

**Town of Palm Beach Police Officers'  
Retirement System**

**Financial Statements  
Years Ended September 30, 2011 and 2010**



**Goldstein Schechter Koch**  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

# Town of Palm Beach Police Officers' Retirement System

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## Independent Auditors' Report

Board of Trustees  
Town of Palm Beach Police Officers' Retirement System  
Palm Beach, Florida

We have audited the accompanying statements of plan net assets of the Town of Palm Beach Police Officers' Retirement System (the "Plan") as of September 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Town of Palm Beach Police Officers' Retirement System as of September 30, 2011 and 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the required supplementary information, as listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The required supplementary information for the years ended September 30, 2006 and 2007 was reported on by Koch Reiss & Co., P.A., whose report states that they did not audit this information and did not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Plan. The accompanying other supplementary schedules of investment expenses and administrative expenses (other supplementary schedules) as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary schedules have been subjected to auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Goldstein Schechter Koch, P.A.*

Hollywood, Florida  
February 10, 2012

**Town of Palm Beach  
Police Officers' Retirement System  
249 Royal Palm Way #301  
Palm Beach, FL 33480  
Tel: 561-227-6449  
Fax: 561-804-6901**

**Management's Discussion and Analysis  
(Required Supplementary Information) – Unaudited  
September 30, 2011 and 2010**

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Our discussion and analysis of the Town of Palm Beach Police Officers' Retirement System (the "Plan") financial performance provides an overview of the Plan's financial activities and funding conditions for the fiscal years ended September 30, 2011 and 2010. Please read it in conjunction with the Plan's financial statements, which follows this discussion.

*Financial Highlights*

- Plan assets exceeded its liabilities at the close of fiscal years ended September 30, 2011 and 2010 by \$54,154,099 and \$55,461,520, respectively, (reported as net assets held in trust for pension benefits). Net assets are held in trust to meet future benefit payments. The decrease of (\$1,307,421) and the increase of \$2,896,335, of net assets of the respective years have resulted primarily from the changes in the fair value of the Plan's investments due to volatile financial markets.
- The Plan's funded ratio, a comparison of the actuarial value of assets to the actuarial accrued pension benefit liability, changed from 90.0% as of the September 30, 2008 actuarial valuation to 84.8% as of the September 30, 2009 valuation and 83.6% as of the September 30, 2010 valuation.
- Receivables at September 30, 2011 increased by \$498,491 (or 291.8%) due primarily to an increase in employer contributions receivable.

Receivables at September 30, 2010 increased by \$5,411 (or 3.3%) due primarily to an increase in receivable for securities sold.

- For the fiscal year ended September 30, 2011, liabilities increased by \$537,633 (or 744.2%) due primarily to an increase in prepaid City contributions for the fiscal year ended September 30, 2011 received in advance.

For the fiscal year ended September 30, 2010, liabilities increased by \$37,023 (or 105.1 %) due primarily to an increase in payable for securities purchased at fiscal year end.

- For the fiscal year ended September 30, 2011, Town contributions to the Plan increased \$6,674 (or 0.3%). This increase is due primarily to an increase in the Town's actuarially computed minimum required contribution. Actual Town contributions were \$2,286,245 and \$2,279,571 for 2011 and 2010, respectively.

For the fiscal year ended September 30, 2010, Town contributions to the Plan increased \$174,847 (or 8.3%). This increase is due primarily to an increase in the Town's actuarially computed minimum required contribution. Actual Town contributions were \$2,279,571 and \$2,104,724 for 2010 and 2009, respectively.

## **Management's Discussion and Analysis** **(Required Supplementary Information) – Unaudited** **September 30, 2011 and 2010**

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### *Financial Highlights - continued*

- For the fiscal year ended September 30, 2011 member contributions decreased by \$38,957 (or 9.1%). Actual member contributions were \$387,938 and \$426,895 for 2011 and 2010, respectively. Member contributions have fluctuated based on the number of active members.

For the fiscal year ended September 30, 2010 member contributions increased by \$4,725 (or 1.1 %). Actual member contributions were \$426,895 and \$422,170 for 2010 and 2009, respectively. Member contributions have fluctuated based on the number of active members and increases in salaries.

