

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

**Financial Statements
Years Ended September 30, 2010 and 2009**



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, 2010 and 2009, 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, 2010 and 2009, 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, 2005 through 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 Fund. The accompanying other supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary schedules have been subjected to auditing procedures applied in the audits of the basic financial statements, and, in our opinion, are 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, 2011

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Police Officers' Retirement System
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Palm Beach, FL 33480
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Management's Discussion and Analysis
(Required Supplementary Information) – Unaudited
September 30, 2010 and 2009

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, 2010 and 2009. 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, 2010 and 2009 by \$55,461,520 and \$52,565,185, respectively, (reported as net assets held in trust for pension benefits). Net assets are held in trust to meet future benefit payments. The increase of \$2,896,335 and the decrease of \$(2,150,382), 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 91.8% as of the September 30, 2007 actuarial valuation to 90.0% as of the September 30, 2008 valuation and 84.8% as of the September 30, 2009 valuation.
- 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, 2009, liabilities decreased by \$50,228 (or 58.8%) due primarily to a decrease in payable for securities purchased at fiscal year end.

- 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.

For the fiscal year ended September 30, 2009, Town contributions to the Plan decreased \$261,622 (or 11.1%). This decrease is due primarily to a decrease in the Town's actuarially computed minimum required contribution. Actual Town contributions were \$2,104,724 and \$2,366,346 for 2009 and 2008, respectively.

- 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.

Management's Discussion and Analysis (Required Supplementary Information) – Unaudited September 30, 2010 and 2009

Financial Highlights - continued

For the fiscal year ended September 30, 2009 member contributions increased by \$28,146 (or 7.1%). Actual member contributions were \$422,170 and \$394,024 for 2009 and 2008, respectively. Member contributions have fluctuated based on the number of active members and increases in salaries.

- 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, 2009, net investment loss was \$1,130,407 compared with a loss of \$7,422,758 for fiscal year ended September 30, 2008. Actual results were \$(1,479,266) and \$(8,431,923) in net depreciation in fair value of investments for 2009 and 2008, respectively, and \$590,542 and \$1,245,141 in income from interest and dividends and other income of \$563 and \$51,425 for 2009 and 2008, respectively. Investment expenses decreased by \$45,155 (or 15.7 %).

- 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, 2009, benefit payments and refunds of contributions increased by \$419,308 (or 13.3%).

- 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.

For the fiscal year ended September 30, 2009, administrative expenses increased \$39,383 from 2008 (or 23.3%), due primarily to the increase in professional fees.

Plan Highlights

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.

For the fiscal year ended September 30, 2009, the relative return of the portfolio was -2.1% for the year, in line with the Target Index of -2.2%. Actual investment losses from investments in 2009 were (\$1,130,407) compared with (\$7,422,758) in 2008.

Using the Audited Financial Statements

The financial statements reflect the activities of the Town of Palm Beach Police Officers' Retirement System and are reported in the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets. These statements are presented on a full accrual basis, reflect all plan activities as incurred and are based on a snapshot in time of account balances of investments at fiscal year end.

Management's Discussion and Analysis
(Required Supplementary Information) – Unaudited
September 30, 2010 and 2009

Statement of Plan Net Assets

The following condensed comparative Statement of Plan Net Assets demonstrates the investment position of the Plan.

	2010	2009	2008
Cash and cash equivalents	\$ 2,544,647	\$ 3,358,866	\$ 11,967,589
Receivables	170,808	165,397	77,163
Other assets	8,072	9,020	-
Investments	52,810,234	49,067,120	42,756,261
Total assets	55,533,761	52,600,403	54,801,013
Liabilities	72,241	35,218	85,446
Net assets held in trust for pension benefits	\$ 55,461,520	\$ 52,565,185	\$ 54,715,567

Statement of Changes in Plan Net Assets

The Statement of Changes in Plan Net Assets, displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (or decrease) in Net Assets. The table below reflects a condensed comparative summary of the changes in net assets and reflects the activities of the Plan.

	2010	2009	2008
Additions:			
Contributions			
Town	\$ 2,279,571	\$ 2,104,724	\$ 2,366,346
Member	426,895	422,170	394,024
State	211,524	225,628	229,543
Total	2,917,990	2,752,522	2,989,913
Net investment income (loss)	3,821,040	(1,130,407)	(7,422,758)
Total additions (reductions)	6,739,030	1,622,115	(4,432,845)
Deductions:			
Benefits paid	3,639,601	3,478,322	3,117,941
Participants' contributions refunded	14,301	85,510	26,583
Administrative expenses	188,793	208,665	169,282
Total deductions	3,842,695	3,772,497	3,313,806
Net increase (decrease)	2,896,335	(2,150,382)	(7,746,651)
Net assets held in trust for pension benefits at beginning of year	52,565,185	54,715,567	62,462,218
Net assets held in trust for pension benefits at end of year	\$ 55,461,520	\$ 52,565,185	\$ 54,715,567

Management's Discussion and Analysis
(Required Supplementary Information) – Unaudited
September 30, 2010 and 2009

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 2010 increased from those of fiscal year ended 2009. Actual returns for the fiscal year ended 2009 increased from those of fiscal year ended 2008.

