

**Town of Palm Beach  
Retirement System - Firefighters**

**Financial Statements  
Years Ended September 30, 2012 and 2011**



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

# Town of Palm Beach Firefighters' Retirement System

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## Independent Auditors' Report

Board of Trustees  
Town of Palm Beach Retirement System - Firefighters  
Palm Beach, Florida

We have audited the accompanying statements of plan net assets of the Town of Palm Beach Retirement System - Firefighters (the "Plan") as of September 30, 2012 and 2011, 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 Retirement System - Firefighters as of September 30, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the accompanying table of contents 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. The required supplementary information for the year ended September 30, 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 supplemental schedules of investment expenses and administrative expenses (other supplemental schedules) as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental schedules 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 15, 2013

**Town of Palm Beach  
Retirement System - Firefighters  
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**Management's Discussion and Analysis**  
**(Required Supplementary Information - Unaudited)**  
**September 30, 2012 and 2011**

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Our discussion and analysis of the Town of Palm Beach Retirement System - Firefighters (the "Plan") financial performance provides an overview of the Plan's financial activities and funding conditions for the fiscal years ended September 30, 2012 and 2011. Please read it in conjunction with the Plan's financial statements, which follows this discussion.

*Financial Highlights*

- Plan assets exceeded liabilities at the close of the fiscal years ended September 30, 2012 and 2011 by \$56,393,577 and \$52,309,653 (reported as net assets held in trust for pension benefits). Net assets are held in trust to meet future benefit payments. The increase of \$4,083,924 and the increase of \$1,531,282 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 74.0% as of September 30, 2009 actuarial valuation to 72.6% as of September 30, 2010 valuation and 80.8% as of September 30, 2011 valuation.

- Receivables at September 30, 2012 decreased by \$460,412 (or 73.2%) due primarily to an increase in employer contributions receivable.

Receivables at September 30, 2011 increased by \$443,765 (or 239.8%) due primarily to an increase in employer contributions receivable.

- For the fiscal year ended September 30, 2012, liabilities increased by \$1,173,009 (or 38.2%) due primarily to an increase in deferred option plan payable held outside the Plan at fiscal year end and an increase in prepaid Town contributions for the fiscal year ended September 30, 2012 received in advance.

For the fiscal year ended September 30, 2011, liabilities increased by \$1,787,337 (or 139.2%) due primarily to an increase in deferred option plan payable held outside the Plan at fiscal year end and an increase in prepaid Town contributions for the fiscal year ended September 30, 2011 received in advance.

- For the fiscal year ended September 30, 2012, Town contributions to the Plan decreased \$1,504,346 (or 58.5%) based on the actuarial valuation. Actual Town contributions were \$1,065,344 and \$2,569,690 for 2012 and 2011, respectively. The decrease is a result of the new Plan adopted by the Town effective May 1, 2012.

**Management's Discussion and Analysis**  
**(Required Supplementary Information) – Unaudited**  
**September 30, 2012 and 2011**

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*Financial Highlights - continued*

For the fiscal year ended September 30, 2011, Town contributions to the Plan decreased \$77,520 (or 2.9%) based on the actuarial valuation. Actual Town contributions were \$2,569,690 and \$2,647,210 for 2011 and 2010, respectively.

- For the fiscal year ended September 30, 2012, member contributions including buybacks decreased by \$110,506 or 28.3%. Actual member contributions were \$279,466 and \$389,972 for 2012 and 2011, respectively. Member contributions have fluctuated based on the number of active members.

For the fiscal year ended September 30, 2011, member contributions including buybacks decreased by \$110,511 or 20.5%. Actual member contributions were \$389,972 and \$490,483 for 2011 and 2010, respectively. Member contributions have fluctuated based on the number of active members.

- For the fiscal year ended September 30, 2012, net investment income was \$7,106,940 compared to a loss of \$254,709 for the fiscal year ended September 30, 2011. Actual results were \$6,690,229 and (\$400,148) in net appreciation (depreciation) in fair value of investments for 2012 and 2011, respectively and \$571,432 and \$359,503 in income from interest and dividends. Investment earnings allocated to Deferred Retirement Option Plan were \$19,336 for 2012 and \$29,253 for 2011. Investment expenses decreased by \$49,427 (or 26.74%).

For the fiscal year ended September 30, 2011, net investment loss was \$254,709 compared to an income of \$3,888,262 for the fiscal year ended September 30, 2010. Actual results were (\$400,148) and \$3,711,807 in net (depreciation) appreciation in fair value of investments for 2011 and 2010, respectively and \$359,503 and \$394,358 in income from interest and dividends. Investment earnings allocated to Deferred Retirement Option Plan were \$29,253 for 2011 and \$44,664 for 2010. Investment expenses increased by \$11,572 (or 6.7%).