- For the fiscal year ended September 30, 2011, net investment income was \$212,978 compared with \$3,821,040 for fiscal year ended September 30, 2010. Actual results were (\$105,932) and \$3,525,600 in net (depreciation) appreciation in fair value of investments for 2011 and 2010, respectively, and \$557,619 and \$535,908 in income from interest and dividends for 2011 and 2010 respectively. Investment expenses decreased by \$1,759 (or 0.7%).

For the fiscal year ended September 30, 2010, net investment income was \$3,821,040 compared with a loss of \$1,130,407 for fiscal year ended September 30, 2009. Actual results were \$3,525,600 and \$(1,479,266) in net appreciation (depreciation) in fair value of investments for 2010 and 2009, respectively, and \$535,908 and \$590,542 in income from interest and dividends and other income of \$0 and \$563 for 2010 and 2009, respectively. Investment expenses decreased by \$1,778 (or 0.7 %).

- For the fiscal year ended September 30, 2011, benefit payments and refunds of contributions increased by \$567,597 (or 15.5%).

For the fiscal year ended September 30, 2010, benefit payments and refunds of contributions increased by \$90,070 (or 2.5%).

- For the fiscal year ended September 30, 2011, administrative expenses decreased \$5,691 from 2010 (or 3.0%), due primarily to the decrease in professional fees.

For the fiscal year ended September 30, 2010, administrative expenses decreased \$19,872 from 2009 (or 9.5%), due primarily to the decrease in professional fees.

### *Plan Highlights*

For the fiscal year ended September 30, 2011, the relative return of the portfolio was -0.4% for the year, which was below the Target Index of 0.5%. Actual investment income from investments in 2011 was \$212,978 compared with \$3,821,040 in 2010.

For the fiscal year ended September 30, 2010, the relative return of the portfolio was 8.7% for the year, which was above the Target Index of 7.4%. Actual investment income from investments in 2010 was \$3,821,040 compared with a loss of (\$1,130,407) in 2009.

## **Management's Discussion and Analysis**

**(Required Supplementary Information) – Unaudited**  
**September 30, 2011 and 2010**

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### *Overview of the Financial Statements*

The basic financial statements include the Statements of Plan Net Assets and Statements of Changes in Plan Net Assets and Notes to the Financial Statements. The Plan also includes in this report additional information to supplement the financial statements.

The Plan presents two types of required supplementary schedules, which provide historical trend information about the Plan's funding. The two types of schedules include a schedule of funding progress and a schedule of contributions by employer and other contributing entity.

The Plan prepares its financial statements on the accrual basis of accounting and in accordance with generally accepted accounting principles in the United States of America. These statements provide information about the Plan's overall financial status.

### *Description of the Financial Statements*

The *Statement of Plan Net Assets* presents information that includes all of the Plan's assets and liabilities, with the balance representing the Net Assets Held in Trust for Pension Benefits. It is a snapshot of the financial position of the Plan at that specific point in time and reflects the resources available to pay employees, retirees and beneficiaries at that point in time.

The *Statement of Changes in Plan Net Assets* reports how the Plan's net assets changed during the fiscal year. The additions and deductions to net assets are summarized in this statement. The additions include contributions to the retirement plans from employers (Town and State) and employees (members) and net investment income, which include interest, dividends, investment expenses, and the net appreciation or depreciation in the fair value of investments. The deductions include benefit payments, refunds of member contributions, and administrative expenses.

The *Notes to the Financial Statements* are presented to provide the information necessary for a full understanding of the financial statements. They include additional information not readily evident in the statements themselves such as a description of the Plan, contributions, significant accounting policies, funding policy, and investment risk disclosure.

There are also two *Required Supplementary Schedules* included in this report as required by the Governmental Accounting Standards Board. The *Schedule of Funding Progress* presents historical trend information about the actuarially determined funded status of the Plan from a long-term, ongoing plan perspective, and the progress made in accumulating sufficient assets to fund benefit payments as they become due. The *Schedule of Employer and Other Contributing Entity* presents historical trend information about the annual required contributions of employers and percentage of such contributions in relation to actuarially determined requirements for the years presented.

Additional information is presented as part of *Other Supplementary Schedules*. This section is not required but management has chosen to include it. It includes *Schedules of Investment Expenses and Administrative Expenses*. The *Schedule of Investment Expenses* presents the expenses incurred in managing and monitoring the investments of the Plan and include financial management, consultant, and custodial fees. The *Schedule of Administrative Expenses* presents the expenses incurred in the administration of the Plan.