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, 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.

At the end of the fiscal year ended September 30, 2009, the domestic equity portion comprised 19.7% (\$10,305,040) of the total portfolio. The allocation to fixed income securities was 20.2% (\$10,591,841), while cash and cash equivalents was 6.4% (\$3,358,866). The portion of investments allocated to international equity was \$4,941,482 or 9.4% of the total portfolio while real estate was 11.3% (\$5,924,991) and 33.0% (17,303,766) were alternative investments.

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

	2010	2009
Equity (domestic)	20%	20%
Fixed income	20%	20%
Equity (international)	15%	15%
Alternative investments	30%	30%
Real estate	15%	15%
Cash	0%	0%

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, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 2,544,647	\$ 3,358,866
Receivables:		
Interest and dividends	65,808	60,397
Receivable for securities sold	105,000	105,000
Total receivables	170,808	165,397
Other assets	8,072	9,020
Investments, at fair value:		
U.S. government securities	1,452,987	1,643,583
Corporate bonds and notes	8,374,671	7,607,948
Domestic fixed income funds	3,330,055	1,340,310
Common stock	5,026,045	4,193,767
Domestic equity funds	6,897,159	6,111,273
International equity funds	7,482,995	4,941,482
Real estate funds	5,793,201	5,924,991
Alternative investments	14,453,121	17,303,766
Total investments	52,810,234	49,067,120
Total assets	55,533,761	52,600,403
Liabilities		
Accounts payable	41,921	35,218
Payable for securities purchased	30,320	-
Total liabilities	72,241	35,218
Net assets held in trust for pension benefits	\$ 55,461,520	\$ 52,565,185

(a schedule of funding progress is presented on page 18)

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, 2010 and 2009

	2010	2009
Additions		
Contributions:		
Town	\$ 2,279,571	\$ 2,104,724
Member	426,895	422,170
State	211,524	225,628
Total contributions	2,917,990	2,752,522
Investment income:		
Net appreciation (depreciation) in fair value of investments	3,525,600	(1,479,266)
Interest and dividends	535,908	590,542
Other income	-	563
Total investment income (loss)	4,061,508	(888,161)
Less: investment expenses	240,468	242,246
Net investment income (loss)	3,821,040	(1,130,407)
Total additions	6,739,030	1,622,115
Deductions		
Benefits paid	3,639,601	3,478,322
Participants' contributions refunded	14,301	85,510
Administrative expenses	188,793	208,665
Total deductions	3,842,695	3,772,497
Net increase (decrease)	2,896,335	(2,150,382)
Net assets held in trust for pension benefits		
Beginning of year	52,565,185	54,715,567
End of year	\$ 55,461,520	\$ 52,565,185

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, 2010 and 2009

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:

	2009	2008
Retirees and beneficiaries currently receiving benefits, DROP and terminated members entitled to benefits, but not yet receiving them.	83	83
Active plan participants:		
Vested	25	27
Nonvested	45	43
Total participants	153	151

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, 2010 and 2009

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.

If a member terminates their employment and has been in the service of the Town for at least 10 years and elects to leave their accrued contribution in the Plan, the member, upon attaining what would have been normal retirement had they not terminated their employment, may receive the accrued normal retirement benefit.

Town and State Contributions:

The Town is required to contribute an actuarially determined amount that, when combined with member contributions and allowable contributions from the State of Florida, will fully provide for all benefits as they become payable.

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 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 year 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 30th 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, 2010 and 2009

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, 2010 and 2009 was \$1,602,209 and \$1,351,120 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.

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 dividend income are recorded as earned. 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, 2010 and 2009

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, 2010 and 2009. 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 xx, 2011, the date which the financial statements were available for issue.

Town of Palm Beach Police Officers' Retirement System

Notes to Financial Statements

September 30, 2010 and 2009

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, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
9/30/09	\$ 63,000	\$ 74,257	\$ 11,257	84.8%	\$ 6,187	181.9%

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	9/30/09
Actuarial cost method	Entry age
Amortization method	Level percent-of-payroll
Remaining amortization period	2 - 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, 2010 and 2009

Note 4 – Contributions

Actual Contributions

The actual Town contribution for active members and State contributions for the years ended September 30, 2010 and 2009 were \$2,491,095 and \$2,330,352, respectively and the actual amount of covered payroll was approximately \$6,570,000 and \$6,461,000 for fiscal years ended September 30, 2010 and 2009, respectively.

Town and State contributions consisted of the following:

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

2009		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 2,104,724	32.6%
State contribution	225,628	3.5
Total	\$ 2,330,352	36.1%

Member contributions were \$426,895 and \$422,170 for the years ended September 30, 2010 and 2009, respectively.