- For the fiscal year ended September 30, 2012, benefit payments, refund of contributions and share distributions increased by \$353,608 (or 8.3%) due primarily to increase in number of retirees from year to year.

For the fiscal year ended September 30, 2011, benefit payments, refund of contributions and share distributions increased by \$493,002 (or 13.0%) due primarily to increase in number of retirees from year to year.

- For the fiscal year ended September 30, 2012, transfers out decreased by \$205,673 (or 57.6%) due primarily to a decrease in the number of participants who elected to self-direct their Share Plan balances to share accounts administered by ICMA Retirement Corporation.

For the fiscal year ended September 30, 2011, transfers out increased by \$282,739 (or 381.4%) due primarily to an increase in the number of participants who elected to self-direct their Share Plan balances to share accounts administered by ICMA Retirement Corporation.

- For the fiscal year ended September 30, 2012, administrative expenses increased \$8,011 from 2011 (or 4.6%), due primarily to the increase in computer and insurance expenses net of a decrease in rent expense.

For the fiscal year ended September 30, 2011, administrative expenses decreased \$11,222 from 2010 (or 6.1%), due primarily to the decrease in professional service fees.

## **Management's Discussion and Analysis** **(Required Supplementary Information) – Unaudited** **September 30, 2012 and 2011**

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### *Plan Highlights*

For the fiscal year ended September 30, 2012, the return of the portfolio was 13.9% for the year, 1.8% higher than the Plan's target rate of return of 12.1%. Actual investment income in 2012 was \$7,106,940 compared with a loss of \$254,709 in 2011.

For the fiscal year ended September 30, 2011, the return of the portfolio was -1.0% for the year, 9.0% below the Plan's target rate of return of 8.0%. Actual investment loss in 2011 was \$254,709 compared with income of \$3,888,262 in 2010.

### *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 employees (Members) and net investment income (loss), which includes 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.

**Management's Discussion and Analysis**  
**(Required Supplementary Information) – Unaudited**  
**September 30, 2012 and 2011**

*Description of the Financial Statements - continued*

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.

*Statements of Plan Net Assets*

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

	2012	2011	2010
Cash and cash equivalents	\$ 684,076	\$ 7,390,281	\$ 2,228,868
Receivables	168,420	628,832	185,067
Investments	59,734,699	47,353,943	52,703,087
Other assets	50,933	8,139	8,118
Total assets	60,638,128	55,381,195	55,125,140
Liabilities	4,244,551	3,071,542	1,284,205
Net assets held in trust for pension benefits	\$ 56,393,577	\$ 52,309,653	\$ 53,840,935

*Statements of Changes in Plan Net Assets*

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

	2012	2011	2010
<b>Additions:</b>			
Contributions			
Town	\$ 1,065,434	\$ 2,569,690	\$ 2,647,210
Member	279,466	389,972	490,483
State	600,648	576,383	607,484
Total contributions	1,945,548	3,536,045	3,745,177
Net investment (loss) income	7,106,940	(254,709)	3,888,262
Total additions	9,052,488	3,281,336	7,633,439
<b>Deductions:</b>			
Benefits paid	4,611,265	4,205,956	3,676,949
Refund of contributions	15,566	-	21,600
Share distributions	8,760	76,027	90,432
Transfers out	151,204	356,877	74,138
Administrative expenses	181,769	173,758	184,980
Total deductions	4,968,564	4,812,618	4,048,099
Net increase (decrease)	4,083,924	(1,531,282)	3,585,340
Net assets held in trust for pension benefits at beginning of year	52,309,653	53,840,935	50,255,595
Net assets held in trust for pension benefits at end of year	\$ 56,393,577	\$ 52,309,653	\$ 53,840,935

**Management's Discussion and Analysis**  
**(Required Supplementary Information) – Unaudited**  
**September 30, 2012 and 2011**

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*Statements 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 2012 increased from those of fiscal year ended 2011 and fiscal year ended 2010.

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, 2012, the domestic equity portion comprised 22.2% \$12,735,220 of the total portfolio. The allocation to fixed income securities was 19.6% (\$11,244,909), while cash and cash equivalents was \$684,076 (1.2%). The portion of investments allocated to international equity was \$8,575,652 or 14.9% of the total portfolio while real assets were 8.7% (\$5,022,650). Alternative investments were 30% or (\$17,563,611) of the total portfolio while 2.8% or (\$1,598,599) was private equity.

