

TOWN OF PALM BEACH SHORES, FLORIDA
FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITOR'S REPORT THEREON
ANNUAL AUDIT FOR THE YEAR ENDED
SEPTEMBER 30, 2015

**TOWN OF PALM BEACH SHORES, FLORIDA
SEPTEMBER 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

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

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, 2015, 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.

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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, 2015, 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.

Change in Accounting Principle

As described in Note 11 to the financial statements, Town of Palm Beach Shores, Florida implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, during the year ended September 30, 2015. Accordingly, beginning net position as of October 1, 2014 was restated. Our opinions are not modified with respect to this matter.

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 13 and the required supplementary information on pages 52 through 58 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 June 9, 2016, 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 & Mimer, P.A.

West Palm Beach, Florida
June 9, 2016

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, 2015. 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.

The Town implemented Governmental Accounting Standard Boards ("GASB") Statement No. 68 "*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*" ("GASB #68") and GASB Statement No. 71 "*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*" ("GASB #71" and collectively "Statements") in 2015. These Statements require the Town to recognize a net pension liability, deferred outflows of resources (including pension contributions made after the measurement date) and deferred inflows of resources for its participation in two Florida Retirement System Plans ("Plans"), cost-sharing multiple-employer defined benefit pension plans, on financial statements prepared on the economic resources measurement focus and accrual basis of accounting (i.e. the statement of net position) and presents more extensive note disclosures. The adoption of these Statements had no impact on the Town's governmental fund financial statements, which continue to report expenditures in the amount of the contractually required contributions. However, the adoption has resulted in the restatement of the Town's net position as of October 1, 2014 for its government-wide financial statements to reflect the reporting of net pension liabilities, deferred outflows of resources, and deferred inflows of resources for each of its qualified pension plans in accordance with the provisions of these Statements. Net position of the Town's government-wide financial statements of October 1, 2014 was decreased by approximately \$1,528,355, reflecting the cumulative change in accounting principle related to the adoption of these Statements. See Note 7 in the notes to the financial statements for more information regarding the Town's retirement plans.

FINANCIAL HIGHLIGHTS

The following are the highlights of financial activity for the fiscal year ended September 30, 2015:

- The Town's net position increased by \$266,416 from the prior year. The Town's total assets exceeded its liabilities at September 30, 2015 by \$5,644,158 (net position). Of this amount, \$671,607 (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 \$4,309,782, an increase of 10.7% from the prior year. The expenses for governmental activities were \$4,043,366, an increase of 3.6% over the prior year.
- The General Fund unassigned fund balance at September 30, 2015 was \$1,491,708 or 38% 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 14 and 15) 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 16) 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 60-61.

The Town has four other governmental funds: Public Buildings Impact Fund, Parks and Recreation Impact Fund, Fire Impact Fund, and Police Impact Fund. These are capital projects funds used to account for impact fees that must be spent on specific types of capital expenditures. These are non-major funds.

Notes to the Financial Statements (beginning on page 20) 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 \$5,644,158 as of September 30, 2015.

Net Position (In thousands of dollars)

Governmental Activities			
	2015	2014	Increase (Decrease)
(a)			
Assets:			
Current and other assets	\$ 2,802	\$ 2,358	\$ 444
Capital assets	4,719	4,934	(215)
Total assets	\$ 7,521	\$ 7,292	\$ 229
Deferred Outflows:			
Pension related items	\$ 225	\$ 117	\$ 108
Liabilities:			
Long-term debt outstanding	\$ 1,402	\$ 920	\$ 482
Other liabilities	322	254	68
Total liabilities	\$ 1,724	\$ 1,174	\$ 550
Deferred Inflows:			
Pension related items	\$ 372	\$ 849	\$ (477)
Unearned revenue	6	8	(2)
Total deferred inflows	\$ 378	\$ 857	\$ (479)
Net Position:			
Net investment in capital assets	\$ 4,719	\$ 4,934	\$ (215)
Restricted	253	56	197
Unrestricted	672	388	284
Total net position	\$ 5,644	\$ 5,378	\$ 266

(a) As restated

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 unspent donations required to be used on public safety and impact fees received but not used. 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 decreased the Town's net position by \$266,416. Key elements of this increase are as follows:

Changes in Net Position			
(In thousands of dollars)			
Governmental Activities			
	2015	2014	Increase (Decrease)
		(a)	
Revenue:			
Program revenue:			
Charges for services	\$ 362	\$ 231	\$ 131
Grants and contributions	210	101	109
General revenues:			
Property taxes	3,236	3,077	159
Utility taxes	290	284	6
Intergovernmental	166	162	4
Investment earnings	15	12	3
Miscellaneous	30	27	3
Total revenue	\$ 4,309	\$ 3,894	\$ 415
Expenses:			
Program expenses:			
General government	\$ 871	\$ 900	\$ (29)
Public safety	2,439	2,308	131
Physical environment	408	378	30
Culture and recreation	325	312	13
Total expenses	\$ 4,043	\$ 3,898	\$ 145
Increase(decrease) in net position	\$ 266	\$ (4)	\$ 270
Net position – October 1	5,378	5,382	(4)
Net position – September 30	\$ 5,644	\$ 5,378	\$ 266

(a) As restated

Property taxes are the main source of revenues and represent approximately 75 percent of the revenue for governmental activities. Property taxes increased by approximately \$159,000 over the prior year. This is due to an increase in the Town's assessed value of approximately \$10 million, or 2%, and increasing the millage rate to 6.3500 mills.

