

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**FINANCIAL STATEMENTS WITH INDEPENDENT**  
**AUDITOR'S REPORT THEREON**  
**ANNUAL AUDIT FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2017**

**TOWN OF PALM BEACH SHORES, FLORIDA  
SEPTEMBER 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the Town Commission  
Town of Palm Beach Shores, Florida

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### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Palm Beach Shores, Florida's basic financial statements as listed in the table of contents.

### *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 opinions 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 of material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida as of September 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 and the required supplementary information on pages 49 through 54 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Palm Beach Shores, Florida's basic financial statements. The other supplementary information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2018, on our consideration of the Town of Palm Beach Shores, Florida's internal control over financial reporting and on 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 the 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 Town of Palm Beach Shores, Florida's internal control over financial reporting and compliance.

*Nowlen, Holt & Miner, P.A.*

West Palm Beach, Florida  
May 31, 2018

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

The Town of Palm Beach Shores' discussion and analysis is designed to assist the reader by providing a narrative overview and analysis of the financial activities of the Town for the year ended September 30, 2017. Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with the Town's financial statements that follow this section.

### **FINANCIAL HIGHLIGHTS**

The following are the highlights of financial activity for the fiscal year ended September 30, 2017:

- The Town's net position increased by \$1,580 from the prior year. The Town's total assets and deferred outflows exceeded its liabilities and deferred inflows at September 30, 2017 by \$5,082,265 (net position). Of this amount, \$116,539 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's revenues for governmental activities were \$4,716,269, an increase of 12.6% from the prior year. The expenses for governmental activities were \$4,714,689, an increase of 2.5% over the prior year.
- The General Fund unassigned fund balance at September 30, 2017 was \$1,499,900 or 34% of total general fund expenditures. The ideal financial position for the Town would be an unreserved fund balance equal to 25% of total general fund expenditures. The reason for this is property taxes are not received until December and 25% of fund balance represents enough funds for three months of expenditures. This money also serves as an emergency fund for unanticipated costs, such as hurricanes or other disasters.

### **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to these basic financial statements, this report contains other supplementary information.

## **Government-wide Financial Statements**

The government-wide financial statements (pages 12 and 13) are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to private-sector business. These statements include the statement of net position and the statement of activities which are designed to provide a broad overview of the Town as a whole.

The *statement of net position* shows the total assets and liabilities for the Town with the difference reported as net position. The change in net position over time may be an indicator of the Town's financial health. The *statement of activities* provides a breakdown of revenues and expenditures by function. The functions primarily supported by taxes and intergovernmental revenues, such as police, fire and other public services are considered governmental activities.

## **Fund Financial Statements**

The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal obligations. The fund financial statements focus on major funds. The Town uses governmental funds to account for all of its activities.

*Governmental Funds* (beginning on page 14) are used for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement. All of the Town's basic services are reported in the governmental funds.

The Town adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget on pages 56-57.

The Town has five other governmental funds: Public Buildings Impact Fund, Parks and Recreation Impact Fund, Fire Impact Fund, Police Impact Fund, and Underground Utilities Fund. The impact fee funds are capital projects funds used to account for impact fees that must be spent on specific types of capital expenditures. The Underground Utilities Fund is a special revenue fund used to account for the costs associated with moving the utility lines throughout town underground. These are all non-major funds.

*Notes to the Financial Statements* (beginning on page 18) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$5,082,265 as of September 30, 2017.

<b>Net Position</b>			
<b>(In thousands of dollars)</b>			
<b>Governmental Activities</b>			
	2017	2016	Increase (Decrease)
<b>Assets:</b>			
Current and other assets	\$ 2,486	\$ 2,368	\$ 118
Capital assets	4,726	4,810	(84)
<b>Total assets</b>	<b>\$ 7,212</b>	<b>\$ 7,178</b>	<b>\$ 34</b>
<b>Deferred Outflows:</b>			
Pension related items	\$ 1,003	\$ 930	\$ 73
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 209	\$ 108	\$ 101
Net pension liability	2,329	2,295	34
Other liabilities	301	476	(175)
<b>Total liabilities</b>	<b>\$ 2,839</b>	<b>\$ 2,879</b>	<b>\$ (40)</b>
<b>Deferred Inflows:</b>			
Pension related items	\$ 294	\$ 144	\$ 150
<b>Net Position:</b>			
Net investment in capital assets	\$ 4,642	\$ 4,810	\$ (168)
Restricted	323	6	317
Unrestricted	117	265	(148)
<b>Total net position</b>	<b>\$ 5,082</b>	<b>\$ 5,081</b>	<b>\$ 1</b>

The largest portion of the Town's net position reflects its investment in capital assets (e.g. land, building, machinery and equipment) less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently these assets are not available for future spending. It should also be noted that the resources required to repay the related debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position represents unspent funds with legal restrictions on their use. The restricted net position represents impact fees received but not used, discretionary sales tax to be used on infrastructure, and a bequest to be used for public safety. The remaining balance of unrestricted net position may be used to meet the Town's ongoing obligations to citizens and creditors.

## Governmental Activities

Governmental activities increased the Town's net position by \$1,580. Key elements of this decrease are as follows:

<b>Changes in Net Position</b>			
<b>(In thousands of dollars)</b>			
<b>Governmental Activities</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
<b>Revenue:</b>			
Program revenue:			
Charges for services	\$ 288	\$ 286	\$ 2
Grants and contributions	263	57	206
General revenues:			
Property taxes	3,370	3,263	107
Utility taxes & franchise fees	541	374	167
Intergovernmental	224	171	53
Investment earnings	13	15	(2)
Miscellaneous	17	22	(5)
Special item – return of donation	-	(152)	152
<b>Total revenue</b>	<b>\$ 4,716</b>	<b>\$ 4,036</b>	<b>\$ 680</b>
<b>Expenses:</b>			
Program expenses:			
General government	\$ 1,032	\$ 1,205	\$ (173)
Public safety	2,870	2,617	253
Physical environment	340	394	(54)
Culture and recreation	380	369	11
Grants and aid	91	14	77
Interest on long term debt	2	-	2
<b>Total expenses</b>	<b>\$ 4,715</b>	<b>\$ 4,599</b>	<b>\$ 116</b>
Increase(decrease) in net position	\$ 1	\$ (563)	\$ 562
Net position – October 1	5,081	5,644	(563)
<b>Net position – September 30</b>	<b>\$ 5,082</b>	<b>\$ 5,081</b>	<b>\$ 1</b>

Property taxes are the main source of revenues and represent approximately 71 percent of the revenue for governmental activities, excluding the special item. Property taxes increased by approximately \$107,000 over the prior year. This is due to an increase in the Town's assessed value of approximately \$19 million, or 3.5%, and maintaining the millage rate to 6.3500 mills.

The Town received a bequest from former town residents in the amount of \$262,500. The funds are to be used for the Town's police, fire, and ambulance departments.

The special item in 2016 was an unusual circumstance. In fiscal year 2015, the Town received a restricted donation for the purchase of an ambulance in support of establishing a Town run Emergency Medical Services Department. In 2016 the contract with the existing EMS provider was renewed, the funds were returned to the donor.

Total expenses increased by approximately \$116,000, or 2.5%. Expenses for Public Safety represent approximately 61% of Governmental activity expenses. Public Safety includes the Police, Fire, Dispatch, Emergency Medical Service, Emergency Disaster, and Building departments. Public Safety expenses increased by 10% compared to the prior year. Hurricane Irma hit the town in September 2017. Emergency disaster costs associated with the hurricane totaled \$159,000 with more costs in next fiscal year.

## **FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS**

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental Funds* - The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At September 30, 2017, the Town's governmental funds reported ending fund balances of \$2.2 million, an increase of \$301,000 in comparison with the prior year. Approximately 68% of ending fund balances (\$1,485,435) constitutes unassigned fund balance, which is available for spending at the government's discretion. The unassigned fund balance is within the General Fund, the chief operating fund of the Town. The Town Commission has assigned portions of fund balance for certain future projects: \$143,000 for the subsequent year's budget; \$90,000 for future payouts of compensated absences; and \$7,157 for future sewer system repairs. The non-spendable portion of fund balance is not available for new spending because it has already been spent on inventories and prepaid items. The fund balance in the other governmental funds is restricted or assigned due to the nature of the revenue which by law may only be spent for specific purposes.