At the end of the fiscal year ended September 30, 2011, the domestic equity portion comprised 20.6% (\$10,752,277) of the total portfolio. The allocation to fixed income securities was 9.8% (\$5,126,516), while cash and cash equivalents was 14.1% (\$7,390,281). The portion of investments allocated to international equity was \$6,977,514 or 13.3% of the total portfolio while real assets were 9.7% (\$5,093,773). Alternative investments were 30.9% or (\$16,213,312) of the total portfolio while 1.6% or (\$852,638) was private equity.

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

	<b>2012</b>	<b>2011</b>
Equity (domestic)	<b>20%</b>	20%
Fixed income	<b>20%</b>	20%
Equity (international)	<b>15%</b>	15%
Alternative investments	<b>30%</b>	30%
Inflation hedging funds	<b>15%</b>	15%
Cash	<b>0%</b>	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 Retirement System - Firefighters, 249 Royal Palm Way #301 Palm Beach, FL 33480.

# Town of Palm Beach Retirement System - Firefighters

## Statement of Plan Net Assets

September 30, 2012

	Membership and Benefit Account	Share Account	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 684,076	\$ -	\$ 684,076
Receivables:			
State contributions	-	161,013	161,013
Other	7,407	-	7,407
Total receivables	7,407	161,013	168,421
Investments, at fair value:			
Fixed income bond fund	11,244,909	-	11,244,909
Common stock	5,271,526	-	5,271,526
Domestic equity funds	7,463,694	-	7,463,694
International equity funds	8,575,652	-	8,575,652
Inflation hedging funds	5,022,650	-	5,022,650
Alternative investments	17,563,611	-	17,563,611
Private equity funds	1,598,599	-	1,598,599
Share and DROP mutual funds - held outside the Plan	2,401,768	592,290	2,994,058
Share account investments	(2,297,444)	2,297,444	-
Total investments	56,844,965	2,889,734	59,734,699
Other assets	50,933		50,933
<b>Total assets</b>	<b>57,587,381</b>	<b>3,050,747</b>	<b>60,638,128</b>
<b>Liabilities</b>			
Accounts payable	73,175	-	73,175
Prepaid Town contributions	902,992	-	902,992
Deferred retirement option plan payable	274,326	-	274,326
Share and Deferred retirement option plan payable - held outside the Plan	2,401,768	592,290	2,994,058
<b>Total liabilities</b>	<b>3,652,261</b>	<b>592,290</b>	<b>4,244,551</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 53,935,120</b>	<b>\$ 2,458,457</b>	<b>\$ 56,393,577</b>
<b>(a schedule of funding progress is presented on page 25)</b>			

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

# Town of Palm Beach Retirement System - Firefighters

## Statement of Plan Net Assets

September 30, 2011

	Membership and Benefit Account	Share Account	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 7,390,281	\$ -	\$ 7,390,281
<b>Receivables:</b>			
Employer contributions	512,451	-	512,451
State contributions	-	88,570	88,570
Interest and dividends	27,218	-	27,218
Other	593	-	593
<b>Total receivables</b>	<b>540,262</b>	<b>88,570</b>	<b>628,832</b>
<b>Investments, at fair value:</b>			
Fixed income bond fund	5,126,516	-	5,126,516
Common stock	4,196,458	-	4,196,458
Domestic equity funds	6,555,819	-	6,555,819
International equity funds	6,977,514	-	6,977,514
Inflation hedging funds	5,093,773	-	5,093,773
Alternative investments	16,213,312	-	16,213,312
Private equity funds	852,638	-	852,638
Share and DROP mutual funds - held outside the Plan	1,885,528	452,385	2,337,913
Share account investments	(2,009,728)	2,009,728	-
<b>Total investments</b>	<b>44,891,830</b>	<b>2,462,113</b>	<b>47,353,943</b>
<b>Other assets</b>	<b>8,139</b>	<b>-</b>	<b>8,139</b>
<b>Total assets</b>	<b>52,830,512</b>	<b>2,550,683</b>	<b>55,381,195</b>
<b>Liabilities</b>			
Accounts payable	28,193	-	28,193
Prepaid Town contributions	620,112	-	620,112
Deferred retirement option plan payable	85,324	-	85,324
Share and Deferred retirement option plan payable - held outside the Plan	1,885,528	452,385	2,337,913
<b>Total liabilities</b>	<b>2,619,157</b>	<b>452,385</b>	<b>3,071,542</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 50,211,355</b>	<b>\$ 2,098,298</b>	<b>\$ 52,309,653</b>

(a schedule of funding progress is presented on page 25)