Total expenses increased by approximately \$145,000, or 3.7%. Expenses for Public Safety represent approximately 60% of Governmental activity expenses. Public Safety includes the Police, Fire, Dispatch, Emergency Medical Service and Building departments. Public Safety expenses increased by 5.7% compared to the prior year. Police personnel costs increased due to raises and staffing constraints. EMS costs increased with the negotiation of a new interlocal agreement for those services with Riviera Beach. Building department costs increased in conjunction with the increased activity and permits issued.

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, 2015, the Town's governmental funds reported ending fund balances of \$2.4 million, an increase of \$384,000 in comparison with the prior year. Approximately 61% of ending fund balances (\$1,491,708) 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: \$568,850 for the subsequent year's budget; \$82,000 for future payouts of compensated absences; and \$9,934 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 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 52). 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, 2015 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 \$215,000 during the current fiscal year due to depreciation. Purchases during the year totaled \$291,000. Major capital assets purchased during the current fiscal year included the following:

- The Town Hall and Public Safety buildings were improved with stucco repairs and fresh paint. (\$19,000)
- A new flat roof was installed on the Public Safety building. (\$17,000)
- The Police Department purchased 2 used police cruisers from another law enforcement agency at a great value costing only \$11,000. At the end of the previous fiscal year, the police department was in the process of replacing its reporting software which was operational by December 2014. Final payments on the system were \$55,600. A new communications antenna was installed for \$11,400 improving its hurricane sustainability, location, and technology.
- Public Works bought a new dump truck, replacing one that was 18 years old and in poor condition. (\$22,000) A golf cart was also purchased for \$7,663.
- Planning and design began for the Ocean Avenue drainage project. Costs incurred totaled \$12,580.
- The pump and electric cables for the lift station on Ocean Avenue were replaced for \$14,000. The holding pit for the lift station on Lake Drive was relined at a cost of \$35,606.
- The railing at the Community Center was replaced for \$21,000. The original railing had deteriorated due to the harsh beach conditions.
- The remaining capital outlay consists of a variety of items of smaller scale than those identified herein.

Capital Assets
(In thousands of dollars)

Governmental Activities			
	2015	2014	Increase (Decrease)
Land	\$ 101	\$ 101	\$ -
Construction in progress	24		24
Buildings and improvements	3,466	3,409	57
Parks and beach improvements	659	662	(3)
Equipment	1,397	1,305	92
Vehicles	690	868	(178)
Streets and sewers	3,537	3,562	(25)
Total capital assets	9,874	9,907	(33)
Less accumulated depreciation	(5,155)	(4,973)	(182)
Capital assets, net of depreciation	\$ 4,719	\$ 4,934	\$ (215)

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

Debt Outstanding

The Town added no new debt during the fiscal year. Payments on existing debt reduced the Town's long term liabilities. The following table summarizes the Town's debt as of September 30, 2015.

Outstanding Debt
(In thousands of dollars)

Governmental Activities			
	2015	2014	Increase (Decrease)
		(a)	
Compensated absences	\$ 125	\$ 103	\$ 22
Other post-employment benefits	15	21	(6)
Net pension liability	1,261	796	465
Total debt	\$ 1,401	\$ 920	\$ 481

(a) As restated

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 2016 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 82% of the General Fund budgeted revenues. The Town's assessed value increased by approximately \$8 million, or 1.5%. This is the second increase in value following six consecutive years of declining property values. 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 2016 budget will provide sufficient revenue to cover expenditures for the upcoming fiscal year. Since the Town has no debt, no debt service is included or necessary in the 2016 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, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,637,280
Investments	1,048,265
Receivables (net)	
Accounts	24,516
Special assessments	13,525
Due from other governments	24,832
Prepaid items	41,194
Inventories	13,030
Capital assets	
Non-depreciable	125,151
Depreciable (net of depreciation)	<u>4,593,648</u>
Total assets	<u>7,521,441</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	<u>225,395</u>
LIABILITIES	
Current liabilities	
Accounts payable	211,641
Accrued payroll	90,455
Unearned revenue	20,216
Non-current liabilities	
Due within one year	13,000
Due in more than one year	<u>1,389,002</u>
Total liabilities	<u>1,724,314</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related items	372,027
Unearned revenue	<u>6,337</u>
Total deferred inflows of resources	<u>378,364</u>
NET POSITION	
Net investment in capital assets	4,718,799
Restricted for capital improvements	5,880
Restricted for administration of the Florida Building Code	43,872
Restricted for public safety	184,543
Restricted for road improvement	19,457
Unrestricted	<u>671,607</u>
Total net position	<u>\$ 5,644,158</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Statement of Activities
For the Fiscal Year Ended September 30, 2015