**Management's Discussion and Analysis**  
**(Required Supplementary Information) – Unaudited**  
**September 30, 2011 and 2010**

*Statements of Plan Net Assets*

The table below reflects condensed comparative statements of plan net assets as of September 30:

	2011	2010	2009
Cash and cash equivalents	\$ 1,941,532	\$ 2,544,647	\$ 3,358,866
Receivables	669,299	170,808	165,397
Other assets	8,096	8,072	9,020
Investments	52,145,046	52,810,234	49,067,120
Total assets	54,763,973	55,533,761	52,600,403
Liabilities	609,874	72,241	35,218
Net assets held in trust for pension benefits	\$ 54,154,099	\$ 55,461,520	\$ 52,565,185

*Statements of Changes in Plan Net Assets*

The tables below reflect condensed comparative summaries of the changes in plan net assets and reflect the activities of the Plan for the fiscal years ended September 30:

	2011	2010	2009
<b>Additions:</b>			
Contributions			
Town	\$ 2,286,245	\$ 2,279,571	\$ 2,104,724
Member	387,938	426,895	422,170
State	210,019	211,524	225,628
Total	2,884,202	2,917,990	2,752,522
Net investment (loss) income	212,978	3,821,040	(1,130,407)
Total additions	3,097,180	6,739,030	1,622,115
<b>Deductions:</b>			
Benefits paid	4,138,445	3,639,601	3,478,322
Participants' contributions refunded	83,054	14,301	85,510
Administrative expenses	183,102	188,793	208,665
Total deductions	4,404,601	3,842,695	3,772,497
Net (decrease) increase	(1,307,421)	2,896,335	(2,150,382)
Net assets held in trust for pension benefits at beginning of year	55,461,520	52,565,185	54,715,567
Net assets held in trust for pension benefits at end of year	\$ 54,154,099	\$ 55,461,520	\$ 52,565,185

**Management's Discussion and Analysis**  
**(Required Supplementary Information) – Unaudited**  
**September 30, 2011 and 2010**

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*Statement of Changes in Plan Net Assets - continued*

The Plan's investment activity, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for the fiscal year ended 2011 decreased from those of fiscal year ended 2010 and increased from those of fiscal year ended 2009.

The benefit payments are a function of changing payments to retirees, their beneficiary (if the retiree is deceased) and new retirements during the period.

*Asset Allocation*

At the end of the fiscal year ended September 30, 2011, the domestic equity portion comprised 20.3% (\$10,988,969) of the total portfolio. The allocation to fixed income securities was 23.8% (\$12,861,784), while cash and cash equivalents was 3.6% (\$1,941,532). The portion of investments allocated to international equity was \$7,290,548 or 13.5% of the total portfolio while real estate was 8.3% (\$4,491,822) and 30.5% (\$16,511,923) were alternative investments.

At the end of the fiscal year ended September 30, 2010, the domestic equity portion comprised 21.5% (\$11,923,204) of the total portfolio. The allocation to fixed income securities was 23.8% (\$13,157,713), while cash and cash equivalents was 4.6% (\$2,544,647). The portion of investments allocated to international equity was \$7,482,995 or 13.5% of the total portfolio while real estate was 10.5% (\$5,793,201) and 26.1% (14,453,121) were alternative investments.

The target asset allocation was as follows as of September 30:

	<b>2011</b>	<b>2010</b>
Equity (domestic)	<b>20%</b>	<b>20%</b>
Fixed income	<b>20%</b>	<b>20%</b>
Equity (international)	<b>15%</b>	<b>15%</b>
Alternative investments	<b>30%</b>	<b>30%</b>
Real estate	<b>15%</b>	<b>15%</b>
Cash	<b>0%</b>	<b>0%</b>

*Contacting the Plan's Financial Management*

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Town of Palm Beach Police Officers' Retirement System, 249 Royal Palm Way #301 Palm Beach, FL 33480.

