

**Town of Palm Beach
Retirement System - Police Officers
Financial Statements
Years Ended September 30, 2012 and 2011**



Goldstein Schechter Koch
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

Town of Palm Beach Retirement System - Police Officers
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Independent Auditors' Report

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

We have audited the accompanying statements of plan net assets of the Town of Palm Beach Retirement System - Police Officers (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 - Police Officers 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

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

Our discussion and analysis of the Town of Palm Beach Retirement System - Police Officers (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 its liabilities at the close of fiscal years ended September 30, 2012 and 2011 by \$58,114,391 and \$54,154,099, 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 \$3,960,292 and the decrease of (\$1,307,421), 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 84.8% as of the September 30, 2009 actuarial valuation to 83.6% as of the September 30, 2010 valuation and 87.8% as of the September 30, 2011 valuation.
- Receivables at September 30, 2012 decrease by (\$625,696) (or 93.5%) due primarily to an decrease in Town contributions receivable.

Receivables at September 30, 2011 increased by \$498,491 (or 291.8%) due primarily to an increase in Town contributions receivable.

- For the fiscal year ended September 30, 2012, liabilities increased by \$80,190 (or 13.2%) due primarily to 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 \$537,633 (or 744.2%) due primarily to 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 \$1,281,328 (or 56.1%). Actual Town contributions were \$1,004,917 and \$2,286,245 for 2012 and 2011, respectively. This decrease is a result of the new Plan adopted by the Town effective May 1, 2012.

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

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

Financial Highlights - continued

- For the fiscal year ended September 30, 2012 member contributions decreased by (\$158,015) (or 40.7%). Actual member contributions were \$229,923 and \$387,938 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 decreased by \$38,957 (or 9.1%). Actual member contributions were \$387,938 and \$426,895 for 2011 and 2010, respectively. Member contributions have fluctuated based on the number of active members.

- For the fiscal year ended September 30, 2012, net investment income was \$7,043,392 compared with \$212,978 for fiscal year ended September 30, 2011. Actual results were \$6,764,243 and (\$105,932) in net appreciation (depreciation) in fair value of investments for 2012 and 2011, respectively, and \$489,087 and \$557,619 in income from interest and dividends for 2012 and 2011 respectively. Investment expenses decreased by (\$28,771) (or 12.1%).

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

- For the fiscal year ended September 30, 2012, benefit payments and refunds of contributions increased by \$254,695 (or 6.0%).

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

- For the fiscal year ended September 30, 2012, administrative expenses decreased \$1,418 from 2011 (or 0.8%), due primarily to the decrease in professional fees.

For the fiscal year ended September 30, 2011, administrative expenses decreased \$5,691 from 2010 (or 0.7%), due primarily to the decrease in professional fees.

Plan Highlights

For the fiscal year ended September 30, 2012, the relative return of the portfolio was 13.8% for the year, which was higher than the Target Index of 11.8%. Actual investment income from investments in 2012 was \$7,043,392 compared with \$212,978 in 2011.

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

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

Overview of the Financial Statements

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

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

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

Description of the Financial Statements

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

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

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

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

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

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

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	\$ 899,454	\$ 1,941,532	\$ 2,544,647
Receivables	43,603	669,299	170,808
Other assets	54,614	8,096	8,072
Investments	57,806,784	52,145,046	52,810,234
Total assets	58,804,455	54,763,973	55,533,761
Liabilities	690,064	609,874	72,241
Net assets held in trust for pension benefits	\$ 58,114,391	\$ 54,154,099	\$ 55,461,520