Function / Program Activities	Expenses	Program Revenues			Total Governmental Activities
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 870,962	\$ 5,434	\$	\$	\$ (865,528)
Public safety	2,439,286	224,516	20,118	190,545	(2,004,107)
Physical environment	407,755	52,940			(354,815)
Culture recreation	325,363	79,718			(245,645)
Total governmental activities	<u>4,043,366</u>	<u>362,608</u>	<u>20,118</u>	<u>190,545</u>	<u>(3,470,095)</u>
General revenues					
Property taxes					3,235,768
Utility taxes and franchise fees					289,957
Intergovernmental					166,165
Investment earnings					14,985
Miscellaneous					<u>29,636</u>
Total general revenues					<u>3,736,511</u>
Change in net position					266,416
Net position, beginning of year, as restated					<u>5,377,742</u>
Net position, end of year					<u>\$ 5,644,158</u>

See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Balance Sheet
Governmental Funds
September 30, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,623,138	\$ 14,142	\$ 1,637,280
Investments	1,048,265		1,048,265
Receivables (net)			
Accounts	24,516		24,516
Special assessments	13,525		13,525
Due from other governments	24,832		24,832
Due from other funds	8,262		8,262
Prepaid items	41,194		41,194
Inventories	13,030		13,030
Total assets	<u>\$ 2,796,762</u>	<u>\$ 14,142</u>	<u>\$ 2,810,904</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 211,641	\$	\$ 211,641
Accrued payroll	90,455		90,455
Due to other funds		8,262	8,262
Unearned revenue	20,216		20,216
Total liabilities	<u>322,312</u>	<u>8,262</u>	<u>330,574</u>
Deferred inflows of resources			
Unearned revenue	6,337		6,337
Unavailable revenue	13,525		13,525
Total deferred inflows of resources	19,862		19,862
Fund balances			
Nonspendable			
Prepaid items and inventories	54,224		54,224
Restricted			
Capital improvements		5,880	5,880
Administration of the Florida Building Code	43,872		43,872
Public safety	184,543		184,543
Road and road improvement	19,457		19,457
Assigned			
Sewer service	9,934		9,934
Compensated absences	82,000		82,000
Subsequent years budget	568,850		568,850
Unassigned	1,491,708		1,491,708
Total fund balances	<u>2,454,588</u>	<u>5,880</u>	<u>2,460,468</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,796,762</u>	<u>\$ 14,142</u>	<u>\$ 2,810,904</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, 2015

Fund balances total governmental funds		\$ 2,460,468
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	\$ 9,874,458	
Less accumulated depreciation	<u>(5,155,659)</u>	4,718,799
Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.		
Unavailable revenue		13,525
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	(1,261,270)	
Compensated absences	(125,386)	
Other postemployment benefits	<u>(15,346)</u>	(1,402,002)
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	225,395	
Pension related deferred inflows	<u>(372,027)</u>	<u>(146,632)</u>
Net position of governmental activities		<u>\$ 5,644,158</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, 2015

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 3,525,725	\$	\$ 3,525,725
Special assessments and impact fees	7,291	4,303	11,594
Licenses and permits	193,133		193,133
Intergovernmental	186,283		186,283
Fines and forfeitures	25,443		25,443
Charges for services	143,667		143,667
Interest	14,982	3	14,985
Contributions	190,545		190,545
Miscellaneous	36,602		36,602
Total revenues	<u>4,323,671</u>	<u>4,306</u>	<u>4,327,977</u>
Expenditures			
Current			
General government	867,631		867,631
Public safety	2,358,234		2,358,234
Physical environment	211,577		211,577
Culture and recreation	215,254		215,254
Capital outlay	278,406	12,565	290,971
Total expenditures	<u>3,931,102</u>	<u>12,565</u>	<u>3,943,667</u>
Net change in fund balances	392,569	(8,259)	384,310
Fund balances, beginning of year	<u>2,062,019</u>	<u>14,139</u>	<u>2,076,158</u>
Fund balances, end of year	<u>\$ 2,454,588</u>	<u>\$ 5,880</u>	<u>\$ 2,460,468</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, 2015

Net change in fund balances - total governmental funds \$ 384,310

Amounts reported for governmental activities in the statement of activities are different because:

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.

Expenditures for capital assets	\$ 290,971	
Less: current year depreciation	<u>(457,649)</u>	(166,678)

Net book value of capital asset disposals		(48,666)
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Revenues earned but not collected within 60 days are not current financial resources and therefore, are not reported in the governmental fund.

Special assessment revenues collected in current year		(6,926)
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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.

Change in other postemployment benefits	5,852	
Change in net pension liability and related deferred amounts	120,453	
Change in long-term compensated absences	<u>(21,929)</u>	<u>104,376</u>

Change in net position		<u><u>\$ 266,416</u></u>
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See notes to the financial statements

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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, 2015

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, 2015

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 in the Local Government Surplus Funds Trust Fund, a 2a-7-like pool, are carried at amortized cost, which approximates market. A 2a-7-like pool is not registered with the SEC as an investment company, but nevertheless, has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a-7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, this pool operates essentially as a money market fund.

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, 2015

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, 2015

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, 2015

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, 2015

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, unspent donations required to be spent on public safety, and unspent new local option fuel tax required to be used for capital road 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.