# Town of Palm Beach Police Officers' Retirement System

## Statements of Plan Net Assets

September 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 1,941,532	\$ 2,544,647
Receivables:		
Town contributions	477,190	-
Interest and dividends	60,937	65,808
Receivable for securities sold	131,172	105,000
<b>Total receivables</b>	<b>669,299</b>	<b>170,808</b>
Other assets	8,096	8,072
Investments, at fair value:		
U.S. government securities	1,352,291	1,452,987
Corporate bonds and notes	7,387,734	8,374,671
Domestic fixed income funds	4,121,759	3,330,055
Common stock	4,820,728	5,026,045
Domestic equity funds	6,168,241	6,897,159
International equity funds	7,290,548	7,482,995
Real estate funds	4,491,822	5,793,201
Alternative investments	16,511,923	14,453,121
<b>Total investments</b>	<b>52,145,046</b>	<b>52,810,234</b>
<b>Total assets</b>	<b>54,763,973</b>	<b>55,533,761</b>
<b>Liabilities</b>		
Accounts payable	30,850	41,921
Payable for securities purchased	36,511	30,320
Prepaid Town contributions	542,513	-
<b>Total liabilities</b>	<b>609,874</b>	<b>72,241</b>
Net assets held in trust for pension benefits	\$ 54,154,099	\$ 55,461,520
(a schedule of funding progress is presented on page 19)		

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

# Town of Palm Beach Police Officers' Retirement System

## Statements of Changes in Plan Net Assets

For the Years Ended September 30, 2011 and 2010

	2011	2010
<b>Additions</b>		
Contributions:		
Town	\$ 2,286,245	\$ 2,279,571
Member	387,938	426,895
State	210,019	211,524
<b>Total contributions</b>	<b>2,884,202</b>	<b>2,917,990</b>
Investment income:		
Net (depreciation) appreciation in fair value of investments	(105,932)	3,525,600
Interest and dividends	557,619	535,908
<b>Total investment income</b>	<b>451,687</b>	<b>4,061,508</b>
Less: investment expenses	238,709	240,468
<b>Net investment income</b>	<b>212,978</b>	<b>3,821,040</b>
<b>Total additions</b>	<b>3,097,180</b>	<b>6,739,030</b>
<b>Deductions</b>		
Benefits paid	4,138,445	3,639,601
Participants' contributions refunded	83,054	14,301
Administrative expenses	183,102	188,793
<b>Total deductions</b>	<b>4,404,601</b>	<b>3,842,695</b>
Net (decrease) increase	(1,307,421)	2,896,335
Net assets held in trust for pension benefits		
Beginning of year	55,461,520	52,565,185
End of year	\$ 54,154,099	\$ 55,461,520

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

# Town of Palm Beach Police Officers' Retirement System

## Notes to Financial Statements

September 30, 2011 and 2010

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### Note 1 – Description of the Plan

#### *Organization*

The Town of Palm Beach, Florida (the "Town") contributed to one single-employer defined benefit pension plan, the Town of Palm Beach Public Safety Retirement System, which covered substantially all eligible Police and Fire-Rescue personnel of the Town for the period from January 1, 2000 through September 30, 2004. Effective October 1, 2004 a separate plan was established for the Fire-Rescue employees pursuant to the Town Ordinance 21-04, and the corresponding assets and liabilities related to the Fire-Rescue members were transferred to the new Town of Palm Beach Firefighters' Retirement System. In conjunction with this transfer, the Town of Palm Beach Public Safety Retirement System changed its name to the Town of Palm Beach Police Officers' Retirement System (the "Plan").

The Plan is governed by a five member Board of Trustees (the "Trustees"). The Trustees consist of one Town resident appointed by the Trustees, two Town residents appointed by the Town Council, and two representatives elected from the Police department. The Plan is sponsored by the Town, and is included as a pension trust fund in the Town's comprehensive annual financial report as part of the Town's financial reporting entity.

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the plan agreement for more detailed and comprehensive information.

#### *Participants*

Each full time sworn police officer employed by the Town of Palm Beach, Florida.

#### *Membership*

At September 30, membership in the Plan consisted of:

	2010	2009
Retirees and beneficiaries currently receiving benefits, DROP and terminated members entitled to benefits, but not yet receiving them.	85	83
Active plan participants:		
Vested	29	25
Nonvested	39	45
<b>Total participants</b>	<b>153</b>	<b>153</b>

#### *Funding Requirements*

##### Member Contributions:

Member contributions are equal to 6.98% of covered compensation and each member's actual contributions are individually accumulated.

**Town of Palm Beach Police Officers' Retirement System**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

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**Note 1 – Description of the Plan - continued**

*Funding Requirements - continued*

Member Contributions - continued:

If a member terminates their employment before accumulating aggregate time of 10 years toward retirement, the accumulated contributions will be returned to the members, without interest.