Actuarially Determined Contributions

The contributions required from the Town and the State of Florida for the fiscal years ended September 30, 2010 and 2009, were actuarially determined using valuation dates of September 30, 2008 and 2007, respectively. The actuarially computed annual covered payroll used in the September 30, 2008 and 2007 valuation was approximately \$5,309,000 and \$5,334,000, respectively. The amount covers the following:

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
Total	\$ 2,491,095	46.9%

2009		
	Amount	Percent of Actuarially Computed Annual Covered Payroll
Normal cost	\$ 2,080,355	39.0%
Payment to amortize unfunded liability	249,697	4.7
Total	\$ 2,330,352	43.7%

Town of Palm Beach Police Officers' Retirement System

Notes to Financial Statements

September 30, 2010 and 2009

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.

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	2010	2009
Domestic equities	20%	20%
Fixed income	20%	20%
International equities	15%	15%
Cash equivalents	0%	0%
Alternative investments	30%	30%
Real estate	15%	15%

Town of Palm Beach Police Officers' Retirement System

Notes to Financial Statements

September 30, 2010 and 2009

Note 5 – Deposit and Investment Risk Disclosures - continued

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:

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	-
Total fixed income	\$13,157,713	\$ 1,165,675	\$ 2,410,000	\$ 4,830,768	\$ 4,751,270

2009					
Investment Maturities - (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 166,719	\$ -	\$ -	\$ 127,666	\$ 39,053
U.S. agencies	1,476,864	174	3,325	471,682	1,001,683
Corporate bonds and notes	7,607,948	276,480	2,848,637	897,511	3,585,320
Bond funds	1,340,310	-	-	1,340,310	-
Total fixed income	\$10,591,841	\$ 276,654	\$ 2,851,962	\$ 2,837,169	\$ 4,626,056

Town of Palm Beach Police Officers' Retirement System

Notes to Financial Statements

September 30, 2010 and 2009

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:

	2010		2009	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. government guaranteed*	\$ 1,452,987	11.0%	\$ 1,643,583	15.5%
Quality rating of credit risk debt securities				
AAA	649,969	4.9	669,374	6.3
AA+	116,453	0.9	95,376	0.9
AA	110,123	0.8	39,010	0.4
AA-	351,672	2.7	335,701	3.2
A+	1,126,233	8.6	987,136	9.3
A	1,123,479	8.5	1,203,684	11.4
A-	1,875,694	14.3	1,488,057	14.0
BBB+	1,149,514	8.7	1,752,623	16.5
BBB	1,246,416	9.5	442,297	4.2
BBB-	557,781	4.2	509,844	4.8
Bond fund**	3,330,055	25.4	1,340,310	12.7
Not rated	67,337	0.5	84,846	0.8
Total credit risk debt Securities	11,704,726	89.0	8,948,258	84.5
Total fixed income securities	\$ 13,157,713	100.0%	\$ 10,591,841	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, 2010 Bond funds are comprised of securities rated AAA (89%); AA (2%); A (5%); BBB (4%) per the Barclays Capital US Aggregate Bond Index.

At September 30, 2009 Bond funds are comprised of securities rated AAA (78%); AA (4%); A (10%); BBB (8%) per the Barclays Capital US Aggregate Bond Index.

Town of Palm Beach Police Officers' Retirement System

Notes to Financial Statements

September 30, 2010 and 2009

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, 2010 and 2009.

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, 2010 and was subsequently renewed until April 30, 2011. The base rent of the lease is \$1,350 per month plus applicable sales taxes and is prorated 50/50 for each plan respectively. Total rental expense for the fiscal year ended September 30, 2010 and 2009 was \$8,334 and \$5,400, respectively.

Required Supplementary Information

Town of Palm Beach Police Officers' Retirement System
Required Supplementary Information
Schedule of Funding Progress and Schedule of Contributions – (unaudited)
September 30, 2010

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
09/30/04*	\$ 46,386	\$ 51,605	\$ 5,219	89.9%	\$ 5,070	102.9%
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

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

Year Ended September 30,	Annual Required Contribution	Percentage Contributed
2005	\$ 1,622,408	100%
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

* 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, 2010 and 2009

	2010	2009
Schedule "1" - Schedule of Investment Expenses		
Financial management expenses:		
Richmond Capital Management, Inc.	\$ 14,570	\$ 13,418
Stralem & Co., Inc.	21,625	38,020
Geneva Capital Management Ltd.	11,699	19,085
Income Research & Management	37,364	22,915
State Street Trust Company	53,825	45,031
Western Asset Management	-	520
Total financial management expenses	139,083	138,989
Investment consultant fees:		
Prime Buchholz & Associates, Inc.	60,000	60,000
Investment custodial fees:		
State Street Bank and Trust Company	41,385	43,257
Total investment expenses	\$ 240,468	\$ 242,246

Schedule "2" - Schedule of Administrative Expenses		
Professional services:		
Accounting	\$ 33,996	\$ 33,996
Actuarial	14,175	14,940
Administrator	36,553	35,175
Audit	16,500	14,000
Legal	53,346	62,876
Total professional services	154,570	160,987
Other:		
Bank charges	516	1,288
Computer expense	-	11,475
Insurance	21,245	17,235
Postage and office expense	1,851	10,053
Rent	8,334	5,400
Telephone	718	238
Travel	1,559	1,989
Total other	34,223	47,678
Total administrative expenses	\$ 188,793	\$ 208,665



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