Statements of Changes in Plan Net Assets

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

	2012	2011	2010
Additions:			
Contributions			
Town	\$ 1,004,917	\$ 2,286,245	\$ 2,279,571
Member	229,923	387,938	426,895
State	323,938	10,019	211,524
Total	1,558,778	2,884,202	2,917,990
Net investment income	7,043,392	212,978	3,821,040
Other income	16,000		
Total additions	8,618,170	3,097,180	6,739,030
Deductions:			
Benefits paid	4,443,665	4,138,445	3,639,601
Participants' contributions refunded	32,529	83,054	14,301
Administrative expenses	181,684	183,102	188,793
Total deductions	4,657,878	4,404,601	3,842,695
Net (decrease) increase	3,960,292	(1,307,421)	2,896,335
Net assets held in trust for pension benefits at beginning of year	54,154,099	55,461,520	52,565,185
Net assets held in trust for pension benefits at end of year	\$ 58,114,391	\$ 54,154,099	\$ 55,461,520

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

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 years ended 2011 and 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 (22.4%) \$13,153,039 of the total portfolio. The allocation to fixed income securities was (24.2%) \$14,229,077, while cash and cash equivalents was (1.5%) \$899,454. The portion of investments allocated to international equity was \$8,945,762 or (15.2%) of the total portfolio while inflation hedging funds were (7.3%) \$4,298,700 and (29.4%) \$17,180,209 were alternative investments.

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

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

	2012	2011
Equity (domestic)	20%	20%
Fixed income	20%	20%
Equity (international)	15%	15%
Alternative investments	30%	30%
Inflation hedging funds	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 Retirement System - Police Officers

Statements of Plan Net Assets

September 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 899,454	\$ 1,941,532
Receivables:		
Town contributions	-	477,190
Interest and dividends	43,603	60,937
Receivable for securities sold	-	131,172
Total receivables	43,603	669,299
Other assets	54,614	8,096
Investments, at fair value:		
U.S. government securities	1,755,811	1,352,291
Corporate bonds and notes	2,191,600	7,387,734
Domestic fixed income funds	10,281,666	4,121,759
Common stock	5,755,034	4,820,728
Domestic equity funds	7,398,005	6,168,241
International equity funds	8,945,762	7,290,548
Inflation hedging funds	4,298,700	4,491,822
Alternative investments	17,180,206	16,511,923
Total investments	57,806,784	52,145,046
Total assets	58,804,455	54,763,973
Liabilities		
Accounts payable	32,071	30,850
Other Liabilities	6,505	
Payable for securities purchased	-	36,511
Prepaid Town contributions	651,488	542,513
Total liabilities	690,064	609,874
Net assets held in trust for pension benefits	\$ 58,114,391	\$ 54,154,099

(a schedule of funding progress is presented on page 24)

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

Town of Palm Beach Retirement System - Police Officers

Statements of Changes in Plan Net Assets

For the Years Ended September 30, 2012 and 2011

	2012	2011
Additions		
Contributions:		
Town	\$ 1,004,917	\$ 2,286,245
Member	323,938	387,938
State	229,923	210,019
Total contributions	1,558,778	2,884,202
Investment income:		
Net appreciation (depreciation) in fair value of investments	6,764,243	(105,932)
Interest and dividends	489,087	557,619
Total investment income	7,253,330	451,687
Less: investment expenses	209,938	238,709
Net investment income	7,043,392	212,978
Other Income	16,000	-
Total additions	8,618,170	3,097,180
Deductions		
Benefits paid	4,443,665	4,138,445
Participants' contributions refunded	32,529	83,054
Administrative expenses	181,684	183,102
Total deductions	4,657,878	4,404,601
Net increase (decrease)	3,960,292	(1,307,421)
Net assets held in trust for pension benefits		
Beginning of year	54,154,099	55,461,520
End of year	\$ 58,114,391	\$ 54,154,099

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

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

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.

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 trustees 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 police officers of the Town. The new plan for police officers 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 manager 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 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.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

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, DROP and terminated members entitled to benefits, but not yet receiving them.	89	85
Active plan participants:		
Vested	24	29
Nonvested	36	39
Total participants	149	153

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 6.98%.

For members who did not attain normal retirement eligibility based on credited service as of May 1, 2012, member contributions is 4.98%.