Town and State Contributions:

Pursuant to Florida Statutes, Chapters 175 and 185, contributions from the State of Florida Department of Insurance consist of an excise tax imposed by the Town upon certain casualty insurance companies on the gross amount of receipts of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the Town. The allowable portion of the State contribution is used to reduce the Town's contribution when received.

The Town is expected to contribute such additional amounts as are necessary on an actuarial basis to fund the Plan's expenses, normal cost and to amortize the unfunded actuarial accrued liability.

*Pension Benefits*

Normal Retirement:

Any member who has completed 20 years of creditable service, regardless of age; or has attained 50 years of age and completed 10 or more years of creditable service is eligible for normal retirement. Members with at least 10 years of service who retire after September 30, 1990 are eligible for normal retirement benefit when the individual's age plus credited service totals 65 years or more.

The normal retirement benefit is determined by multiplying the Average Final Compensation, as defined in the ordinance, times the greater of (a) 3.5% per year of credited service rendered to a maximum of 25 years, or (b) 2.0% per year of credited service rendered to a maximum of 50 years.

Early retirement, disability, death and other benefits are also provided.

Cost-of-living adjustment:

Members who retire after September 30, 1968 and prior to October 1, 1990 receive an annual 1.0% cost-of-living adjustment computed on the base benefit. Other adjustments have been made periodically. Members who retire after September 30, 1990 will receive 2.0% annual cost-of-living adjustment subsequent to an initial 3 years from date of retirement.

Supplemental Retirement Benefit:

The Board of Trustees may annually authorize a supplemental pension distribution to eligible persons if the Plan assets have earned more than 8% as of September 30<sup>th</sup> and the Plan has positive actuarial experience. The total distribution is based on the actuarially determined return of the Plan, net of expenses and subject to accumulated gains/(losses) limitations, that exceeds 8.0% of assets but does not exceed 10.0% of such assets.

# **Town of Palm Beach Police Officers' Retirement System**

## **Notes to Financial Statements**

**September 30, 2011 and 2010**

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### **Note 1 – Description of the Plan - continued**

#### *Deferred Retirement Option Plan:*

Members who continue employment with the Town past normal retirement date may freeze their accrued benefit and enter the Deferred Retirement Option Plan (DROP). Maximum participation in the DROP shall be 60 months.

For members electing participation in the DROP, an individual DROP account shall be created. Payment shall be made by the Plan into the member's DROP account in an amount equal to the regular monthly retirement benefit which the participant would have received had the participant separated from service and commenced receipt of pension benefits plus interest. Interest shall be based on the actual rate of return for the Plan.

Upon termination of employment, but not more than five years after entry into the DROP, the balance in the member's DROP account, including interest, is payable to them and they also begin to receive their (frozen) monthly retirement benefit.

The value of the DROP account at September 30, 2011 and 2010 was \$1,523,149 and \$1,602,209 respectively, which is held in self-directed investments outside the Plan.

#### *Investments*

The Plan has contracts with investment managers who supervise and direct the investment of equity and fixed income securities. In addition, the Plan utilizes an investment consultant who monitors the investing activity. The investments owned are held by a custodian in the name of the Plan. The Plan provides for investment in U.S. Government securities, money market funds, bonds, notes, domestic and international equity securities, real estate and alternative investments.

### **Note 2 – Summary of Significant Accounting Policies**

#### *Basis of Accounting*

The Plan's financial statements are prepared using the accrual basis of accounting. Member contributions are recognized as revenues in the period in which the contributions are due. Town contributions are recognized as revenues when due pursuant to actuarial valuations. State contributions are recognized as revenue in the period in which they are approved by the State. Interest and other income are recorded as earned and dividend income is recorded as of the ex-dividend date. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

#### *Cash Equivalents*

The Plan considers all highly liquid investment with an original maturity of one year or less when purchased, to be cash equivalents.

**Town of Palm Beach Police Officers' Retirement System**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

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**Note 2 – Summary of Significant Accounting Policies - continued**

*Investments*

Plan investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair value of quoted investments is based on the closing sales price or bid price as reported by recognized security exchanges. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at September 30, 2011 and 2010. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital expenditures. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, discounted cash flow analysis, recent sales prices of comparable investments, and other pertinent information.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Dividends and interest income are recognized as earned. Purchases and sales of investments are recorded on a trade-date basis.