*Budgetary Highlights* - Budget to actual comparison schedules are provided in the Required Supplementary Information (RSI) Section of the report (beginning on page 49). The budget and actual schedules show the original budgets, the final revised budget, actual results, and variance between the final budget and actual results for the General Fund.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The Town's investment in capital assets for its governmental activities as of September 30, 2017 amounted to \$4.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment.

The Town's investment in capital assets decreased by \$86,000 during the current fiscal year. Purchases during the year totaled \$438,000. Major capital assets purchased during the current fiscal year included the following:

- The Public Works shop area at Town Hall was renovated, including a new garage door, at a cost of \$25,000. The work was done primarily by the Public Works staff.
- The Police Department purchased 3 new police vehicles for \$103,000. The department's tasers were replaced for \$35,000.
- New SCBA equipment was purchased for the Fire Department. The cost of \$68,000 was financed using a capital lease.
- A new beach utility vehicle was purchased for \$15,500 for use by the lifeguards.
- The holding pit for the Ocean Avenue lift station was relined at a cost of \$54,000.
- New carpet and a dance floor were installed at the Community Center for \$18,500. The carpet is commercial grade and installed in squares which will make it easier to repair small stains or damage.
- The remaining capital outlay consists of a variety of items of smaller scale than those identified herein.

### Capital Assets (in the thousands)

<b>Governmental Activities</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
Land	\$ 101	\$ 101	\$ -
Construction in progress	4	4	-
Buildings and improvements	3,590	3,555	35
Parks and beach improvements	733	735	(2)
Equipment	1,481	1,458	23
Vehicles	767	716	51
Streets and sewers	3,842	3,778	64
<b>Total capital assets</b>	<b>10,518</b>	<b>10,347</b>	<b>171</b>
Less accumulated depreciation	(5,793)	(5,537)	(256)
<b>Capital assets, net of depreciation</b>	<b>\$ 4,725</b>	<b>\$ 4,810</b>	<b>\$ (85)</b>

Additional information on the Town’s capital assets can be found in Note 5 of this report.

**Debt Outstanding**

The Town added new debt during the fiscal year for the purchase of the Police tasers and Fire SCBA equipment. The following table summarizes the Town’s debt as of September 30, 2017.

<b>Outstanding Debt</b>			
(in thousands of dollars)			
<b>Governmental Activities</b>			
	<b>2017</b>	<b>2016</b>	<b>Increase (Decrease)</b>
Compensated absences	\$ 126	\$ 108	\$ 18
Note and lease payable	83	-	83
Net pension liability	2,329	2,295	34
<b>Total debt</b>	<b>\$ 2,538</b>	<b>\$ 2,403</b>	<b>\$ 135</b>

Additional information on the Town’s debt can be found in Note 6 of this report.

**NEXT YEAR’S BUDGET AND ECONOMIC FACTORS**

The Town’s 2018 fiscal year budget includes items that continue to accomplish the goals of the Town. These goals include sustaining the level of services, the responsiveness of the local government to the needs of the public, and the technological operation of the Town government as well as maintaining all of the Town’s facilities.

Property taxes are the main source of revenues for governmental activities and represent approximately 81% of the General Fund budgeted revenues. The Town’s assessed value increased by approximately \$24 million, or 4.4%. The Town Commission maintained the millage rate of 6.3500 mills, with the intention of funding the capital budget with appropriated fund balance. The millage rate meets all of the State imposed requirements. The 2018 budget will provide sufficient revenue to cover expenditures for the upcoming fiscal year. Debt service on the note and lease payable is included in the 2018 budget. The budget gives the Town the ability to continue to provide the expected level of governmental services without adding to its debt.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's Finance Department, at the Town of Palm Beach Shores, 247 Edwards Lane, Palm Beach Shores, Florida, 33404.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Statement of Net Position**  
**September 30, 2017**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,444,122
Investments	794,815
Receivables (net)	
Accounts	84,771
Special assessments	6,577
Due from other governments	24,356
Prepaid items	129,482
Inventories	2,419
Capital assets	
Non-depreciable	100,792
Depreciable (net of depreciation)	4,625,123
Total assets	<u>7,212,457</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension related items	<u>1,002,678</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	264,938
Accrued payroll	16,298
Accrued interest	1,627
Unearned revenue	17,650
Non-current liabilities	
Due within one year	37,749
Due in more than one year	171,535
Net pension liability	2,328,712
Total liabilities	<u>2,838,509</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension related items	<u>294,361</u>
Total deferred inflows of resources	<u>294,361</u>
<b>NET POSITION</b>	
Net investment in capital assets	4,642,319
Restricted for capital improvements	10,912
Restricted for infrastructure	49,995
Restricted for public safety	262,500
Unrestricted	116,539
Total net position	<u>\$ 5,082,265</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 7,920,774</u></u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Statement of Activities**  
**For the Fiscal Year Ended September 30, 2017**

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 1,032,674	\$ 7,850	\$	\$	\$ (1,024,824)
Public safety	2,870,336	190,997		263,436	(2,415,903)
Physical environment	339,788	54,328			(285,460)
Culture recreation	379,615	34,630			(344,985)
Grants and aid	90,649				(90,649)
Interest on long term debt	1,627				(1,627)
Total governmental activities	<u>4,714,689</u>	<u>287,805</u>		<u>263,436</u>	<u>(4,163,448)</u>
General revenues					
Property taxes					3,369,775
Utility taxes and franchise fees					540,568
Intergovernmental					224,423
Investment earnings					12,712
Miscellaneous					17,550
Total general revenues and special item					<u>4,165,028</u>
Change in net position					1,580
Net position, beginning of year					<u>5,080,685</u>
Net position, end of year					<u><u>\$ 5,082,265</u></u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Balance Sheet**  
**Governmental Funds**  
**September 30, 2017**

	General	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,438,240	\$ 5,882	\$ 1,444,122
Investments	794,815		794,815
Receivables (net)			
Accounts	84,771		84,771
Special assessments	6,577		6,577
Due from other governments	24,356		24,356
Due from other funds	13,415	5,030	18,445
Prepaid items	129,482		129,482
Inventories	2,419		2,419
Total assets	<u>\$ 2,494,075</u>	<u>\$ 10,912</u>	<u>\$ 2,504,987</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 263,888	1,050	\$ 264,938
Accrued payroll	16,298		16,298
Due to other funds	5,030	13,415	18,445
Unearned revenue	17,650		17,650
Total liabilities	<u>302,866</u>	<u>14,465</u>	<u>317,331</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue	6,577		6,577
Total deferred inflows of resources	<u>6,577</u>		<u>6,577</u>
<b>Fund balances</b>			
<b>Nonspendable</b>			
Prepaid items and inventories	131,901		131,901
<b>Restricted</b>			
Capital improvements		10,912	10,912
Infrastructure	49,995		49,995
Public safety	262,500		262,500
<b>Assigned</b>			
Sewer service	7,157		7,157
Compensated absences	90,300		90,300
Subsequent years budget	142,879		142,879
Unassigned	1,499,900	(14,465)	1,485,435
Total fund balances	<u>2,184,632</u>	<u>(3,553)</u>	<u>2,181,079</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,494,075</u>	<u>\$ 10,912</u>	<u>\$ 2,504,987</u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Reconciliation of the Balance Sheet – Governmental Funds**  
**to the Statement of Net Position**  
**September 30, 2017**

Fund balances total governmental funds		\$ 2,181,079
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	\$ 10,518,535	
Less accumulated depreciation	<u>(5,792,620)</u>	4,725,915
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Unavailable revenue		6,577
Long-term liabilities, including notes and bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. Long-term liabilities at year end consist of:		
Net pension liability	(2,328,712)	
Compensated absences	(125,688)	
Notes payable	(83,596)	
Accrued interest on long-term debt	<u>(1,627)</u>	(2,539,623)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:		
Pension related deferred outflows	1,002,678	
Pension related deferred inflows	<u>(294,361)</u>	<u>708,317</u>
Net position of governmental activities		<u><u>\$ 5,082,265</u></u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Governmental Funds**  
**For the Fiscal Year Ended September 30, 2017**