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, 2015

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 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, three 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, 2015

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, 2015, the carrying amount of the Town's deposits was \$2,669,606 and the bank balances totaled \$2,676,801. Included in deposits is \$1,032,426 certificate of deposits with an original maturity greater than three months that is 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 \$1,637,280. 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, 2015

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[®]):
 - 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.

The State Board of Administration (SBA) administers the Florida PRIME, 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 a 2a-7 fund, which permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1 per share. The fair value of the position in the Florida PRIME is equal to the value of the pool shares. The investment in the Florida PRIME is not insured by FDIC or any other governmental agency.

At September 30, 2015, Florida PRIME was assigned a "AAA(m)" principal stability fund rating by the Standard and Poor's Ratings. Florida PRIME is considered a SEC 2a7-like fund, thus, the account balance should also be considered its fair value. Fund B is not considered a SEC 2a7-like fund and is not rated by any nationally recognized rating agency.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investments (Continued)

The weighted average days to maturity (WAM) of Florida PRIME at September 30, 2015 was 29 days. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of Florida PRIME to interest rate changes.

As of September 30, 2015, the Town of Palm Beach Shores had \$15,839 invested in Florida PRIME. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

As of September 30, 2015, the Town held the following deposits that are reported as 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	29 days	\$ 15,839
Certificate of Deposit	87 days	510,806
Certificate of Deposit	162 days	<u>521,620</u>
		<u>\$1,048,265</u>

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, 2015, 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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, 2015, was \$13,525.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

Primary Government

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 100,792	\$	\$	\$	\$ 100,792
Construction in progress		18,372		5,987	24,359
Capital assets being depreciated:					
Buildings and improvements	3,409,137	57,000			3,466,137
Parks and beach improvements	662,403	2,565		(5,987)	658,981
Equipment	1,304,950	130,353	(38,753)		1,396,550
Vehicles	868,345	40,625	(218,878)		690,092
Streets and sewers	3,561,651	42,056	(66,160)		3,537,547
Total at historical cost	9,907,278	290,971	(323,791)		9,874,458
Less accumulated depreciation for:					
Buildings	789,109	76,824			865,933
Parks and beach improvements	271,922	33,142			305,064
Equipment	778,159	134,785	(38,071)		874,873
Vehicles	591,432	58,763	(211,666)		438,529
Streets and sewers	2,542,513	154,135	(25,388)		2,671,260
Total accumulated depreciation	4,973,135	457,649	(275,125)		5,155,659
Governmental activities capital assets, net	\$ 4,934,143	\$ (166,678)	\$ (48,666)	\$	\$ 4,718,799

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 5 – CAPITAL ASSETS (Continued)

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

Governmental activities:	
General government	\$ 32,766
Public safety	150,970
Physical environment	158,781
Culture and recreation	<u>115,132</u>
Total depreciation expense for governmental activities	<u>\$ 457,649</u>

NOTE 6 – LONG-TERM DEBT

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>2014</u>	<u>Additions</u>	<u>Deletions</u>	Balance September 30, <u>2015</u>	Due Within <u>One Year</u>
Compensated absences	\$ 103,457	\$ 119,111	\$ (97,182)	\$ 125,386	\$ 13,000
Net pension liability (1)	796,206	465,064		1,261,270	
OPEB (see Note 8)	<u>21,198</u>	<u> </u>	<u>(5,852)</u>	<u>15,346</u>	<u> </u>
	<u>\$ 920,861</u>	<u>\$ 584,175</u>	<u>\$ (103,034)</u>	<u>\$ 1,402,002</u>	<u>\$ 13,000</u>

(1) As restated.

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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

General Information (Continued)

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.

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.

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

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Plan Description (Continued)

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.

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%

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Benefits Provided (Continued)

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, 2015

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, 2015 were as follows:

Class	10/01/14 through 06/30/15	07/01/15 through 09/30/15
Regular Class	7.37%	7.26%
Senior Management Service Class	21.14%	21.43%
Special Risk Class	19.82%	22.04%
DROP	12.28%	12.88%

Except for the DROP, the employer contribution rates include a 1.26% and 1.66% HIS Plan subsidy for the periods October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015, respectively, and 0.04% for administrative costs of the Public Employee Optional Retirement Program.

For the fiscal year ended September 30, 2015, the Town made contributions of \$131,785 to the Pension Plan.

Pension Liabilities and Pension Expense

At September 30, 2015, the Town reported a liability of \$794,104 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Town's proportionate share of the net pension liability was based on the Town's 2014-15 plan year contributions relative to the 2014-15 plan year contributions of all participating members. At June 30, 2015, the Town's proportionate share was 0.006148058 percent, which was a decrease of 0.000010288 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2015, the Town recognized pension expense of \$23,253 related to the Plan.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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	\$ 83,834	\$ 18,834
Change of assumptions	52,707	
Net difference between projected and actual earnings on Pension Plan investments		189,619
Change in proportion and differences between Town Pension Plan contributions and proportionate share of contributions		144,392
Pension Plan contributions subsequent to the measurement date	39,750	
Total	<u>\$ 176,291</u>	<u>\$ 352,845</u>