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 185, contributions from the State of Florida Department of Insurance consist of an excise tax imposed by the Town upon certain casualty insurance companies on the gross amount of receipts of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the Town. The allowable portion of the State contribution was used to reduce the Town's contribution when received. Effective March 14, 2012, the Town of Palm Beach withdrew from participation under Chapter 185.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

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 and who were employed by the Town and not participating in the DROP on that date, 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 10 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 10 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 10 or more years of credited service.

Benefits

The normal retirement benefit for police officers 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 police officers 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 2 percent of average final compensation for credited service, if any, in excess of 43.75 years.

For police officers 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 police officers 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 - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 1 – Description of the Plan - continued

Normal Retirement - continued

Police officers 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 Benefits

Prior to April 30, 2012, the Board of Trustees had the authority to 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 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. The supplemental retirement benefit was eliminated 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.

Town of Palm Beach Retirement System - Police Officers
Notes to Financial Statements
September 30, 2012 and 2011

Note 1 – Description of the Plan - continued

Deferred Retirement Option Plan - continued

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, 2012 and 2011 was \$2,944,144 and \$1,953,104 respectively, which is held in self-directed investments outside the Plan.

Investments

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

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

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

Cash Equivalents

The Plan considers all highly liquid investments 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:

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 2 – Summary of Significant Accounting Policies - continued

Investments - continued

- **Debt securities:** Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporate bonds and notes, fixed income funds. 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 and 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.

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.

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.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 2 – Summary of Significant Accounting Policies - continued

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.

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):

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
9/30/11*	\$ 63,554	\$ 72,421	\$ 8,867	87.8%	\$ 5,222	169.8%

* After changes described in benefits provisions and/or actuarial assumptions and/or actuarial cost methods.

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.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 3 – Funded Status and Funding Progress - continued

Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2011 (Sixty-fifth)
Actuarial cost method	Entry age
Amortization method	Level percent-of-payroll
Remaining amortization period	15 - 30 years
Asset valuation method	5 Year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	8.3% - 4.7%
Includes 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 2.0% 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 members and State contributions for the years ended September 30, 2012 and 2011 were \$1,234,840 and \$2,496,264, respectively and the actual amount of covered payroll was approximately \$5,030,000 and \$5,479,000 for fiscal years ended September 30, 2012 and 2011, respectively.

Town and State contributions consisted of the following:

2012		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 1,004,917	19.9%
State contribution	229,923	4.6%
Total	\$ 1,234,840	24.5%
2011		
	Amount	Percent of Actual Covered Annual Payroll
Town contribution	\$ 2,286,245	41.7%
State contribution	210,019	3.8%
Total	\$ 2,496,264	45.6%

Member contributions were \$323,938 and \$387,938 for the years ended September 30, 2012 and 2011, respectively.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 4 – Contributions - continued

Actuarially Determined Contributions

The contributions required from the Town and the State of Florida for the fiscal years ended September 30, 2012 and 2011, were 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 approximately \$6,043,000 and \$6,187,000, respectively, resulting in actuarially computed required Town and State contributions of \$1,289,859 and \$3,038,777 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 42.19% 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 Actuarially Computed Annual Covered Payroll
Normal cost	\$ 595,537	11.8%
Payment to amortize unfunded liability	585,347	11.6%
Total	\$ 1,180,884	23.4%

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

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

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 Trust'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	\$ 279,009	\$ 880,436
Short-term investment	620,445	1,061,096
Total	\$ 899,454	\$ 1,941,532

Investment Authorization

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

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

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

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

Note 5 – Deposit and Investment Risk Disclosures

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	2012	2011
Domestic equities	20%	20%
Fixed income	20%	20%
International equities	15%	15%
Cash equivalents	0%	0%
Alternative investments	30%	30%
Inflation hedging funds	15%	15%