Given the inherent nature of investments, it is reasonably possible that changes in the value of those investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Income Tax Status*

The Plan is tax exempt from Federal income taxes under the Internal Revenue Code and, therefore has recorded no income tax liability or expense.

*Subsequent Events*

Management has evaluated subsequent events through February 10, 2012, the date which the financial statements were available for issue.

# Town of Palm Beach Police Officers' Retirement System

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 2 – Summary of Significant Accounting Policies - continued

#### *Risks and Uncertainties*

Contributions to the Plan and the actuarial information included in the required supplementary information (RSI) are reported based on certain assumptions pertaining to the interest rates, inflation rates and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in settling assumptions, that the effect of such changes could be material to the financial statements.

### Note 3 – Funded Status and Funding Progress

The funded status of the Plan as of September 30, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

<b>Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as % of Covered Payroll</b>
9/30/10	\$ 64,079	\$ 76,694	\$ 12,615	83.6%	\$ 6,043	208.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	9/30/10
Actuarial cost method	Entry age
Amortization method	Level percent-of-payroll
Remaining amortization period	1 - 30 years
Asset valuation method	5 Year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.2 - 9.8%
Includes inflation and other general increases at	5.5%
Cost of living adjustments	Members who retire after 9-30-68 and prior to 10-1-90 receive an annual 1.0% increase computed on the base benefit. Members after 9-30-90 will be increased 2.0% annually based on total pension after a 3 year deferred period. Other adjustments have been made periodically.

# Town of Palm Beach Police Officers' Retirement System

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 4 – Contributions

#### *Actual Contributions*

The actual Town contribution for active members and State contributions for the years ended September 30, 2011 and 2010 were \$2,496,264 and \$2,491,095, respectively and the actual amount of covered payroll was approximately \$5,479,000 and \$6,570,000 for fiscal years ended September 30, 2011 and 2010, respectively.

Town and State contributions consisted of the following:

2011		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 2,286,245	41.7%
State contribution	210,019	3.8
<b>Total</b>	<b>\$ 2,496,264</b>	<b>45.6%</b>

  

2010		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 2,279,571	34.7%
State contribution	211,524	3.2
<b>Total</b>	<b>\$ 2,491,095</b>	<b>37.9%</b>

Member contributions were \$387,938 and \$426,895 for the years ended September 30, 2011 and 2010, respectively.

#### *Actuarially Determined Contributions*

The contributions required from the Town and the State of Florida for the fiscal years ended September 30, 2011 and 2010, were actuarially determined using valuation dates of September 30, 2009 and 2008, respectively. The actuarially computed annual covered payroll used in the September 30, 2009 and 2008 valuation was approximately \$6,187,000 and \$5,309,000, respectively, resulting in actuarially computed required Town and State contributions of \$3,038,777 and \$2,491,095 for fiscal years ended September 30, 2011 and 2010, respectively. However, recent changes adopted by the State of Florida required the Plan Actuary to calculate the required Town and State contributions for September 30, 2011 based on the contribution percentage rate (45.56%) stated in the September 30, 2009 valuation applied to the actual pensionable wages, as opposed to a specific dollar amount based on actuarially computed projected payroll. As a result of this change, the Plan has recorded a revised minimum Town and State contribution of \$2,496,264 resulting in a prepaid Town contribution of \$542,513 for the fiscal year ended September 30, 2011.

The required Town and State contribution covers the following as of September 30:

2011		
	Amount	Percent of Actuarially Computed Annual Covered Payroll
Normal cost	\$ 1,943,902	31.4%
Payment to amortize unfunded liability	552,362	8.9
<b>Total</b>	<b>\$ 2,496,264</b>	<b>40.3%</b>

**Town of Palm Beach Police Officers' Retirement System**  
**Notes to Financial Statements**  
**September 30, 2011 and 2010**

**Note 4 – Contributions - continued**

*Actuarially Determined Contributions - continued*

	2010	
	Amount	Percent of Actuarially Computed Annual Covered Payroll
Normal cost	\$ 2,134,354	40.2%
Payment to amortize unfunded liability	356,741	6.7
<b>Total</b>	<b>\$ 2,491,095</b>	<b>46.9%</b>