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

# Town of Palm Beach Retirement System - Firefighters

## Statement of Changes in Plan Net Assets

Year Ended September 2012

	Membership and Benefit Account	Share Account	Total
<b>Additions</b>			
Contributions:			
Town	\$ 1,065,434	\$ -	\$ 1,065,434
Members	279,466	-	279,466
State	349,954	250,694	600,648
<b>Total contributions</b>	<b>1,694,854</b>	<b>250,694</b>	<b>1,945,548</b>
Investment income:			
Net appreciation in fair value of investments	6,415,628	274,601	6,690,229
Interest and dividends	571,432	-	571,432
<b>Total investment income</b>	<b>6,987,060</b>	<b>274,601</b>	<b>7,261,661</b>
Less:			
Investment expenses	(135,385)	-	(135,385)
Allocation of investment income:			
Deferred retirement option plan earnings	(19,336)	-	(19,336)
<b>Net investment (loss) income</b>	<b>6,832,339</b>	<b>274,601</b>	<b>7,106,940</b>
<b>Total additions</b>	<b>8,527,193</b>	<b>525,294</b>	<b>9,052,488</b>
<b>Deductions</b>			
Benefits paid	4,611,265	-	4,611,265
Refund of contributions	15,566	-	15,566
Share distributions	-	8,760	8,760
Transfers out	-	151,204	151,204
Administrative expenses	176,597	5,172	181,769
<b>Total deductions</b>	<b>4,803,428</b>	<b>165,136</b>	<b>4,968,564</b>
<b>Net increase</b>	<b>3,723,765</b>	<b>360,158</b>	<b>4,083,924</b>
<b>Net assets held in trust for pension benefits</b>			
<b>Beginning of year</b>	<b>50,211,355</b>	<b>2,098,298</b>	<b>52,309,653</b>
<b>End of year</b>	<b>\$ 53,935,120</b>	<b>\$ 2,458,456</b>	<b>\$ 56,393,577</b>

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

**Town of Palm Beach Retirement System - Firefighters**  
**Statement of Changes in Plan Net Assets**  
**Year Ended September 30, 2011**

	Membership and Benefit Account	Share Account	Total
<b>Additions</b>			
Contributions:			
Town	\$ 2,569,690	\$ -	\$ 2,569,690
Members	389,972	-	389,972
State	349,954	226,429	576,383
<b>Total contributions</b>	<b>3,309,616</b>	<b>226,429</b>	<b>3,536,045</b>
Investment income:			
Net (depreciation) appreciation in fair value of investments	(403,141)	2,993	(400,148)
Interest and dividends	359,503	-	359,503
<b>Total investment income</b>	<b>(43,638)</b>	<b>2,993</b>	<b>(40,645)</b>
Less:			
Investment expenses	(184,811)	-	(184,811)
Allocation of investment income:			
Deferred retirement option plan earnings	(29,253)	-	(29,253)
<b>Net investment (loss) income</b>	<b>(257,702)</b>	<b>2,993</b>	<b>(254,709)</b>
<b>Total additions</b>	<b>3,051,914</b>	<b>229,422</b>	<b>3,281,336</b>
<b>Deductions</b>			
Benefits paid	4,205,956	-	4,205,956
Refund of contributions	-	-	-
Share distributions	-	76,027	76,027
Transfers out	-	356,877	356,877
Administrative expenses	168,485	5,273	173,758
<b>Total deductions</b>	<b>4,374,441</b>	<b>438,177</b>	<b>4,812,618</b>
<b>Net decrease</b>	<b>(1,322,527)</b>	<b>(208,755)</b>	<b>(1,531,282)</b>
<b>Net assets held in trust for pension benefits</b>			
<b>Beginning of year</b>	<b>51,533,882</b>	<b>2,307,053</b>	<b>53,840,935</b>
<b>End of year</b>	<b>\$ 50,211,355</b>	<b>\$ 2,098,298</b>	<b>\$ 52,309,653</b>

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

# **Town of Palm Beach Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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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 Retirement System - Firefighters.

Effective April 1, 2012 the firefighter board of trustees, police officer board of trustees and general employees/lifeguard board of trustees were eliminated and a new consolidated board of trustee was created to administer the plans herein. The existing contracts, investment holdings, assets and liabilities of the firefighter, police officers and the general/lifeguard retirement plans were transferred and became contracts, investment holdings, assets and liabilities of the new board. In conjunction with the new board consolidation, effective May 1, 2012, new plan provisions were established, covering the firefighters of the Town. The new plan for firefighters is now contained in provisions of the Town Of Palm Beach Retirement System (the "Plan").

