</u>	<u>\$ 7,599,715</u>	<u>\$ 9,695,082</u>	<u>\$ 7,924,041</u>	<u>\$ 8,294,732</u>
Actual contributions as a percentage of covered-employee payroll	47.11%	47.44%	43.86%	42.97%	47.16%

Funding method	Projected Unit Credit Cost Method
Amortization method	Level percentage of Pay, Closed
Remaining amortization period	20 Years (As of October 1, 2015)
Actuarial value of assets	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:	2.50%
Salary increases	Age based
Interest rate	7.65% per year compounded annually, net of investment related expenses
Mortality	RP-2000 Table, sex distinct, without projection and the RP-2000 Disabled Table for Disabled lives.

*This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.*

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)**

<u>Year Ended</u> <u>September 30</u>	Annual money- weighted rate of return net of investment <u>expense</u>
2017	14.37%
2016	8.21%
2015	0.92%
2014	11.65%
2013	14.29%
2012	17.64%
2011	(1.61%)
2010	7.78%
2009	1.01%
2008	(12.77%)

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 (UNAUDITED)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>TOTAL PENSION LIABILITY:</b>					
Service Cost	\$ 1,799,419	\$ 1,637,466	\$ 1,760,152	\$ 1,741,473	\$ 1,540,354
Interest	7,817,426	7,174,074	6,786,918	6,280,207	5,827,406
Share Plan Allocation	483,485	51,623	222,133	304,698	-
Assumption Changes	3,648,972	(1,684,439)	(1,460,746)	-	-
Benefit Payments	(2,353,058)	(1,803,517)	(1,935,428)	(1,844,859)	(1,613,497)
Changes of Assumptions	<u>3,032,216</u>	<u>5,890,763</u>	<u>2,004,899</u>	<u>1,772,793</u>	<u>-</u>
NET CHANGE IN TOTAL PENSION LIABILITY	14,428,460	11,265,970	7,377,928	8,254,312	5,754,263
<b>TOTAL PENSION LIABILITY - BEGINNING</b>	<u>104,309,008</u>	<u>93,043,038</u>	<u>85,665,110</u>	<u>77,410,798</u>	<u>71,656,535</u>
<b>TOTAL PENSION LIABILITY - ENDING</b>	<u>118,737,468</u>	<u>104,309,008</u>	<u>93,043,038</u>	<u>85,665,110</u>	<u>77,410,798</u>
<b>PLAN FIDUCIARY NET POSITION:</b>					
Contributions - Employer and State	3,531,899	3,656,927	4,473,988	3,709,659	4,097,718
Contributions - Member	449,828	455,983	445,465	475,442	497,684
Net investment income	11,585,691	6,152,911	835,212	6,977,925	6,392,179
Benefit Payments	(2,353,058)	(1,803,517)	(1,935,428)	(1,844,859)	(1,613,497)
Administrative expenses	<u>(101,089)</u>	<u>(91,145)</u>	<u>(84,807)</u>	<u>(88,142)</u>	<u>(99,667)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	13,113,271	8,371,159	3,734,430	9,230,025	9,274,417
<b>PLAN FIDUCIARY NET POSITION - BEGINNING</b>	<u>81,330,340</u>	<u>72,959,181</u>	<u>69,224,751</u>	<u>59,994,726</u>	<u>50,720,309</u>
<b>PLAN FIDUCIARY NET POSITION - ENDING</b>	<u>94,443,611</u>	<u>81,330,340</u>	<u>72,959,181</u>	<u>69,224,751</u>	<u>59,994,726</u>
<b>NET PENSION LIABILITY - ENDING</b>	<u>\$ 24,293,857</u>	<u>\$ 22,978,668</u>	<u>\$ 20,083,857</u>	<u>\$ 16,440,359</u>	<u>\$ 17,416,072</u>
<b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF TOTAL PENSION LIABILITY</b>	79.54%	77.97%	78.41%	80.81%	77.50%
<b>COVERED EMPLOYEE PAYROLL</b>	\$ 7,497,133	\$ 7,599,715	\$ 9,695,082	\$ 7,924,041	\$ 8,294,732
<b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL</b>	324.04%	302.36%	207.16%	207.47%	209.97%

*This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.*

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, 2017

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**

To the Board of Trustees of the  
City of Palm Beach Gardens Firefighters' Pension Fund

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, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated April 2, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 City of Palm Beach Gardens Firefighters' Pension 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 Plan's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 City of Palm Beach Gardens Firefighters' Pension Fund'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 City of Palm Beach Gardens Firefighters' Pension Fund'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 City of Palm Beach Gardens Firefighters' Pension Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Weston, Florida  
April 2, 2018