The deferred outflows of resources related to the Pension Plan, totaling \$39,750 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, 2016. 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
2016	\$ (96,341)
2017	(96,341)
2018	(96,341)
2019	60,101
2020	7,946
Thereafter	4,672
	<u>\$ (216,304)</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2015
Measurement date	June 30, 2015
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.65%, 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, 2015, 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%	3.2%	3.1%	1.7%
Fixed Income	18.0%	4.8%	4.7%	4.7%
Global Equity	53.0%	8.5%	7.2%	17.7%
Real Estate (Property)	10.0%	6.8%	6.2%	12.0%
Private Equity	6.0%	11.9%	8.2%	30.0%
Strategic Investments	12.0%	6.7%	6.1%	11.4%
Total	<u><u>100.0%</u></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, 2015

NOTE 7 – FLORIDA RETIREMENT SYSTEM (Continued)

Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. 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 7.65%, 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 (6.65%) or one percentage point higher (8.65%) than the current rate:

	<u>1% Decrease (6.65%)</u>	<u>Current Discount Rate (7.65%)</u>	<u>1% Increase (8.65%)</u>
Proportionate share of the net pension liability	<u>\$ 2,057,703</u>	<u>\$ 794,104</u>	<u>\$ (257,418)</u>

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, 2015, the Town had \$12,740 payable for outstanding contributions to the Pension Plan for the fiscal year ended September 30, 2015.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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, 2015, 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, 2015, the HIS contribution for the period October 1, 2014 through June 30, 2015 and from July 1, 2015 through September 30, 2015 was 1.26% and 1.66%, respectively. 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 \$19,011 for the fiscal year ended September 30, 2015.

Pension Liabilities and Pension Expense

At September 30, 2015, the Town reported a liability of \$467,166 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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 2014-15 plan year contributions relative to the 2014-15 plan year contributions of all participating members. At June 30, 2015, the Town's proportionate share was 0.004580766 percent, which was an increase of 0.000084029 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2015, the Town recognized pension expense of \$32,167.

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Change of assumptions	\$ 36,754	\$
Net difference between projected and actual earnings on HIS Plan investments	253	
Change in proportion and differences between Town HIS Plan contributions and proportionate share of contributions	6,521	19,182
HIS Plan contributions subsequent to the measurement date	<u>5,576</u>	
Total	<u>\$ 49,104</u>	<u>\$ 19,182</u>

The deferred outflows of resources related to the HIS Plan, totaling \$5,576 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, 2016.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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 September 30:</u>	<u>Amount</u>
2016	\$ 3,764
2017	3,764
2018	3,764
2019	3,712
2020	3,688
Thereafter	5,654
	<u>\$ 24,346</u>

Actuarial Assumptions

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions:

Valuation date	July 1, 2015
Measurement date	June 30, 2015
Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	3.80%
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, 2015, 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 3.80%. 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, 2015

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 3.80%, 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 (2.80%) or one percentage point higher (4.80%) than the current rate:

	1% Decrease (2.80%)	Discount Rate (3.80%)	1% Increase (4.80%)
Proportionate share of the net pension liability	\$ 532,314	\$ 467,166	\$ 412,842

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, 2015, the Town had \$1,754 payable for outstanding contributions to the HIS Plan for the fiscal year ended September 30, 2015.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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, 2015.

Description	Pension Plan	HIS Plan	Total
Proportionate share of total pension liability	\$ 9,921,166	\$ 469,492	\$ 10,390,658
Proportionate share of plan fiduciary net position	9,127,062	2,326	9,129,388
Proportionate share of net pension liability	794,104	467,166	1,261,270
Proportionate share of deferred outflows of resources	176,291	49,104	225,395
Proportionate share of deferred inflows of resources	352,845	19,182	372,027
Pension expense	23,253	32,167	55,420

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, 2015

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, 2015, are as follows:

Class	10/01/14 through 06/30/15	07/01/15 through 09/30/15
Regular Class	7.37%	7.26%
Senior Management Service Class	21.14%	21.43%
Special Risk Class	19.82%	22.04%
DROP	12.28%	12.88%

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, 2015, 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, 2015

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 \$57,258 for the fiscal year ended September 30, 2015.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

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 the same as the premium charged for active employees, who are younger than retirees on average. This implied subsidy constitutes other post employment 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 Town 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 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, 2015

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

Annual OPEB Cost and Net OPEB Obligation

The Town’s annual other post employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted under GASB Statement No. 45 for employers with plans that have fewer than 100 total members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost and the net OPEB obligation for the Town for the current year and the related information is as follows:

Required contribution rates:	
Employer	Pay-as-you-go
Plan members	N/A
Annual required contribution	\$ 3,200
Interest on Net OPEB obligation	530
Adjustment to annual required contribution	<u>(655)</u>
Annual OPEB cost	3,075
Contributions made	<u>(8,927)</u>
(Decrease) in net OPEB obligation	(5,852)
Net OPEB obligation October 1, 2014	<u>21,198</u>
Net OPEB obligation September 30, 2015	<u>\$ 15,346</u>