The new plan is governed by a nine member board of trustees. The Trustees consist of (a) one employee who is a member of the benefit group general or benefit group lifeguard elected by the members of those benefit groups (b) one employee who is a member of the benefit group firefighter elected by the members of that benefit group (c) one employee who is a member of the benefit group police officers elected by the members of that benefit group (d) five residents of the town who are not officers or employees of the town, retirees or beneficiaries of the retirement system, appointed by the town council and (e) the town manger or, in the town manager's absence, the acting town manager, who shall serve as a voting ex-officio member.

Prior to April 1, 2012, the Plan was 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 Fire 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 firefighter employed by the Town of Palm Beach, Florida.

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

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

#### *Membership*

At September 30, membership in the Plan consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits and terminated members entitled to benefits, but not yet receiving them.	93	90
Active plan participants:		
Vested	20	26
Nonvested	40	43
<b>Total participants</b>	<b>153</b>	<b>159</b>

#### *Funding Requirements*

##### Member Contributions:

For members who attained normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the Town and not participating in the DROP on that date, their contribution rate both before and after May 1, 2012 is 6.82%.

For members who did not attain normal retirement eligibility based on credited service as of May 1, 2012, member contributions are 4.82%.

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:

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.

Prior to March 14, 2012, pursuant to Florida Statutes, Chapter 175, 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 was used to reduce the Town's contribution when received. Effective March 14, 2012, the Town withdrew from participation under Chapter 175.

# **Town of Palm Beach Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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

#### *Pension Benefits*

##### Normal Retirement:

Members who attained normal retirement eligibility based on credited service as of May 1, 2012, shall be eligible for normal retirement upon attaining the age 50 with ten or more years of credited service; or when the member's age to last completed month plus credited service totals 65 years or more and the member has ten or more years of credited service; or when the member has 20 or more years of credited service.

Members who did not attain normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the town and not participating in the DROP on that date, shall be eligible for normal retirement upon attaining age 50, or when the member's age to last completed month plus credited service totals 65 years or more, or upon completion of 20 years of credited service regardless of age, and upon such retirement shall be eligible to receive the frozen accrued benefit based on credited service and average final compensation on April 30, 2012. Such members shall be eligible to receive the accrued benefit based on credited service on and after May 1, 2012 upon attaining age 65 with ten or more years of credited service.

Members hired on or after May 1, 2012, shall be eligible for normal retirement upon attaining age 65 with ten or more years of credited service.

##### Benefits

The normal retirement benefit for firefighters who were actively employed on and after October 1, 2005 and who retired or terminated employment with 10 or more years of credited service prior to May 1, 2012, and firefighters who attained normal retirement eligibility based on credited service as of May 1, 2012, who were employed by the Town and not participating in the DROP on that date, the benefit formula shall be average final compensation multiplied by the sum of 3.5 percent of credited service rendered to a maximum of 87.5 percent, plus two percent of average final compensation for credited service, if any, in excess of 43.75 years.

For firefighters who did not attain normal retirement eligibility based on credited service as of May 1, 2012, who were employed by the Town and not participating in the DROP on that date, the benefit formula shall be 3.5 percent of average final compensation on April 30, 2012 multiplied by credited service on that date. The accrued benefit of all such firefighters shall be frozen on May 1, 2012.

For credited service on and after May 1, 2012, the benefit formula shall be 1.25 percent of average final compensation multiplied by years of credited service on and after that date. Average final compensation prior to April 30, 2012 is the highest 2 consecutive years within the members last 5 years of credited service. Average final compensation after April 30, 2012 means the average compensation over the last 5 years of credited service.

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

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

#### *Benefits - continued*

Firefighters who did not attain normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the town and not participating in the DROP on May 1, 2012 shall, upon retirement, be eligible to receive a retirement benefit consisting of two parts: (1) the frozen accrued benefit based on credited service and average final compensation prior to May 1, 2012, payable upon entry *into the* DROP or termination of employment and attaining eligibility for receipt of retirement benefits under the provisions of the system in effect on April 30 2012; and (2) the accrued benefit based on credited service on and after May 1, 2012, payable upon attaining age 65 with 10 or more years of credited service and termination of employment or entry into the DROP.

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

#### Cost-of-living adjustment:

The amount of each pension that became effective after September 30, 1990 for members who retired, entered the DROP or terminated employment with 10 or more years of credited service prior to May 1, 2012, and members who attained normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the town and not participating in the DROP on that date shall be increased on the first day of the month which is at least 36 full months after the effective date and shall be further increased on an annual basis thereafter. The amount of annual increase shall be 2%.