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,910,343	\$	\$ 3,910,343
Special assessments and impact fees	1,633	5,030	6,663
Licenses and permits	171,839		171,839
Intergovernmental	224,423		224,423
Fines and forfeitures	18,235		18,235
Charges for services	97,731		97,731
Interest	12,711	1	12,712
Contributions	263,436		263,436
Miscellaneous	17,669		17,669
Total revenues	<u>4,718,020</u>	<u>5,031</u>	<u>4,723,051</u>
Expenditures			
Current			
General government	934,360		934,360
Public safety	2,587,376		2,587,376
Physical environment	216,264		216,264
Culture and recreation	238,301		238,301
Debt service			
Principal	6,064		6,064
Interest			
Capital outlay	438,270		438,270
Grants and aid		90,649	90,649
Total expenditures	<u>4,420,635</u>	<u>90,649</u>	<u>4,511,284</u>
Excess (deficiency) of revenues ov sources (uses)	<u>297,385</u>	<u>(85,618)</u>	<u>211,767</u>
Other financing sources (uses)			
Debt proceeds	89,660		89,660
Total other financing sources (uses)	<u>89,660</u>		<u>89,660</u>
Net change in fund balances	387,045	(85,618)	301,427
Fund balances, beginning of year	<u>1,797,587</u>	<u>82,065</u>	<u>1,879,652</u>
Fund balances, end of year	<u>\$ 2,184,632</u>	<u>\$ (3,553)</u>	<u>\$ 2,181,079</u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund**  
**Balances of Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended September 30, 2017**

Net change in fund balances - total governmental funds	\$	301,427
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Expenditures for capital assets	\$ 438,270	
Less: current year depreciation	<u>(472,277)</u>	(34,007)
Net book value of capital asset disposals		(49,717)
<p>Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.</p>		
Special assessment revenues collected in current year		(1,633)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Debt proceeds	(89,660)	
Principal payments on debt	<u>6,064</u>	(83,596)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
Change in accrued interest	(1,627)	
Change in net pension liability and related deferred amounts	(111,495)	
Change in long-term compensated absences	<u>(17,772)</u>	<u>(130,894)</u>
Change in net position	\$	<u><u>1,580</u></u>

See notes to the financial statements

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Town of Palm Beach Shores, Florida (the “Town”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Town’s significant accounting policies are described below.

*Reporting Entity*

The Town of Palm Beach Shores, Florida is a municipal corporation organized pursuant to Chapter 24792, 1947 Laws of Florida. The Town operates under the Commission/Mayor form of government. The Town's major operations include general government, public safety, streets, sanitation, and culture/recreation.

As required by generally accepted accounting principles, these financial statements include the Town (the primary government) and its component units. Component units are legally separate entities for which the Town is financially accountable. The Town is financially accountable if:

- a) the Town appoints a voting majority of the organization’s governing board and (1) the Town is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Town, or
- b) the organization is fiscally dependent on the Town and (1) there is a potential for the organization to provide specific financial benefits to the Town or (2) impose specific financial burdens on the Town.

Organizations for which the Town is not financially accountable are also included when doing so is necessary in order to prevent the Town’s financial statements from being misleading.

Based upon application of the above criteria, the Town of Palm Beach Shores has determined that there are no legally separate entities to consider as potential component units.

*Government-wide and Fund Financial Statements*

The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Government-wide and Fund Financial Statements* (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported instead as general revenues.

Fund financial statements are provided for governmental funds. The Town has no fund types other than governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

*Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. The Town does not accrue property tax revenues since the collection of these taxes coincides with the fiscal year in which levied, and since the Town consistently has no material uncollected property taxes at year end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*Governmental Funds*

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. The Town considers revenues collected within 60 days of the year end to be available to pay liabilities of the current period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest revenue, intergovernmental revenues, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Town.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Governmental Funds* (Continued)

The Town reports the following major governmental fund:

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

*Cash and Cash Equivalents*

Cash and cash equivalents include amounts on deposit in demand accounts, money market accounts, and certificates of deposit with original maturities of three months or less.

*Investments*

Investments include certificates of deposit with original maturities greater than three months. Investments are reported at fair value as required by generally accepted accounting principles. The fair value of an investment is the amount that the Town could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. The Town categorizes investments reported at fair value in accordance with the fair value hierarchy established by GASB Statement No. 72, Fair Value Measurement and Application.

*Accounts Receivable*

Accounts receivable of the General Fund consists of billed receivables for special assessments, sewer services and other miscellaneous services. The Town has not established an allowance for doubtful accounts because the Town considers all receivables to be collectible.

*Prepaid Items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

*Inventory*

Inventory is valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventory are recorded as expenditures when consumed rather than when purchased.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Capital Assets*

Capital assets, which include plant, property, equipment, and infrastructure assets (e.g. roads, bridges, and sidewalks) are reported in the applicable governmental columns in the governmental-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$750. Capital assets are recorded at cost or the fair market value of the assets at the time of purchase or contribution. The Town is a Phase 3 government under GASB 34 and has elected not to report major general infrastructure assets retroactively.

Additions, improvements, and other capital outlay that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation has been provided over the useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and improvements	10-40 years
Equipment	5 - 7 years
Vehicles	5-10 years
Streets and sewers	20 years
Parks and beach improvements	20 years

*Interest Cost*

Interest costs in governmental funds are charged to expenditures as incurred. Construction period interest incurred in governmental funds is not capitalized.

*Unearned Revenue*

The government reports unearned revenue on its government wide statement of net position and governmental funds balance sheet. Unearned revenue arises when resources are obtained prior to revenue recognition. In subsequent periods, when revenue recognition criteria are met the unearned revenue is removed and revenue is recognized.

*Unavailable Revenue*

The government reports unavailable revenue on its governmental funds balance sheet for resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered available.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Deferred Outflow of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports deferred outflows for pension items in connection with its participation in the Florida Retirement System in the government-wide statement of net position. These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods.

*Deferred Inflow of Resources*

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. There are three types of items that qualify for reporting in this category:

1. Pension items in connection with the Town's participation in the Florida Retirement System are reported in the government-wide statement of net position. These deferred pension charges are amortized in a systematic and rational method as pension expense in future periods.
2. Business tax receipts that are received by the Town prior to the period for which the taxes are levied are reported as deferred inflows on both the government-wide statement of net position and on the governmental funds balance sheet.
3. Sewer assessments that are not received within 60 days of the end of the fiscal year do not meet the availability criterion of the modified accrual basis of accounting, and therefore are reported as deferred inflows only on the governmental funds balance sheet.

*Compensated Absences*

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Compensated Absences* (Continued)

All vacation and sick leave is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Town employees may carry over vacation to the next fiscal year at a rate equal to the maximum time earned during the previous fiscal year. Accumulated vacation is payable to employees upon termination or retirement at the rate of pay on that date. Town employees receive 96 hours of sick time each year. Employees, who reach ten years of service or more, are eligible to receive 50% of their unused sick time up to a 500 hour maximum upon retirement or termination. In addition, any full-time employee who has accrued 960 hours of sick time is eligible to be paid for 40 hours each year. All other employees upon termination do not receive any sick accumulation pay.

*Interfund Transactions*

Basic types of interfund transactions include transactions for services rendered or facilities provided. These transactions are recorded as revenues in the receiving fund and expenditures in the disbursing fund. In addition, interfund transactions include transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them. These transactions are recorded as operating transfers in and out. Lastly, interfund transactions include transfers to close funds.

*Net Position*

Equity in the government-wide statement of net position is displayed in three categories: 1) Net investment in capital assets, 2) restricted, 3) unrestricted. Net investment in capital assets consist of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. Net position is reported as restricted when there are legal limitations imposed on their use by Town legislation or external restrictions by other governments, creditors, or grantors. Unrestricted net position consist of all net position that do not meet the definition of either of the other two components.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

*Fund Balance*

In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance is reported under the following categories:

1. Nonspendable fund balance represents amounts that are not in spendable form or are legally or contractually required to be maintained intact. The Town's nonspendable fund balance is for inventories and prepaid items.
2. Restricted fund balance represents amounts that can be spent only for specific purposes stipulated by external providers (e.g. creditors, grantors, contributor, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Restricted fund balance for the Town consists of unspent impact fees that are required to be used for capital improvements.
3. Committed fund balance represents amounts that can be used only for specific purposes pursuant to constraints imposed by an ordinance, the Town's highest level of decision making Town. The Town has no committed funds.
4. Assigned fund balance includes spendable fund balance amounts that are intended to be used for specific purposes, as expressed by the Town Commission, that are neither considered restricted or committed.
5. Unassigned fund balance is the residual fund balance classification for the general fund. It is also used to report negative fund balances in other governmental funds.