Trend Information

<u>Three-Year Trend Information</u>			
Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
09/30/13	\$ 3,019	0.00%	\$18,019
09/30/14	\$ 3,179	0.00%	\$21,198
09/30/15	\$3,075	0.00%	\$15,346

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

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

Funded Status

The funded status of the plan as of most recent actuarial valuation date was as follows:

Actuarial valuation date	09/30/13
Actuarial accrued liability	\$ 16,761
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 16,761
Funded ratio	0.0%
Covered payroll	\$1,327,758
UAAL as a percentage of covered payroll	1.26%

Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements, will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only two years is presented in the schedule at this time. In future years, required trend data will be presented. The Town has not contributed assets to the plan at this time.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Town and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date	9/30/13
Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	17 years
Asset valuation method	Unfunded
Actual assumptions:	
Investment rate of return	2.5%
Healthcare cost trend	8% for 2013 decreasing to 4.7% in 2022

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 9 – 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. The contract was renewed and ends on September 30, 2017. Waste Management will be paid monthly based on the rate schedule in the contract and the actual number of customers/units. The contract also provides for an annual adjustment to fees based on the Consumer Price Index (CPI), with a maximum 3% increase in fees. Charges from Waste Management for the year ended September 30, 2015, totaled \$161,331.

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, 2016. The Town will pay Bass Property Maintenance, Inc. \$32,795 per year for each of the five years. There is one five year extension adjusted by the CPI that can be agreed to by both parties. Payments to Bass Property Maintenance, Inc. for the year ended September 30, 2015 totaled \$32,795.

Fire Services, EMS Services, and Emergency Transport Services

In January 2010, the Town entered into an agreement with the City of Riviera Beach for the provision of backup fire services, EMS services, and emergency transport services. The agreement is for a period of five years beginning March 1, 2010. Under the terms of the agreement, the City will provide EMS, ALS and BLS transport services to the Town twenty-four hours per day through utilization of City personnel and vehicles. The City will also supplement the volunteer fire service of the Town twenty-four hours per day through utilization of City personnel and vehicles. Payments to the City for the year ended September 30, 2015 totaled \$358,519.

On September 16, 2015, the Town entered into a new agreement 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.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 10 – 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.

NOTE 11 – ACCOUNTING CHANGE

The Town implemented the following Governmental Accounting Standards Board Statements during the fiscal year ended September 30, 2015.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement 27*. GASB 68 improves financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. The implementation of this statement resulted in a restatement of beginning net position, as well as related deferred outflows of resources and deferred inflows of resources due to recording the Town's net pension liability on the statement of net position.

In November 2013, the GASB issued Statement No. 71, *Pension Transition Contributions Made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This Statement amends paragraph 137 of GASB 68 to require that, at transition, a government recognize the beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Financial Statements
September 30, 2015

NOTE 11 – ACCOUNTING CHANGE (Continued)

The Town participates in the Florida Retirement System defined benefit pension plan and the Florida Retirement System Health Insurance Subsidy Program defined benefit plan administered by the Florida Division of Retirement. These standards require employers participating in single employer defined benefit pension plans to report their net pension liabilities and related pension amounts. The cumulative effect of applying GASB 68 has been reported as a restatement of the beginning net position of the governmental activities on the entity-wide financial statements. A reconciliation of the prior period ending net position to the current period beginning net positions is as follows.

	Governmental Activities
Balance at September 30, 2014, as reported	\$ 6,906,097
Adjustment for adoption of GASB 68	(1,528,355)
Balance at September 30, 2014, as restated	\$ 5,377,742

NOTE 12 – NEW ACCOUNTING STANDARDS

Below is a brief description and effective date of new accounting standards that could have a significant impact on the Town’s financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value of certain investments and disclosures related to all fair value measurements. This Statement is effective for the fiscal year ending September 30, 2016.

GASB 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.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding the presentation of payroll-related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for the fiscal year ending September 30, 2017.

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2015

	General Fund			Variance With Final Budget Positive (Negative)
	Original Adopted Budget	Final Revised Budget	Actual	
Revenues				
Taxes	\$ 3,427,469	\$ 3,427,469	\$ 3,525,725	\$ 98,256
Special assessments and impact fees	8,000	8,000	7,291	(709)
Licenses and permits	94,050	94,050	193,133	99,083
Intergovernmental	182,927	182,927	186,283	3,356
Fines and forfeitures	2,630	7,526	25,443	17,917
Charges for services	112,400	112,400	143,667	31,267
Interest	10,300	10,300	14,982	4,682
Contributions		39,000	190,545	151,545
Miscellaneous	11,000	11,000	36,602	25,602
Total revenues	<u>3,848,776</u>	<u>3,892,672</u>	<u>4,323,671</u>	<u>430,999</u>
Expenditures				
Current				
General government	883,607	889,807	867,631	22,176
Public safety	2,388,894	2,444,564	2,358,234	86,330
Physical environment	222,225	222,225	211,577	10,648
Culture and recreation	218,250	233,034	215,254	17,780
Capital outlay	284,150	388,853	278,406	110,447
Contingency	61,000			
Total expenditures	<u>4,058,126</u>	<u>4,178,483</u>	<u>3,931,102</u>	<u>247,381</u>
Net change in fund balance	<u>\$ (209,350)</u>	<u>\$ (285,811)</u>	392,569	<u>\$ 678,380</u>
Fund balance, beginning of year			<u>2,062,019</u>	
Fund balance, end of year			<u>\$ 2,454,588</u>	

TOWN OF PALM BEACH SHORES, FLORIDA
Notes to the Budgetary
Required Supplementary Information (RSI)
General Fund
September 30, 2015

Note 1 - Basis of Accounting

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

Note 2 - Stewardship, Compliance, and Accountability

There were no departments that had an excess of expenditures over appropriations.