Interest Rate Risk

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

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

2012					
Investment Maturities - (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. bonds	\$ 280,150	\$ -	\$ 130,190	\$ 14,984	\$ 134,976
U.S. agencies	1,475,661	-	436,531	64,477	974,653
Corporate bonds and notes	2,191,600	152,753	695,059	539,453	804,335
Bond funds	10,281,666	-	-	10,281,666	-
Total fixed income	\$ 14,229,077	\$ 152,753	\$ 1,261,780	\$ 10,900,580	\$ 1,913,964

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

Town of Palm Beach Retirement System - Police Officers

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
U.S. government guaranteed*	\$ 1,755,811	12.3%	\$ 1,352,291	10.5%
Quality rating of credit risk debt securities				
AAA	361,090	2.6	447,726	3.5
AA+	-	-	178,389	1.4
AA	29,326	0.2	126,989	1.0
AA-	87,058	0.6	368,527	2.9
A+	282,122	1.9	721,725	5.6
A	513,013	3.6	803,061	6.2
A-	529,272	3.7	2,104,281	16.4
BBB+	298,610	2.1	802,957	6.2
BBB	80,677	0.6	913,441	7.1
BBB-	10,432	0.1	878,288	6.8
Bond fund	10,281,666	72.3	4,121,759	32.1
Not rated	-	-	42,350	0.3
Total credit risk debt securities	12,473,266	87.7%	11,509,493	89.5
Total fixed income securities	\$ 14,229,077	100.0%	\$ 12,861,784	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.

Town of Palm Beach Retirement System - Police Officers

Notes to Financial Statements

September 30, 2012 and 2011

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, 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.

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 - Police Officers and Palm Beach Retirement System - Firefighters were obligated under a joint rental operating lease for office space which expired on April 30, 2012. The base rent of the lease is \$975 per month plus applicable sales taxes and is prorated 50/50 for each plan respectively. 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 Retirement System - Police Officers
Required Supplementary Information
Schedule of Funding Progress and Schedule of Contributions from Employer and other
Contributing Entity – (unaudited)
September 30, 2012

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
09/30/06	\$ 52,614	\$ 60,835	\$ 8,221	86.5%	\$ 5,769	142.5%
09/30/07	58,486	63,742	5,256	91.8	5,334	98.5
09/30/08	61,668	68,525	6,857	90.0	5,309	129.2
09/30/09	63,000	74,257	11,257	84.8	6,187	181.9
09/30/10	64,079	76,694	12,615	83.6	6,043	208.8
09/30/11*	63,554	72,421	8,867	87.8	5,222	169.8

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

Year Ended September 30,	Annual Required Contribution	Percentage Contributed
2007*	\$ 2,448,457	100%
2008	2,592,527	100
2009	2,330,352	100
2010	2,491,095	100
2011	2,496,264	100
2012	1,180,884	100

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

Other Supplementary Schedules

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

	2012	2011
Schedule "1" - Schedule of Investment Expenses		
Financial management expenses:		
Richmond Capital Management, Inc.	\$ 13,906	\$ 13,321
Stralem & Co., Inc.	24,862	22,947
Geneva Capital Management Ltd.	15,044	14,348
Income Research & Management	4,671	25,263
State Street Trust Company	54,120	60,645
Total financial management expenses	112,603	136,524
Investment consultant fees:		
Prime Buchholz & Associates, Inc.	60,000	60,000
Investment custodial fees:		
State Street Bank and Trust Company	37,335	42,185
Total investment expenses	\$ 209,938	\$ 238,709

Schedule "2" - Schedule of Administrative Expenses		
Professional services:		
Accounting	\$ 33,996	\$ 48,396
Actuarial	13,700	13,700
Administrator	44,301	36,770
Audit	20,700	18,900
Legal	36,000	32,191
Total professional services	148,697	149,957
Other:		
Bank charges	1,743	1,296
Insurance	25,588	19,470
Postage, office and miscellaneous expense	1,193	1,648
Rent	3,300	7,275
Telephone	334	835
Travel	829	2,621
Total other	32,987	33,145
Total administrative expenses	\$ 181,684	\$ 183,102



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