The Town will first use committed fund balance, followed by assigned fund balance and then unassigned fund balance when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary Data*

Formal budgetary integration is employed as a management control device during the year for the General Fund. All budgets are legally enacted.

An annual appropriated budget for the General Fund is adopted in accordance with generally accepted accounting principles. For budgeting purposes, current year encumbrances are not treated as expenditures.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to mid-August, the Town Manager submits to the Town Commission a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of a resolution.
4. The Mayor or Town Manager is authorized to transfer budgeted amounts within any department; however, any revisions that alter the total expenditures of any department must be approved by the Town Commission, by a legally enacted resolution.
5. Appropriations along with encumbrances lapse on September 30.
6. Appropriations are controlled at the department level within funds, and expenditures may not legally exceed budgeted appropriation at that level.

Budgeted amounts are as originally adopted, or as amended by appropriate action. During the year, four supplementary appropriations were necessary.

*Property Taxes*

Under Florida law, the assessment of all properties and the collection of all county, municipal, and school board property taxes are consolidated in the offices of the County Property Appraiser and County Tax Collector. The laws of the State regulating tax assessment are also designed to assure a consistent property valuation method statewide.

The tax levy of the Town is established by the Town Commission prior to October 1 of each year, and the Palm Beach County Property Appraiser incorporates the Town's millages into the total tax levy, which includes Palm Beach County and Palm Beach County School Board tax requirements.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY** (Continued)

*Property Taxes* (Continued)

All property is reassessed according to its fair market value January 1 of each year, which is also the lien date. Each assessment roll is submitted to the Executive Director of the State Department of Revenue for review to determine if the rolls meet all the appropriate requirements of state statutes.

All taxes are due and payable on November 1 of each year or as soon thereafter as the assessment roll is certified and delivered to the Tax Collector. Taxes may be paid less a discount beginning November 1. Discounts are allowed for early payment at the rate of 4% in the month of November, 3% in the month of December, 2% in the month of January and 1% in the month of February. The taxes paid in March are without discount. All unpaid taxes become delinquent on April 1, following the year in which they are assessed.

On or prior, to June 1 following the tax year, certificates are sold for all delinquent taxes on real property. After the sale, tax certificates bear interest of 18% per year or any lower rate bid by the buyer. Application for a tax deed on any unredeemed tax certificates may be made by the certificate holder after a period of two years. Delinquent taxes on personal property bear interest of 18% per year until the tax is satisfied either by seizure and sale of the property or by the five year statute of limitations.

**NOTE 3 – CASH AND INVESTMENTS**

*Deposits*

As of September 30, 2017, the carrying amount of the Town's deposits was \$2,222,739 and the bank balances totaled \$2,306,703. Included in deposits are \$778,717 of certificates of deposit with an original maturity greater than three months that are reported as an investment on the financial statements, the Town also had cash on hand of \$100 resulting in a total cash and cash equivalents of \$1,444,122. Deposits are either covered by insurance provided by the Federal Depository Insurance Corporation or are qualified public depositories held in banking institutions approved by the Treasurer of the State of Florida. Under Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or other banking institution eligible collateral. In the event of failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. The Town's deposits at year end are considered insured for custodial credit risk purposes.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 3 – CASH AND INVESTMENTS** (Continued)

Investments

The Town has not adopted a written investment policy. Florida Statutes authorize units of local government electing not to adopt a written investment policy to invest in the following instruments:

- a. The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act of 1969.
- b. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- c. Interest-bearing time deposits or savings accounts in qualified public depositories.
- d. Direct obligations of the U.S. Treasury.
- e. Deposits that meet the following conditions (CDARS<sup>®</sup>):
  - The funds are initially deposited in a qualified public depository.
  - The selected depository arranges for depositing the funds in financial deposit instruments insured by the Federal Deposit Insurance Corporation in one or more federally insured banks or saving and loan associations, wherever located, for the account of the unit of local government.
  - The full amount of the principal and accrued interest of each financial deposit instrument is insured by the FDIC.
  - The selected depository acts as custodian for the unit of local government with respect to each financial deposit instrument issued for its account.

In 2016, the Town implemented GASB Statement No. 72, Fair Value Measurement and Application issued in February 2015. The Town categorizes its investments according to the fair value hierarchy established by this Statement. The hierarchy is based on valuation inputs used to measure the fair value of the asset as follows: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs to include quoted prices for similar assets in active and non-active markets; Level 3 inputs are significant unobservable inputs.

The State Board of Administration (SBA) administers the Florida PRIME investment pool, which is governed by Chapter 19-7 of the Florida Administrative Code and Chapters 218 and 215 of the Florida Statutes. These rules provide guidance and establish the policies and general operating procedures for the administration of the Florida PRIME. The Florida PRIME is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for an SEC Rule 2a-7 like external investment pool, which permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1 per share. The investment in Florida PRIME is reported at amortized cost in accordance with GASB Statement No. 79, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 79) and is exempt from reporting under the fair value hierarchy of GASB 72. The investment in the Florida PRIME is not insured by FDIC or any other governmental agency.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 3 – CASH AND INVESTMENTS** (Continued)

*Investments* (Continued)

GASB 79 requires that if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool’s authority to impose liquidity fees or redemption gates) in notes to the financial statements.

With regard to redemption gates, Chapter 218.409(8)(a), Florida Statutes, states that “The principal, and any part thereof, of each account constituting the trust fund is subject to payment at any time from the moneys in the trust fund. However, the Executive Director may, in good faith, on the occurrence of an event that has a material impact on liquidity or operations of the trust fund, for 48 hours limit contributions to or withdrawals from the trust fund to ensure that the Board can invest moneys entrusted to it in exercising its fiduciary responsibility. Such action must be immediately disclosed to all participants, the Trustees, the Joint Legislative Auditing Committee, the Investment Advisory Council, and the Participant Local Government Advisory Council. The Trustees shall convene an emergency meeting as soon as practicable from the time the Executive Director has instituted such measures and review the necessity of those measures. If the Trustees are unable to convene an emergency meeting before the expiration of the 48-hour moratorium on contributions and withdrawals, the moratorium may be extended by the Executive Director until the Trustees are able to meet to review the necessity for the moratorium. If the Trustees agree with such measures, the Trustees shall vote to continue the measures for up to an additional 15 days. The Trustees must convene and vote to continue any such measures before the expiration of the time limit set, but in no case may the time limit set by the Trustees exceed 15 days.”

The certificates of deposit are also exempt from reporting under the fair value hierarchy and the fair value is measured at cost.

As of September 30, 2017, the Town reported the following investments in the balance sheet and statement of net position:

	<u>Maturity</u>	<u>Fair Value</u>
State Board of Administration Investment Pool:		
Florida PRIME	51 days	\$ 16,098
Certificates of Deposits	68 days	528,666
Certificates of Deposits	82 days	<u>250,051</u>
		<u>\$ 794,815</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 3 – CASH AND INVESTMENTS** (Continued)

*Investments* (Continued)

*Credit Risk*

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill their obligations. The Town's investment policies limit its investments to high quality investments to control credit risk. At September 30, 2017, Florida PRIME was rated "AAA(m) by Standard and Poor's Ratings Services.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

**NOTE 4 – SPECIAL ASSESSMENT**

The Town adopted Resolutions 460 and 461 on October 16, 1995, and December 18, 1995, respectively. These resolutions establish the Town's intention to defray the costs of improvements to the Town's wastewater collection system through special assessments levied in direct proportion to the benefit received by property owners. Special assessments were calculated on a linear foot basis at the estimated cost of \$53.36 per linear foot as measured along the front property line. Such special assessments were levied following completion of the improvements on July 27, 1997. Property owners were given the option to pay the entire amount of the assessment within 30 days of completion of the improvements or to pay over 20 years in equal annual payments. Property owners electing to pay over 20 years also pay interest on the outstanding balance due at a rate of 3.56% per annum. Outstanding special assessments receivable at September 30, 2017, was \$6,577.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2017, was as follows:

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Capital assets not being depreciated:					
Land	\$ 100,792	\$	\$	\$	\$ 100,792
Construction in progress	4,500				4,500
Capital assets being depreciated:					
Buildings and improvements	3,554,526	81,284	(46,071)		3,589,739
Parks and beach improvements	735,294	1,500	(3,311)		733,483
Equipment	1,458,130	168,995	(146,302)		1,480,823
Vehicles	715,534	122,666	(70,987)		767,213
Streets and sewers	3,778,160	63,825			3,841,985
<b>Total at historical cost</b>	<u>10,346,936</u>	<u>438,270</u>	<u>(266,671)</u>		<u>10,518,535</u>
Less accumulated depreciation for:					
Buildings	955,852	96,058	(17,412)		1,034,498
Parks and beach improvements	339,553	39,876	(828)		378,601
Equipment	945,724	153,795	(127,727)		971,792
Vehicles	468,689	65,906	(70,987)		463,608
Streets and sewers	2,827,479	116,642			2,944,121
<b>Total accumulated depreciation</b>	<u>5,537,297</u>	<u>472,277</u>	<u>(216,954)</u>		<u>5,792,620</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 4,809,639</u>	<u>\$ (34,007)</u>	<u>\$ (49,717)</u>	<u>\$</u>	<u>\$ 4,725,915</u>

Depreciation expense was charged to functions and programs of the primary government as follows:

<b>Governmental activities:</b>	
General government	\$ 44,003
Public safety	173,393
Physical environment	123,524
Culture and recreation	<u>131,357</u>
<b>Total depreciation expense for governmental activities</b>	<u>\$ 472,277</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 6 – LONG-TERM LIABILITIES**

*Changes in Long-Term Liabilities*

The following is a summary of changes in the long-term debt during the fiscal year.

	Balance October 1, <u>2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2017</u>	Due Within <u>One Year</u>
Compensated absences	\$ 107,916	\$ 122,550	\$ (104,778)	\$ 125,688	\$ 13,000
Note and lease payable		89,660	(6,064)	83,596	24,749
Net pension liability	<u>2,295,028</u>	<u>33,684</u>	<u>          </u>	<u>2,328,712</u>	<u>          </u>
	<u>\$ 2,402,944</u>	<u>\$ 245,894</u>	<u>\$ (110,842)</u>	<u>\$ 2,537,996</u>	<u>\$ 37,749</u>

*Note Payable*

The Town purchased seventeen Tasers and associated equipment with a purchase price of \$35,440. The note has five annual payments and no interest is being charged. The first payment due was \$6,064 and the remaining four payments are \$7,344.

*Capital Lease*

The Town entered into a lease agreement for financing the ten SCBA's with twenty cylinders and associated equipment with a purchase price of \$67,960 and \$54,220 being financed. The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date plus the down payment. There are three annual payments required of \$19,460 beginning January 1, 2018. At September 30, 2017, the net book value of the equipment was \$58,252.

*Annual Maturities*

The aggregate maturities for all long-term debt of the Town with scheduled maturities (excluding compensated absences, net pension liabilities and claims and settlements), are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Amount</u>
2018	\$ 24,749	\$ 2,055	\$ 26,804
2019	25,409	1,395	26,804
2020	26,094	711	26,805
2021	7,344	<u>          </u>	7,344
Total	<u>\$ 83,596</u>	<u>\$ 4,161</u>	<u>\$ 87,757</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM**

*General Information*

All full-time employees participate in the Florida Retirement System (FRS). The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the Florida Retirement System Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost sharing multiple-employer defined benefit pension plan, to assist retired members of any state administered retirement system in paying the costs of health insurance.

Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000 or calling toll free at 877-377-1737. The report is also available at the Florida Department of Management Services web site [www.dms.myflorida.com](http://www.dms.myflorida.com).

*Significant Accounting Policies*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Florida Retirement System Pension Plan (FRSP) and the Florida Retirement System Health Insurance Subsidy Program and additions to/deduction from the FRSP and HIS fiduciary net position have been determined on the same basis as they are reported by FRSP and HIS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan*

Plan Description

The FRS Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- Regular Class
- Special Risk Class
- Senior Management Service Class

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service.

Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided

Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan* (Continued)

Benefits Provided (Continued)

The following table shows the percentage value for each year of service credit earned:

Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60%
Retirement at age 63 or with 31 years of service	1.63%
Retirement at age 64 or with 32 years of service	1.65%
Retirement at age 65 or with 33 or more years of service	1.68%
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60%
Retirement at age 66 or with 34 years of service	1.63%
Retirement at age 67 or with 35 years of service	1.65%
Retirement at age 68 or with 36 or more years of service	1.68%
Special Risk Class	
Service from December 1, 1970 through September 30, 1974	2.00%
Service on or after October 1, 1974	3.00%
Senior Management Service Class	2.00%

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011 will not have a cost-of-living adjustment after retirement.

Contributions

Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan* (Continued)

Contributions (Continued)

The employer contribution rates by job class for the fiscal year ended September 30, 2017 were as follows:

Class	07/01/16 through 09/30/16	07/01/17 through 09/30/17
Regular Class	7.52%	7.92%
Senior Management Service Class	21.77%	21.71%
Special Risk Class	22.57%	23.27%
DROP	12.99%	13.26%

Except for the DROP, the employer contribution rates include a 1.66% HIS Plan subsidy. The rates also include 0.06% for administrative costs of the Public Employee Optional Retirement Program.

For the fiscal year ended September 30, 2017, the Town made contributions of \$148,444 to the Pension Plan and the Town's employees made contributions of \$25,306, for total contributions of \$173,750.

Pension Liabilities and Pension Expense

At September 30, 2017, the Town reported a liability of \$1,855,890 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The Town's proportionate share of the net pension liability was based on the Town's 2016-17 plan year contributions relative to the 2016-17 plan year contributions of all participating members. At June 30, 2017, the Town's proportionate share was 0.00627428 percent, which was a decrease of 0.00687445 percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the Town recognized pension expense of \$276,906 related to the Plan.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan* (Continued)

*Deferred Outflows and Inflows of Resources Related to Pensions*

The Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$ 170,326	\$ 10,281
Change of assumptions	623,710	
Net difference between projected and actual earnings on Pension Plan investments		45,994
Change in proportion and differences between Town Pension Plan contributions and proportionate share of contributions	76,422	164,034
Pension Plan contributions subsequent to the measurement date	48,605	
Total	<u>\$ 919,063</u>	<u>\$ 220,309</u>

The change of assumptions was due to the expected rate of return being decreased from 7.6% to 7.1%

The deferred outflows of resources related to the Pension Plan, totaling \$48,605 resulting from Town contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2018	\$ 64,092
2019	223,745
2020	170,042
2021	37,806
2022	114,568
Thereafter	39,896
	<u>\$ 650,149</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan* (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2017
Measurement date	June 30, 2017
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Mortality	Generational RP-2000 with projection scale BB
Actuarial cost method	Individual Entry Age

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on investments is not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption.

The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	(1) Target Allocation	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.8%
Fixed Income	18.0%	4.5%	4.4%	4.2%
Global Equity	53.0%	7.8%	6.6%	17.0%
Real Estate (Property)	10.0%	6.6%	5.9%	12.8%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	9.7%
Total	<u>100.0%</u>			
Assumed Inflation - Mean		2.60%		1.90%

(1) As outlined in the Pension Plan's investment policy

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Pension Plan* (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The Pension Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Town’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate

The following represents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10%) than the current rate:

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
Proportionate share of the net pension liability	\$ 3,359,049	\$ 1,855,890	\$ 607,924

Pension Plan Fiduciary Net Position

Detailed information regarding the Pension Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan

At September 30, 2017, the Town had \$27,267 payable for outstanding contributions to the Pension Plan for the fiscal year ended September 30, 2017.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

***Retiree Health Insurance Subsidy (HIS) Program***

**Plan Description**

The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

**Benefits Provided**

For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

**Contributions**

The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2017, the HIS contribution was 1.66%. The Town contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contributions are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Town's contributions to the HIS Plan totaled \$23,976 for the fiscal year ended September 30, 2017.

**Pension Liabilities and Pension Expense**

At September 30, 2017, the Town reported a liability of \$472,822 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Retiree Health Insurance Subsidy (HIS) Program* (Continued)

Pension Liabilities and Pension Expense (Continued)

The Town’s proportionate share of the net pension liability was based on the Town’s 2016-17 plan year contributions relative to the 2016-17 plan year contributions of all participating members. At June 30, 2017, the Town's proportionate share was 0.004422016 percent, which was a decrease of 0.000240353percent from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the Town recognized pension expense of \$31,103.