TOWN OF PALM BEACH SHORES, FLORIDA
Required Supplemental Information
Schedule of Funding Progress
Other Post Employment Benefits
For the Fiscal Year Ended September 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as % of Covered Payroll
09/30/10	\$	\$ 20,322	\$ 20,322	0.0%	\$1,358,549	1.50%
09/30/13	\$	\$ 16,761	\$ 16,761	0.0%	\$1,327,758	1.26%

The schedule of funding progress presented above will present multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because the fiscal year ended September 30, 2010 was the year of implementation of GASB 45 and the Town elected to apply the statement prospectively, only two years are presented in the schedule at this time. In future years, required trend data will be presented. The Town has not contributed assets to the plan at this time.

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>
Contractually required FRS contribution	\$ 115,190	\$ 131,785
FRS contributions in relation to the contractually required contribution	<u>(115,190)</u>	<u>(131,785)</u>
FRS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Town's covered employee payroll	\$ 928,290	\$ 960,255
FRS contributions as a percentage of covered payroll	12.41%	13.72%

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 Proportionate Share of Net Pension Liability
Florida Retirement System - Pension Plan

Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>
Proportion of the FRS net pension liability	0.0630379%	0.0061481%
Proportionate share of the FRS net pension liability	\$ 375,750	\$ 794,104
Town's covered employee payroll	\$ 978,876	\$ 931,550
Town's proportionate share of the FRS net pension liability as a percentage of covered payroll	38.39%	85.25%
FRS Plan fiduciary net position as a percentage of the total pension liability	96.09%	92.00%

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

Retiree Health Insurance Subsidy Program	<u>2014</u>	<u>2015</u>
Contractually required HIS contribution	\$ 16,079	\$ 19,011
HIS contributions in relation to the contractually required contribution	<u>(16,079)</u>	<u>(19,011)</u>
HIS contribution deficiency (excess)	<u>\$</u>	<u>\$</u>
Town's covered employee payroll	\$ 1,323,913	\$ 1,404,948
HIS contributions as a percentage of covered payroll	1.21%	1.35%

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 Proportionate Share of Net Pension Liability
Florida Retirement System
Retiree Health Insurance Subsidy Program

Last Ten Fiscal Years

	<u>2014</u>	<u>2015</u>
Proportion of the HIS net pension liability	0.0061481%	0.0045808%
Proportionate share of the HIS net pension liability	\$ 420,456	\$ 467,166
Town's covered employee payroll	\$ 1,322,564	\$ 1,397,393
Town's proportionate share of the HIS net pension liability as a percentage of it covered payroll	31.79%	33.43%
HIS Plan fiduciary net position as a percentage of the total pension liability	0.99%	0.50%

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

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Revenues - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2015

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Taxes			
Ad valorem taxes	\$ 3,167,300	\$ 3,235,768	\$ 68,468
Franchise fees and utility taxes	260,169	289,957	29,788
Total taxes	<u>3,427,469</u>	<u>3,525,725</u>	<u>98,256</u>
Special assessments	<u>8,000</u>	<u>7,291</u>	<u>(709)</u>
Licenses and permits			
Special permits	1,800	3,291	1,491
Business tax receipts	15,000	16,998	1,998
Building permits	77,250	169,835	92,585
Development fees		3,009	3,009
Total licenses and permits	<u>94,050</u>	<u>193,133</u>	<u>99,083</u>
Intergovernmental revenues			
Half-cent sales tax	88,104	89,177	1,073
Local option gas tax	36,887	38,793	1,906
State revenue sharing	27,236	26,066	(1,170)
Alcoholic beverage licenses	3,300	3,964	664
Recycling revenue sharing	2,400	1,707	(693)
County occupational licenses	6,000	6,148	148
Grants	19,000	20,118	1,118
Other intergovernmental revenues		310	310
Total intergovernmental revenues	<u>182,927</u>	<u>186,283</u>	<u>3,356</u>
Fines and forfeitures			
Fines and forfeitures	7,426	25,365	17,939
Police education	100	78	(22)
Total fines and forfeitures	<u>7,526</u>	<u>25,443</u>	<u>17,917</u>
Charges for services			
Sewer service	55,000	52,940	(2,060)
Beach parking	8,000	11,220	3,220
Community center rental	41,500	68,498	26,998
Special duty police services	5,000	5,940	940
Miscellaneous services	2,900	5,069	2,169
Total charges for services	<u>112,400</u>	<u>143,667</u>	<u>31,267</u>
Interest	<u>10,300</u>	<u>14,982</u>	<u>4,682</u>
Contributions from private sources	<u>39,000</u>	<u>190,545</u>	<u>151,545</u>
Miscellaneous			
Sale of surplus property		11,269	11,269
Insurance reimbursement			
Other	11,000	25,333	14,333
Total miscellaneous	<u>11,000</u>	<u>36,602</u>	<u>25,602</u>
Total revenues	<u>3,892,672</u>	<u>4,323,671</u>	<u>430,999</u>
Other financing sources			
Appropriated fund balance	<u>285,811</u>		<u>(285,811)</u>
Total revenues and other financing sources	<u>\$ 4,178,483</u>	<u>\$ 4,323,671</u>	<u>\$ 145,188</u>