**Note 5 – Deposit and Investment Risk Disclosures**

*Investment Authorization*

The Plan's investment policy is determined by the Board of Trustees. The policy's objective is to obtain a reasonable total rate of return - defined as interest and dividend income plus realized and unrealized capital gains and/or losses - that meets or exceeds the actuarial interest rate assumption net of fees to ensure the Plan is actuarially sound. The investment policy of the Plan stipulates that the trustees shall, in acquiring, investing, reinvesting, exchanging, retaining, selling and maintaining property for the benefit of the Plan exercise the care, skill, prudence, and diligence that a prudent man acting in such matters would use in the conduct of an enterprise of like character and with like aim. The policy also states that investments of the Plan will be diversified so as to minimize the risk of large loss, unless under the circumstances it is clearly prudent not to do so.

The Trustees are authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account. Investment in all equity securities shall be limited to those listed on one or more recognized national exchanges or on the National Market System and limited to no more than 60% of the Plan's total asset value with no more than 5% of the Plan's total assets, invested in the common stock of any one company. Each investment manager shall monitor assets under its jurisdiction to ensure that no purchase shall be made which would cause the holding of any one issuer to exceed 5% of the investment manager's maximum equity commitment valued at market. Investments in stocks of foreign companies shall be limited to 15% of the total Plan's assets.

Managers shall not invest in bonds or preferred stocks rated below investment grade without prior approval of the Board. In the event a security is split-rated, the higher rating will apply. Securities, which are unrated, may be purchased if, in the judgment of the manager, they would carry an investment grade rating. In the event an investment grade security is downgraded to below investment grade, the manager shall sell the security within a reasonable time period.

# Town of Palm Beach Police Officers' Retirement System

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 5 – Deposit and Investment Risk Disclosures - continued

#### *Types of Investments*

Florida statutes and Plan investment policy authorize the Trustees to invest funds in various investments. The current target allocation of these investments at market as of September 30 is as follows:

Authorized investments	2011	2010
Domestic equities	20%	20%
Fixed income	20%	20%
International equities	15%	15%
Cash equivalents	0%	0%
Alternative investments	30%	30%
Real estate	15%	15%

#### *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities.

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30:

2011					
Investment Maturities - (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 134,319	\$ -	\$ -	\$ -	\$ 134,319
U.S. agencies	1,217,972	-	180,233	127,922	909,817
Corporate bonds and notes	7,387,734	508,073	2,739,388	1,396,468	2,743,805
Bond funds	4,121,759	-	-	4,121,759	-
<b>Total fixed income</b>	<b>\$ 12,861,784</b>	<b>\$ 508,073</b>	<b>\$ 2,919,621</b>	<b>\$ 5,646,149</b>	<b>\$ 3,787,941</b>

2010					
Investment Maturities - (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 189,227	\$ -	\$ -	\$ -	\$ 189,227
U.S. agencies	1,263,760	-	36,970	347,443	879,347
Corporate bonds and notes	8,374,671	1,165,675	2,373,030	1,153,270	3,682,696
Bond funds	3,330,055	-	-	3,330,055	-
<b>Total fixed income</b>	<b>\$ 13,157,713</b>	<b>\$ 1,165,675</b>	<b>\$ 2,410,000</b>	<b>\$ 4,830,768</b>	<b>\$ 4,751,270</b>

# Town of Palm Beach Police Officers' Retirement System

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 5 – Deposit and Investment Risk Disclosures - continued

#### Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

The following tables disclose credit ratings by investment type, at September 30, as applicable:

	2011		2010	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. government guaranteed*	\$ 1,352,291	10.5%	\$ 1,452,987	11.0%
Quality rating of credit risk debt securities				
AAA	447,726	3.5	649,969	4.9
AA+	178,389	1.4	116,453	0.9
AA	126,989	1.0	110,123	0.8
AA-	368,527	2.9	351,672	2.7
A+	721,725	5.6	1,126,233	8.6
A	803,061	6.2	1,123,479	8.5
A-	2,104,281	16.4	1,875,694	14.3
BBB+	802,957	6.2	1,149,514	8.7
BBB	913,441	7.1	1,246,416	9.5
BBB-	878,288	6.8	557,781	4.2
Bond fund**	4,121,759	32.1	3,330,055	25.4
Not rated	42,350	0.3	67,337	0.5
Total credit risk debt securities	11,509,493	89.5	11,704,726	89.0
Total fixed income securities	\$ 12,861,784	100.0%	\$ 13,157,713	100.0%

\* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

\*\* At September 30, 2011 Bond funds are comprised of securities rated AAA (80%); AA (3%); A (10%); BBB (7%) per the Barclays Capital US Aggregate Bond Index.