Deferred Outflows and Inflows of Resources Related to Pensions

In addition the Town reported deferred outflows of resources and deferred in flows of resources related to pensions from the following sources:

Description	Outflows of Resources	Inflows of Resources
Difference between expected and actual experience	\$	\$ 984
Change of assumptions	66,463	
Net difference between projected and actual earnings on Pension Plan investments	262	40,885
Change in proportion and differences between Town Pension Plan contributions and proportionate share of contributions	9,951	32,183
Pension Plan contributions subsequent to the measurement date	6,939	
Total	<u>\$ 83,615</u>	<u>\$ 74,052</u>

The deferred outflows of resources related to the HIS Plan, totaling \$6,939 resulting from Town contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Retiree Health Insurance Subsidy (HIS) Program* (Continued)

*Deferred Outflows and Inflows of Resources Related to Pensions* (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

<u>Fiscal Year Ending</u> <u>September 30:</u>	<u>Amount</u>
2018	\$ 2,888
2019	2,839
2020	2,815
2021	3,845
2022	256
Thereafter	(10,019)
	<u>\$ 2,624</u>

*Actuarial Assumptions*

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2016
Measurement date	June 30, 2017
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.58%
Long-term expected rate of return	N/A
Mortality	Generational RP-2000 with Projection Scale BB
Actuarial cost method	Individual Entry Age

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

*Discount Rate*

The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

***Retiree Health Insurance Subsidy (HIS) Program*** (Continued)

*Discount Rate* (Continued)

Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

*Sensitivity of the Town’s Proportionate Share of the Net Position Liability to Changes in the Discount Rate*

The following represents the Town’s proportionate share of the net pension liability calculated using the discount rate of 3.58%, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
Proportionate share of the net pension liability	<u>\$ 539,553</u>	<u>\$ 472,822</u>	<u>\$ 417,239</u>

*Pension Plan Fiduciary Net Position*

Detailed information regarding the HIS Plan’s fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

*Payables to the Pension Plan*

At September 30, 2017, the Town had \$3,235 payable for outstanding contributions to the HIS Plan for the fiscal year ended September 30, 2017.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

***Summary Data***

The following table provides a summary of significant information related to the Florida Retirement System defined benefit plans for the year ended September 30, 2017.

Description	Pension Plan	HIS Plan	Total
Proportionate share of total pension liability	\$ 11,521,623	\$ 480,707	\$ 12,002,330
Proportionate share of plan fiduciary net position	9,665,733	7,885	9,673,618
Proportionate share of net pension liability	1,855,890	472,822	2,328,712
Proportionate share of deferred outflows of resources	919,063	83,615	1,002,678
Proportionate share of deferred inflows of resources	220,309	74,052	294,361
Pension expense	276,906	31,103	308,009

***Investment Plan***

**Plan Description**

The Florida Retirement System Investment Plan is a defined contribution retirement plan qualified under Section 401(a) of the Internal Revenue Code. The Florida Legislature enacted the Plan during the 2000 legislative session, and amendments to the Plan can only be made by an act of the Florida Legislature. The Plan is administered by the State Board of Administration of Florida. The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. Town employees participating in DROP are not eligible to participate in the Investment Plan. Employer and employee contributions, including amounts contributed to individual member's accounts, are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Benefit terms, including contribution requirements, for the Investment Plan are established and may be amended by the Florida Legislature.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

*Investment Plan* (Continued)

Funding Policy

The Investment Plan is funded with the same employer and employee contribution rates that are based on salary and membership class (Regular Class, Elected Officers, etc.), as the defined benefit Pension Plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04 percent of payroll and by forfeited benefits of plan members.

Participating employers are required to make contributions based upon statewide contributions rates. The contribution rates by job class for the Town’s employees for the fiscal year ended September 30, 2017, are as follows:

Class	07/01/16 through 09/30/16	07/01/17 through 09/30/17
Regular Class	7.52%	7.92%
Senior Management Service Class	21.77%	22.71%
Special Risk Class	22.57%	23.27%
DROP	12.99%	13.26%

For all membership classes, employees are immediately vested in their own contributions and are vested after one year of service for employer contributions and investment earnings. If an accumulated benefit obligation for service credit originally earned under the Pension Plan is transferred to the Investment Plan, the member must have the years of service required for Pension Plan vesting (including the service credit represented by the transferred funds) to be vested for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to five years. If the employee returns to FRS-covered employment within the five-year period, the employee will regain control over their account. If the employee does not return within the five-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended September 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the Town.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 7 – FLORIDA RETIREMENT SYSTEM** (Continued)

***Investment Plan*** (Continued)

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided; the member may either transfer the account balance to the Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the Pension Plan or remain in the Investment Plan and rely upon that account balance for retirement income.

The Town's Investment Plan pension expense totaled \$54,310 for the fiscal year ended September 30, 2017, and as of the fiscal year end, the Town reported a payable in the amount of \$7,609 for outstanding contributions to the Investment Plan.

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

(GASB 45), Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, effective October 1, 2009. Retirees of the Town pay an amount equal to the actual premium for health insurance charged by the carrier, but there is an implied subsidy in the healthcare insurance premium for retirees because the premium charged for these retirees is less than they would pay on their own. This implied subsidy constitutes other postemployment benefits (OPEB) under GASB 45.

***Plan Description***

The Town provides a single employer defined benefit health care plan to all of its employees. The plan allows its employees and their beneficiaries, at their own cost, to continue to obtain health, dental and other insurance benefits upon retirement. The benefits of the plan are in accordance with Florida Statutes, which are the legal authority for the plan. The plan has no assets and does not issue a separate financial report.

***Funding Policy***

The Town does not directly make a contribution to the plan on behalf of retirees. Retirees and their beneficiaries pay the same age-adjusted group rates as are charged to the Town for active employees by its healthcare provider. However, the Town's actuaries, in their actuarial valuation, calculate an offset to the cost of these benefits as an Employer Contribution, based upon an implicit rate subsidy. This offset equals the total age-adjusted costs paid by the Town or its active employees for coverage of the retirees and their dependents for the year net of the retiree's own payments for the year.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)** (Continued)

*Annual OPEB Cost and Net OPEB Obligation*

The annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The Town's actuaries performed a study of the Town's current employee data and expected retirement pattern, based on the results of the study, the Town has determined that the liability for the implicit rate subsidy is not material. Consequently, the Town has not reported any OPEB cost or net OPEB obligation in the financial statements.

**NOTE 9 – DEFICIT FUND BALANCE**

The non-major Underground Utility special revenue fund had a \$14,465 deficit fund balance, due to timing delays between the start of expenditures and the receipt of revenues.

**NOTE 10 – COMMITMENTS**

*Water Management Services*

On December 3, 2007, the Town entered into an agreement with Waste Management, Inc. of Florida (Waste Management) to collect and dispose of all solid waste, recyclable material, and vegetative waste. A new contract was awarded to Waste Management following the competitive bid process. The agreement was signed on September 26, 2017, effective on October 1, 2017 for a period of five years with two renewal options. Waste Management will continue to be paid monthly based on the new rate schedule in the contract and the actual number of customers/units. Charges from Waste Management for the year ended September 30, 2017, totaled \$167,865.

*Landscape Services*

On September 30, 2011, the Town entered into an agreement with Bass Property Maintenance, Inc. for lawn maintenance services. The agreement is for a period of five years beginning on October 1, 2011 and ending on September 30, 2017. On July 25, 2016, a new three year agreement was agreed to for \$47,950 a year that included additional services. Payments to Bass Property Maintenance, Inc. for the year ended September 30, 2017 totaled \$47,950.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 10 – COMMITMENTS** (Continued)

*Fire Services, EMS Services, and Emergency Transport Services*

On September 16, 2015, the Town entered into an agreement with the City of Riviera Beach for emergency medical and supplemental fire protection services with the City for the period beginning on October 1, 2015 and ending December 31, 2016. Under the agreement, the City will provide EMS, ALS and BLS transportation services as well as fire assistance upon request. The fee for EMS and emergency transport services will be \$382,170 for the fifteen-month period, payable in three installments. Payments to the City for the year ended September 30, 2017 totaled \$305,736.