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
Fiscal General Fund
For the Fiscal Year Ended September 30, 2015

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Expenditures			
General government			
Legislative			
Operating expenses	\$ 21,060	\$ 18,207	\$ 2,853
Total legislative	<u>21,060</u>	<u>18,207</u>	<u>2,853</u>
Finance and administrative			
Personal services	388,451	366,634	21,817
Operating expenses	79,720	97,316	(17,596)
Total finance and administrative	<u>468,171</u>	<u>463,950</u>	<u>4,221</u>
Legal counsel			
Operating expenses	<u>85,000</u>	<u>83,220</u>	<u>1,780</u>
Public works			
Personal services	179,596	174,897	4,699
Operating expenses	20,980	25,661	(4,681)
Total public works	<u>200,576</u>	<u>200,558</u>	<u>18</u>
Risk management			
Operating expenses	<u>115,000</u>	<u>101,696</u>	<u>13,304</u>
Total general government	<u>889,807</u>	<u>867,631</u>	<u>22,176</u>
Public safety			
Police			
Personal services	1,093,945	1,101,477	(7,532)
Operating expenses	223,600	157,677	65,923
Total police	<u>1,317,545</u>	<u>1,259,154</u>	<u>58,391</u>
911 dispatch			
Personal services	342,852	329,397	13,455
Operating expenses	13,673	7,890	5,783
Total 911 dispatch	<u>356,525</u>	<u>337,287</u>	<u>19,238</u>
Fire			
Personal services	189,641	170,654	18,987
Operating expenses	159,754	170,475	(10,721)
Total fire	<u>349,395</u>	<u>341,129</u>	<u>8,266</u>
Emergency medical services			
Operating	<u>292,549</u>	<u>292,548</u>	<u>1</u>

(Continued)

TOWN OF PALM BEACH SHORES, FLORIDA
Schedule of Departmental Expenditures - Budget to Actual
General Fund
For the Fiscal Year Ended September 30, 2015

	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued)			
Building department			
Operating expenses	\$ 128,550	\$ 128,116	\$ 434
Total public safety	<u>2,444,564</u>	<u>2,358,234</u>	<u>86,330</u>
Physical environment			
Garbage/solid waste disposal			
Operating expenses	<u>174,500</u>	<u>171,992</u>	<u>2,508</u>
Lift station sewer service			
Operating	<u>16,600</u>	<u>14,318</u>	<u>2,282</u>
Total lift station sewer service	<u>16,600</u>	<u>14,318</u>	<u>2,282</u>
Streets/storm sewers			
Operating	<u>31,125</u>	<u>25,267</u>	<u>5,858</u>
Total physical environment	<u>222,225</u>	<u>211,577</u>	<u>10,648</u>
Cultural/recreation			
Parks/parkway			
Operating expenses	<u>104,284</u>	<u>98,066</u>	<u>6,218</u>
Beach facilities			
Personal services	76,250	75,116	1,134
Operating expenses	<u>17,200</u>	<u>8,696</u>	<u>8,504</u>
Total beach facilities	<u>93,450</u>	<u>83,812</u>	<u>9,638</u>
Community center			
Operating expenses	<u>35,300</u>	<u>33,376</u>	<u>1,924</u>
Total cultural/recreation	<u>233,034</u>	<u>215,254</u>	<u>17,780</u>
Capital Outlay	<u>388,853</u>	<u>278,406</u>	<u>110,447</u>
Nondepartmentalized			
Contingency			
Total expenditures	<u>\$ 4,178,483</u>	<u>\$ 3,931,102</u>	<u>\$ 247,381</u>



NOWLEN, HOLT & MINER, P.A.

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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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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, 2015, 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 June 9, 2016.

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
June 9, 2016



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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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, 2015, and have issued our report thereon dated June 9, 2016.

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 Reports and Schedule

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*, Section 601, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated June 9, 2016, 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

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we report 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, 2015.

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.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require that we report 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, 2015, 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, 2015. 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.

Other Matters

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 did not have any such recommendations.

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
June 9, 2016



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, 2015. Management is responsible for the Town of Palm Beach Shores, Florida’s compliance with those requirements. Our responsibility is to express an opinion on the Town of Palm Beach Shores, Florida’s compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Town of Palm Beach Shores, Florida’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides 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 specified requirements.

In our opinion, the Town of Palm Beach Shores, Florida complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2015.

This report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and Florida House of Representative, the Florida Auditor General, applicable management, and 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
June 9, 2016