The amount of each pension that became effective after September 30, 1990 based on credited service prior to May 1, 2012 for members who did not attain normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the town and not participating in the DROP on that date, shall be increased on the first day of the month which is at least 36 full months after the effective date and shall be further increased on an annual basis thereafter. The amount of annual increase applicable to the pension based on credited service prior to May 1, 2012 shall be 2%.

There shall be no post-retirement increase applied to any pension based on credited service on and after May 1, 2012 for members who did not attain normal retirement eligibility based on credited service as of May 1, 2012, and who were employed by the town and not participating in the DROP on that date, and for members hired on or after May 1, 2012.

#### Supplemental Retirement Benefit:

Prior to May 1, 2012, 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 was 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 Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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

#### ***Share account***

Effective October 1, 2003 the Town Council authorized the establishment of individual member share accounts for firefighters actively employed by the Town. These accounts are funded annually using Chapter 175 monies that have not been otherwise committed for benefits for firefighter members. The amount of funding is determined annually and transferred to member's share accounts.

On July 22, 2009 the Board passed and adopted a resolution that permits the plan participants to self direct their DROP and share accounts. The Board approved that the self directed DROP and share accounts be administered by ICMA Retirement Corporation ("ICMA").

As of September 30, 2012 and 2011, \$592,290 and \$452,385, respectively, reflect the amounts of self-directed investments held outside the Plan.

Members are eligible to take distributions after separation from service.

No new member accounts shall be established as of May 1, 2012.

#### ***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 employee'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, 2012 and 2011 was \$2,676,094 and \$1,970,852, respectively of which \$2,401,768 and \$1,885,528, respectively, represents the amount of self-directed investments held 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, inflation hedging funds, alternative, domestic and international equity securities.

# **Town of Palm Beach Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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### **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.

#### *Investments*

Investments are recorded at fair value in the Statement of Plan Net Assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The diversity of the investment types in which the Trust has entered into requires a range of techniques to determine fair value. The overall valuation processes and information sources by major investment classification are as follows:

- **Debt securities:** Debt securities consist primarily of fixed income bond fund. These securities can typically be valued using the close or last traded price on a specific date (quoted prices in active markets). When quoted prices are not available, fair value is determined based on valuation models that use inputs that include market observable inputs. These inputs included recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the investment's type.
- **Equity securities:** These include common stocks, domestic and international equity funds. Domestic securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Securities traded in the over-the counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. 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, 2012 and 2011. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on yields currently available on comparable securities of issuers with similar credit ratings.
- **Inflation hedging funds:** The fair values of these investments are based on quoted net asset values of the shares as of September 30, 2012 and 2011.
- **Alternative investments:** These investments include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists. To value these investments, management, in consultation with the general partner and investment advisors, determines the fair values for the individual investments based upon the partnership's or limited liability company's most recent available financial information adjusted for cash flow activities through September 30, 2012 and 2011. The estimated fair value of these investments may differ from values that would have been used had a ready market existed.

# **Town of Palm Beach Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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

#### *Investments - continued*

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. Purchases and sales of securities are reflected on a trade-date basis. Interest income is recognized as earned and dividend income is recorded as of the ex-dividend date. Realized gains and losses on the sale of investments are based on average cost identification method.

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.

#### *Transfers out*

Plan assets transferred out of the Share Account as a result of participants electing to self-direct their Share Plan balances to share accounts administered by ICMA are included in the "transfers out" line item of the accompanying Statements of Changes in Net Assets. The transfers out for the years ended September 30, 2012 and 2011 were \$151,204 and \$356,877, respectively.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

#### *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.

#### *Subsequent Events*

Management has evaluated subsequent events through February 15, 2013, the date which the financial statements were available for issue.

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

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### Note 3 - Funded Status and Funding Progress

The funded status of the Plan as of September 30, 2011, 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>
2011	\$ 58,899	\$ 72,928	\$ 14,029	80.8%	\$ 5,142	272.8%

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	September 30, 2011
Actuarial cost method	Entry age
Amortization method	Level percent-of-payroll
Remaining amortization period	20 - 30 years
Asset valuation method	5 - Year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.5% - 8.3%
Included inflation and other general increases at	4.5%
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% annually based on total pension after a 3 year deferred period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12. Other adjustments have been made periodically.

### Note 4 - Contributions

#### *Actual Contributions*

The actual Town contribution for active employees and State contributions for the years ended September 30, 2012 and 2011 were \$1,666,081 and \$3,146,073, respectively and the actual amount of covered payroll was approximately \$4,526,000 and \$5,718,000 for fiscal years ended September 30, 2012 and 2011, respectively.