On August 3, 2016, the Town entered into an agreement with the City of Riviera Beach for emergency medical and supplemental fire protection services with the City for the period beginning on January 1, 2017 and ending December 31, 2022. The fee for the services for the first year will be \$305,736 for the first year and will increase three percent per year.

**NOTE 11 – RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

The Town is also covered by Florida Statutes under the Doctrine of Sovereign Immunity which effectively limits the amount of liability of municipalities to individual claims of \$200,000/\$300,000 for all claims relating to the same accident. However, under certain circumstances, a plaintiff can seek to recover damages in excess of statutory limits by introducing a claims bill to the Florida Legislature. The limits addressed in Florida Statutes do not apply to claims filed in federal courts.

There have been no significant reductions in insurance coverage in the prior year. No settlements exceeded insurance coverage for the past three years.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Financial Statements**  
**September 30, 2017**

**NOTE 12 – RECENT ACCOUNTING PRONOUNCEMENTS**

A brief description of the new accounting pronouncement that might have a significant impact on the Town's financial statements is presented below. Management is currently evaluating the impact of adoption of this statement in the Town's financial statements.

In June 2015 the GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for the fiscal year ending September 30, 2018.

In May 2017 the GASB issued Statement No. 87, Leases. This Statement will increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting that is based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for the fiscal year ending September 30, 2021.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2017**

	General Fund			Variance With Final Budget Positive (Negative)
	Original Adopted Budget	Final Revised Budget	Actual	
<b>Revenues</b>				
Taxes	\$ 3,758,931	\$ 3,758,931	\$ 3,910,343	\$ 151,412
Special assessments and impact fees			1,633	1,633
Licenses and permits	105,700	105,700	171,839	66,139
Intergovernmental	174,807	174,807	224,423	49,616
Fines and forfeitures	9,050	9,050	18,235	9,185
Charges for services	111,800	111,800	97,731	(14,069)
Interest	9,000	9,000	12,711	3,711
Contributions		62,500	263,436	200,936
Miscellaneous	15,000	15,000	17,669	2,669
Total revenues	<u>4,184,288</u>	<u>4,246,788</u>	<u>4,718,020</u>	<u>471,232</u>
<b>Expenditures</b>				
Current				
General government	963,018	939,991	934,360	5,631
Public safety	2,552,947	2,632,163	2,587,376	44,787
Physical environment	231,596	219,703	216,264	3,439
Culture and recreation	255,191	241,841	238,301	3,540
Debt service				
Principal			6,064	(6,064)
Interest				
Capital outlay	364,276	580,458	438,270	142,188
Contingency	85,260			
Total expenditures	<u>4,452,288</u>	<u>4,614,156</u>	<u>4,420,635</u>	<u>193,521</u>
Excess (deficiency) of revenues over (under) expenditures	(268,000)	(367,368)	297,385	664,753
<b>Other financing sources</b>				
Debt proceeds		90,406	89,660	(746)
Net change in fund balance	<u>\$ (268,000)</u>	<u>\$ (276,962)</u>	387,045	<u>\$ 664,007</u>
Fund balance, beginning of year			<u>1,797,587</u>	
Fund balance, end of year			<u>\$ 2,184,632</u>	

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Notes to the Budgetary**  
**Required Supplementary Information (RSI)**  
**General Fund**  
**September 30, 2017**

**Note 1 - Basis of Accounting**

Generally accepted accounting principles (GAAP) serve as the budgetary basis of accounting.

**Note 2 - Stewardship, Compliance, and Accountability**

The following department had an excess of expenditures over appropriations.

Building	\$ 9,285
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**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Employer Contributions**  
**Florida Retirement System - Pension Plan**

**Last Ten Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required FRS contribution	\$ 115,190	\$ 131,785	\$ 153,471	\$ 148,444
FRS contributions in relation to the contractually required contribution	<u>(115,190)</u>	<u>(131,785)</u>	<u>(153,471)</u>	<u>(148,444)</u>
FRS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 928,290	\$ 960,255	\$ 1,091,487	\$ 1,023,623
FRS contributions as a percentage of covered payroll	12.41%	13.72%	14.06%	14.50%

This schedule is intended to present data for 10 years. For years prior to 2014, data is unavailable. Additional years will be presented as they become available.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Proportinate Share of Net Pension Liability**  
**Florida Retirement System - Pension Plan**

**Last Ten Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the FRS net pension liability	0.0630379%	0.0061481%	0.0063720%	0.0062743%
Proportionate share of the FRS net pension liability	\$ 375,750	\$ 794,104	\$ 1,751,648	\$ 1,855,890
Town's covered payroll	\$ 978,876	\$ 931,550	\$ 1,045,091	\$ 992,549
Town's proportionate share of the FRS net pension liability as a percentage of covered payroll	38.39%	85.25%	167.61%	186.98%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	92.00%	84.88%	83.89%

NOTE: The above amounts are as of the plan fiscal year, which ends on June 30.

**Assumption Changes**

The discount rate decreased from 7.65% in 2015 to 7.60% in 2016.

This schedule is intended to present data for 10 years. For years prior to 2014, data is unavailable. Additional years will be presented as they become available. The amounts presented for each fiscal year were determined as of the June 30 measurement date. The Plan's fiduciary net position as a percentage of the total pension liability is published in the Plan's Comprehensive Annual Financial Report.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Employer Contributions**  
**Florida Retirement System**  
**Retiree Health Insurance Subsidy Program**

**Last Ten Fiscal Years**

<b>Retiree Health Insurance Subsidy Program</b>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required HIS contribution	\$ 16,079	\$ 19,011	\$ 24,557	\$ 23,976
HIS contributions in relation to the contractually required contribution	<u>(16,079)</u>	<u>(19,011)</u>	<u>(24,557)</u>	<u>(23,976)</u>
HIS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Town's covered payroll	\$ 1,323,913	\$ 1,404,948	\$ 1,479,321	\$ 1,444,317
HIS contributions as a percentage of covered payroll	1.21%	1.35%	1.66%	1.66%

This schedule is intended to present data for 10 years. For years prior to 2014, data is unavailable. Additional years will be presented as they become available.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Required Supplemental Information**  
**Schedule of Proportinate Share of Net Pension Liability**  
**Florida Retirement System**  
**Retiree Health Insurance Subsidy Program**

**Last Ten Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Proportion of the HIS net pension liability	0.0061481%	0.0045808%	0.0046624%	0.0044220%
Proportionate share of the HIS net pension liability	\$ 420,456	\$ 467,166	\$ 543,380	\$ 472,872
Town's covered payroll	\$ 1,322,564	\$ 1,397,393	\$ 1,428,352	\$ 1,404,567
Town's proportionate share of the HIS net pension liability as a percentage of it covered payroll	31.79%	33.43%	38.04%	33.67%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	0.50%	0.97%	1.64%

NOTE: The above amounts are as of the plan fiscal year, which ends on June 30.

**Assumption Changes**

The discount rate decreased from 4.29% in 2014 to 3.80% in 2015.

The discount rate decreased to 2.85% in 2016.

This schedule is intended to present data for 10 years. For years prior to 2014, data is unavailable. Additional years will be presented as they become available. The amounts presented for each fiscal year were determined as of the June 30 measurement date. The Plan's fiduciary net position as a percentage of the total pension liability is published in the Plan's Comprehensive Annual Financial Report.