At September 30, 2010 Bond funds are comprised of securities rated AAA (89%); AA (2%); A (5%); BBB (4%) per the Barclays Capital US Aggregate Bond Index.

# **Town of Palm Beach Police Officers' Retirement System**

## **Notes to Financial Statements**

**September 30, 2011 and 2010**

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### **Note 5 – Deposit and Investment Risk Disclosures - continued**

#### *Concentration of Credit Risk*

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of plan net assets at September 30, 2011 and 2010.

#### *Custodial Credit Risk*

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name.

Consistent with the Plan's investment policy, most of the investments are held by Plan's custodial bank and registered in the Plan's name. The Plan's contract with its custodian allows the custodian to hold securities of the Plan registered in the Custodian's or its Agent's nominee name, in bearer form, book entry form, a clearing house corporation or a depository, so long as the Custodian's records clearly indicates the assets held are part of the Plan's account.

### **Note 6 – Commitments**

#### *Operating Leases*

The Plan and Palm Beach Firefighters' Retirement System is obligated under a joint rental operating lease for office space which expired on April 30, 2011 and was subsequently renewed until April 30, 2012. The base rent of the lease is \$975 per month plus applicable sales taxes and is prorated 50/50 for each plan respectively. Total rental expense for the fiscal years ended September 30, 2011 and 2010 was \$7,275 and \$8,334, respectively.

## **Required Supplementary Information**

# Town of Palm Beach Police Officers' Retirement System

## Required Supplementary Information

### Schedule of Funding Progress and Schedule of Contributions from Employer and other

#### Contributing Entity – (unaudited)

September 30, 2011

**Schedule "1"**  
**Schedule of Funding Progress**  
(dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
09/30/05*	\$ 48,656	\$ 56,996	\$ 8,340	85.4%	\$ 5,348	155.9%
09/30/06	52,614	60,835	8,221	86.5	5,769	142.5
09/30/07	58,486	63,742	5,256	91.8	5,334	98.5
09/30/08	61,668	68,525	6,857	90.0	5,309	129.2
09/30/09	63,000	74,257	11,257	84.8	6,187	181.9
09/30/10	64,079	76,694	12,615	83.6	6,043	208.8

**Schedule "2"**  
**Schedule of Contributions by**  
**Employer and Other Contributing Entity**

Year Ended September 30,	Annual Required Contribution	Percentage Contributed
2006*	\$ 1,942,589	100%
2007*	2,448,457	100
2008	2,592,527	100
2009	2,330,352	100
2009	2,491,095	100
2010	2,496,264	100

\* After changes in benefit provision and/or actuarial assumptions and/or actuarial cost methods.

## **Other Supplementary Schedules**

# Town of Palm Beach Police Officers' Retirement System

## Other Supplementary Schedules of Investment Expenses and Administrative Expenses

For the Years Ended September 30, 2011 and 2010

	2011	2010
<b>Schedule "1" - Schedule of Investment Expenses</b>		
Financial management expenses:		
Richmond Capital Management, Inc.	\$ 13,321	\$ 14,570
Stralem & Co., Inc.	22,947	21,625
Geneva Capital Management Ltd.	14,348	11,699
Income Research & Management	25,263	37,364
State Street Trust Company	60,645	53,825
Total financial management expenses	136,524	139,083
Investment consultant fees:		
Prime Buchholz & Associates, Inc.	60,000	60,000
Investment custodial fees:		
State Street Bank and Trust Company	42,185	41,385
Total investment expenses	\$ 238,709	\$ 240,468

<b>Schedule "2" - Schedule of Administrative Expenses</b>		
Professional services:		
Accounting	\$ 48,396	\$ 33,996
Actuarial	13,700	14,175
Administrator	36,770	36,553
Audit	18,900	16,500
Legal	32,191	53,346
Total professional services	149,957	154,570
Other:		
Bank charges	1,296	516
Insurance	19,470	21,245
Postage and office expense	1,648	1,851
Rent	7,275	8,334
Telephone	835	718
Travel	2,621	1,559
Total other	33,145	34,223
Total administrative expenses	\$ 183,102	\$ 188,793



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