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

### Note 4 - Contributions - continued

Town and State contributions consisted of the following:

2012		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 1,065,433	23.5%
State contribution	600,648	13.3%
<b>Total</b>	<b>\$ 1,666,081</b>	<b>36.8%</b>

  

2011		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 2,569,690	44.9%
State contribution	576,383	10.1%
<b>Total</b>	<b>\$ 3,146,073</b>	<b>55.0%</b>

Member contributions were \$279,466 and \$389,972 for the fiscal years ended September 30, 2012 and 2011, respectively.

#### *Actuarially Determined Contributions*

The minimum required contribution from the Town and the State of Florida for the fiscal years ended September 30, 2012 and 2011, was actuarially determined using valuation dates of September 30, 2010 and 2009, respectively. The actuarially computed annual covered payroll used in the September 30, 2010 and 2009 valuation was \$6,219,000 and \$6,398,000, respectively, resulting in actuarially computed required Town and State contributions of \$1,563,806 and \$3,539,426 for fiscal years ended September 30, 2012 and 2011, respectively.

Funding requirements for valuations prior to October 1, 2010, disclosed a specific dollar amount for the minimum required employer contribution which was based on the actuarially projected payroll. For the year ended September 30, 2011, at the request of the Division of Retirement, the Town was required to contribute an amount based on the actuarially determined percentage of actual pensionable payroll ("percentage of payroll method"). The actuarially determined percentage was 53.12% for the fiscal year ended September 30, 2011.

Effective May 30, 2012, the Division of Retirement mandated that local governments confer with the Plan's actuary to select and maintain a contribution method (percentage of payroll or fixed dollar contributions) that best fits the funding requirements of the Plan. For the year ended September 30, 2012, the Plan determined to use the "percentage of payroll method".

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

2012		
	Amount	Percent of Actual Annual Covered Payroll
Normal cost	\$ 376,922	8.3%
Payment to amortize unfunded liability	1,038,466	22.9%
<b>Total</b>	<b>\$ 1,415,388</b>	<b>31.2%</b>

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

### Note 4 - Contributions - continued

	2011	
	Amount	Percent of Actual Annual Covered Payroll
Normal cost	\$ 1,978,242	34.6%
Payment to amortize unfunded liability	941,402	16.5%
Total	\$ 2,919,314	51.1%

### Note 5 - Deposit and Investment Risk Disclosures

#### *Cash and cash equivalents*

Deposits are carried at cost and are included in cash and cash equivalents in the statement of net assets available for plan benefits. Cash and cash equivalents include demand accounts and short-term investment funds (STIF). The cash is invested through daily sweeps of excess cash by the Plan's custodial bank into the custodial short-term (money market) commingled fund or invested in certificates of deposit, commercial paper, U.S. Treasury bills and repurchase agreements. Cash and cash equivalents at September 30 consists of the following:

	2012	2011
Deposits – managed overdraft	\$ 530,813	\$ 436,848
Short-term investment	153,263	6,953,433
Total	\$ 684,076	\$ 7,390,281

#### *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 55% 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.

# Town of Palm Beach Retirement System - Firefighters

Notes to Financial Statements

September 30, 2012 and 2011

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

### *Investment Authorization - continued*

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:

<b>Authorized investments</b>	<b>2012</b>	<b>2011</b>
Equity (domestic)	20%	20%
Fixed income	20%	20%
Equity (international)	15%	15%
Alternative investments	30%	30%
Inflation hedging funds	15%	15%
Cash	0%	0%

### *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:

<b>2012</b>					
<b>Investment Maturities</b>					
<b>(in years)</b>					
<b>Investment Type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
<b>Bond funds</b>	<b>\$ 11,244,909</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,244,909</b>	<b>\$ -</b>
<b>Total fixed income</b>	<b>\$ 11,244,909</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,244,909</b>	<b>\$ -</b>

<b>2011</b>					
<b>Investment Maturities</b>					
<b>(in years)</b>					
<b>Investment Type</b>	<b>Fair Value</b>	<b>Less than 1</b>	<b>1 to 5</b>	<b>6 to 10</b>	<b>More than 10</b>
<b>Bond funds</b>	<b>\$ 5,126,516</b>	<b>\$ 388,662</b>	<b>\$ 2,083,835</b>	<b>\$ 767,275</b>	<b>\$ 1,886,744</b>
<b>Total fixed income</b>	<b>\$ 5,126,516</b>	<b>\$ 388,662</b>	<b>\$ 2,083,835</b>	<b>\$ 767,275</b>	<b>\$ 1,886,744</b>