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Schedule of Departmental Revenues - Budget to Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2017**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 3,328,700	\$ 3,369,775	\$ 41,075
Franchise fees and utility taxes	430,231	540,568	110,337
Total taxes	<u>3,758,931</u>	<u>3,910,343</u>	<u>151,412</u>
Special assessments		1,633	1,633
Licenses and permits			
Special permits	2,200	2,459	259
Business tax receipts	16,000	17,223	1,223
Building permits	87,500	146,863	59,363
Development fees		5,294	5,294
Total licenses and permits	<u>105,700</u>	<u>171,839</u>	<u>66,139</u>
Intergovernmental revenues			
Half-cent sales tax	93,541	90,191	(3,350)
Infrastructure sur-tax		49,955	49,955
Local option gas tax	40,610	41,576	966
State revenue sharing	29,792	29,786	(6)
Alcoholic beverage licenses	3,964	3,328	(636)
Recycling revenue sharing	1,300	2,926	1,626
County occupational licenses	5,500	6,476	976
Grants			
Other intergovernmental revenues	100	185	85
Total intergovernmental revenues	<u>174,807</u>	<u>224,423</u>	<u>49,616</u>
Fines and forfeitures			
Fines and forfeitures	9,000	18,144	9,144
Police education	50	91	41
Total fines and forfeitures	<u>9,050</u>	<u>18,235</u>	<u>9,185</u>
Charges for services			
Sewer service	55,000	54,328	(672)
Beach parking	9,000	11,274	2,274
Community center rental	41,000	23,356	(17,644)
Special duty police services	5,000	923	(4,077)
Miscellaneous services	1,800	7,850	6,050
Total charges for services	<u>111,800</u>	<u>97,731</u>	<u>(14,069)</u>
Interest	9,000	12,711	3,711
Contributions from private sources	62,500	263,436	200,936
Miscellaneous			
Sale of surplus property		5,149	5,149
Insurance reimbursement			
Other	15,000	12,520	(2,480)
Total miscellaneous	<u>15,000</u>	<u>17,669</u>	<u>2,669</u>
Total revenues	<u>4,246,788</u>	<u>4,718,020</u>	<u>471,232</u>
Other financing sources			
Proceeds from capital leases	90,406	89,660	(746)
Appropriated fund balance	276,962		(276,962)
Total revenues and other financing sources	<u>\$ 4,614,156</u>	<u>\$ 4,807,680</u>	<u>\$ 193,524</u>

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Schedule of Departmental Expenditures - Budget to Actual**  
**Fiscal General Fund**  
**For the Fiscal Year Ended September 30, 2017**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 34,680	\$ 30,542	\$ 4,138
Finance and administrative			
Personal services	284,374	278,978	5,396
Operating expenses	91,990	97,065	(5,075)
Total finance and administrative	376,364	376,043	321
Legal counsel			
Operating expenses	154,754	154,752	2
Public works			
Personal services	222,957	219,031	3,926
Operating expenses	36,236	40,160	(3,924)
Total public works	259,193	259,191	2
Risk management			
Operating expenses	115,000	113,832	1,168
Total general government	939,991	934,360	5,631
Public safety			
Police			
Personal services	1,157,006	1,122,258	34,748
Operating expenses	190,854	198,972	(8,118)
Total police	1,347,860	1,321,230	26,630
911 dispatch			
Personal services	350,772	350,744	28
Operating expenses	7,223	6,446	777
Total 911 dispatch	357,995	357,190	805
Fire			
Personal services	204,287	208,474	(4,187)
Operating expenses	96,625	72,362	24,263
Total fire	300,912	280,836	20,076
Emergency medical services			
Operating	305,740	305,736	4

(Continued)

**TOWN OF PALM BEACH SHORES, FLORIDA**  
**Schedule of Departmental Expenditures - Budget to Actual**  
**General Fund**  
**For the Fiscal Year Ended September 30, 2017**

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Emergency disaster			
Personal services	\$ 26,647	\$ 26,646	\$ 1
Operating expenses	138,769	132,213	6,556
Total emergency disaster	<u>165,416</u>	<u>158,859</u>	<u>6,557</u>
Building department			
Operating expenses	154,240	163,525	(9,285)
Total public safety	<u>2,632,163</u>	<u>2,587,376</u>	<u>44,787</u>
Physical environment			
Garbage/solid waste disposal			
Operating expenses	178,196	177,411	785
Lift station sewer service			
Operating	16,304	16,302	2
Streets/storm sewers			
Operating	25,203	22,551	2,652
Total physical environment	<u>219,703</u>	<u>216,264</u>	<u>3,439</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	104,150	103,015	1,135
Beach facilities			
Personal services	82,541	80,945	1,596
Operating expenses	15,500	17,095	(1,595)
Total beach facilities	<u>98,041</u>	<u>98,040</u>	<u>1</u>
Community center			
Operating expenses	39,650	37,246	2,404
Total cultural/recreation	<u>241,841</u>	<u>238,301</u>	<u>3,540</u>
Capital Outlay	580,458	438,270	142,188
Debt Service		6,064	(6,064)
Total expenditures	<u>\$ 4,614,156</u>	<u>\$ 4,420,635</u>	<u>\$ 193,521</u>



# NOWLEN, HOLT & MINER, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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## 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*

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TELEPHONE (561) 996-5612  
FAX (561) 996-6248

The Honorable Mayor and Members of the Town Commission  
Town of Palm Beach Shores, Florida

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Palm Beach Shores, Florida, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Palm Beach Shores, Florida's basic financial statements, and have issued our report thereon dated May 31, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Palm Beach Shores, Florida'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 Town of Palm Beach Shores, Florida's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Palm Beach Shores, Florida's internal control.

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Palm Beach Shores, Florida'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.

*Nowlen, Holt & Miner, P.A.*

West Palm Beach, Florida  
May 31, 2018



# NOWLEN, HOLT & MINER, P.A.

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## MANAGEMENT LETTER IN ACCORDANCE WITH THE RULES OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

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BELLE GLADE, FLORIDA 33430-0338  
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The Honorable Mayor and Members of the Town Commission  
Town of Palm Beach Shores

### Report on the Financial Statements

We have audited the basic financial statements of the Town of Palm Beach Shores, Florida, as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated May 31, 2018.

### Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Chapter 10.550, Rules of the Auditor General.

### Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards* and Independent Accountant's Report on an examination conducted in accordance with *AICPA Processional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated May 31, 2018, should be considered in conjunction with this management letter.

### Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report.

## **Official Title and Legal Authority**

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this Management Letter, unless disclosed in the notes to the financial statements. This information is disclosed in Note 1 to the financial statements.

## **Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the Town of Palm Beach Shores, Florida has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Town of Palm Beach Shores, Florida did not meet any of the conditions described in Section 218.503(1), Florida Statutes, during the fiscal year ended September 30, 2017.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Town of Palm Beach Shores, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. Our assessment was done as of the fiscal year end. The results of our procedures did not disclose any matters that are required to be reported.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we address in the Management Letter any recommendations to improve financial management. In connection with our audit, we have the following recommendation.

### Finding 2017-1: Expenditures in Excess of Appropriations

*Condition:* As indicated in Note 1 to the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual, the General Fund had one department with expenditures in excess of appropriations.

*Criteria:* Florida Statutes prohibit expenditures in excess of appropriations.

*Effect:* Noncompliance with budgetary requirements.

*Recommendation:* We recommend that management review monthly budget to actual comparisons and propose budget amendments as necessary.

*Management Response:* This was an isolated incident. There was a billing error by a vendor in February that was not resolved until December, after the final budget amendment. Internal procedures do include the monthly comparison of budget to actual.

## **Annual Financial Report**

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the Town of Palm Beach Shores, Florida for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

## **Special District Component Units**

Section 10.554(1)(i)5.d., Rules of the Auditor General, requires that we determine whether or not a special district that is a component unit of a county, municipality, or special district, provided the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes.

Based on the application of criteria in publications cited in Section 10.553, Rules of the Auditor General, there are no special district component units of the Town of Palm Beach Shores, Florida.

## **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

## **Purpose of this Letter**

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, The Honorable Mayor and Members of the Town Commission, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

*Nowlen, Holt & Mimer, P.A.*

West Palm Beach, Florida  
May 31, 2018



**NOWLEN, HOLT & MINER, P.A.**

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**INDEPENDENT ACCOUNTANT’S REPORT**

The Honorable Mayor and Members of the Town Commission  
Town of Palm Beach Shores, Florida

We have examined the Town of Palm Beach Shores, Florida’s compliance with Section 218.415, Florida Statutes during the year ended September 30, 2017. Management of the Town of Palm Beach Shores, Florida is responsible for the Town’s compliance with the specified requirements. Our responsibility is to express an opinion on the Town of Palm Beach Shores, Florida’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Town of Palm Beach Shores, Florida complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Town of Palm Beach Shores, Florida complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risk of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Town of Palm Beach Shores, Florida’s compliance with the specified requirements.

In our opinion, the Town of Palm Beach Shores, Florida complied, in all material respects, with Section 218.415, Florida Statutes for the year ended September 30, 2017.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representatives, the Florida Auditor General, applicable management, and the Honorable Mayor and Members of the Town Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Nowlen, Holt & Miner, P.A.*

West Palm Beach, Florida  
May 31, 2018