# Town of Palm Beach Retirement System - Firefighters

## Notes to Financial Statements

September 30, 2012 and 2011

### 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:

	2012		2011	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
Quality rating of credit risk debt securities				
AAA	\$ 8,208,784	73.0%	\$ 94,366	1.9%
AA	449,796	4.0	-	-
AA-	-	-	305,381	6.0
A+	-	-	432,281	8.4
A	1,349,389	12.0	343,875	6.7
A-	-	-	1,714,194	33.4
BBB+	-	-	588,269	11.5
BBB	1,236,940	11.0	765,081	14.9
BBB-	-	-	883,069	17.2
Total fixed income securities	\$ 11,244,909	100.0%	\$ 5,126,516	100.0%

#### *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, 2012 and 2011.

#### *Custodial Credit Risk*

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Plan's deposits are covered by depository insurance or are collateralized by securities held with a financial institution in the Plan's name. The Plan is only exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance.

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, 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 risk if the securities are uninsured, are not registered in the name of the Plan, and are held either by the counterparty or the counterparty's trust department or agent but not in the Plan's name.

# **Town of Palm Beach Retirement System - Firefighters**

## **Notes to Financial Statements**

**September 30, 2012 and 2011**

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

Consistent with the Plan's investment policy, the investments are held by Plan's custodial banks and registered in the Plan's name. All of the Plan's deposits are insured and or collateralized by a financial institution separate from the Plan's depository financial institution.

### **Note 6 – Commitments**

#### *Operating Leases*

The Palm Beach Retirement System - Firefighters and Palm Beach Retirement System - Police Officers' were obligated under a joint rental operating lease for office space which expired on April 30, 2012. The base rent of the lease was \$975 per month plus applicable sales taxes and was prorated 50/50 for each plan respectively. The lease was not renewed and the rent is no longer the responsibility of the Plan. Total rental expense for the fiscal years ended September 30, 2012 and 2011 was \$3,300 and \$7,275, respectively.

## **Required Supplementary Information**

**Town of Palm Beach Firefighters' Retirement System**  
**Required Supplementary Information**  
**Schedule of Funding Progress and Schedule of Contributions by Employer and Other Contributing Entity - Unaudited**  
**September 30, 2012**

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
09/30/05*	\$ 45,765	\$ 59,314	\$ 13,548	77.2%	\$ 5,237	258.7%
09/30/06	49,220	64,220	14,984	76.7	5,710	262.4
09/30/07	54,723	67,027	12,304	81.6	5,573	220.8
09/30/08	57,652	71,813	14,161	80.3	5,823	243.2
09/30/09	57,852	78,139	20,287	74.0	6,398	317.1
09/30/10	59,219	81,598	22,379	72.6	6,219	359.8
09/30/11*	58,899	72,928	14,029	80.8	5,142	272.8

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

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

<b>Year Ended September 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2006	\$ 1,796,000	100%
2007	2,411,101	100
2008	2,875,169	100
2009	2,709,281	100
2010	2,997,164	100
2011	2,919,314	100
2012	1,280,926	100

## **Other Supplementary Schedules**

**Town of Palm Beach Retirement System - Firefighters**  
**Other Supplementary Schedules of Investment Expenses and Administrative Expenses**  
**For the Years Ended September 30, 2012 and 2011**

	2012	2011
<b>Schedule "1" - Schedule of Investment Expenses</b>		
Financial management expenses:		
Stralem & Co., Inc.	\$ 22,585	\$ 20,449
Geneva Capital Management Ltd.	13,053	12,664
Income Research & Management	3,076	34,007
State Street Global Advisors	13,328	22,300
Total financial management expenses	52,041	89,420
Investment consultant fees:		
Prime Buchholz & Associates, Inc.	60,000	60,000
Investment custodial fees:		
State Street Bank and Trust Company	23,343	35,391
Total investment expenses	\$ 135,384	\$ 184,811

<b>Schedule "2" - Schedule of Administrative Expenses</b>		
Professional services:		
Accounting	\$ 53,068	\$ 56,768
Actuarial	13,700	13,700
Administrator	43,123	37,046
Audit	21,600	17,375
Legal	15,569	20,346
Total professional services	147,059	145,235
Other:		
Bank charges	1,787	1,147
Computer expense	5,001	1,705
Insurance	24,375	17,837
Postage, office & miscellaneous expense	654	559
Rent	3,300	7,275
Total other	35,117	28,523
Total administrative expenses	\$ 182,176	\$ 173,758



**Goldstein Schechter Koch**  
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