

TOWN OF PALM BEACH RETIREMENT SYSTEM

FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

TOWN OF PALM BEACH RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Board of Trustees and Plan Administrator
Town of Palm Beach Retirement System
Palm Beach, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Town of Palm Beach Retirement System (the Plan), which comprise the statement of fiduciary net position as of September 30, 2013 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan, as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* as of October 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Report on Beginning Net Position

As more fully described in Notes 1 and 7, the separate retirement system's plan financial statements were previously audited by other auditors, whose reports dated March 13, 2013 (general employees), February 15, 2013 (police officers) and February 15, 2013 (firefighters) expressed an unmodified opinion on those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and contributions from employer on pages 4–9 and 32–35 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

The Schedule of Administrative and Investment Expenses, the Combining Statement of Fiduciary Net position, and the Combining Statement of Changes in Fiduciary Net Position are the responsibility of management and were derived from and relate directly to the underlying

accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2014 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Marum LLP

Fort Lauderdale, FL
February 12, 2014

Management's Discussion and Analysis

As management of the Town of Palm Beach, we offer readers of the Town of Palm Beach Retirement System Fund's financial statements this narrative overview and analysis of the financial activities of the Town of Palm Beach Retirement System Fund for the fiscal year ended September 30, 2013.

Prior to April 1, 2012, the Town had three separately managed pension plans. On April 1, 2012, the three retirement boards were consolidated into the Town of Palm Beach Retirement Board of Trustees. This Board now oversees all of the Town's pension assets and retirement programs. The accounting records were consolidated as of October 1, 2012 and this is the first financial statement for the Town of Palm Beach Retirement System. Since this is the first full year of the consolidated Town of Palm Beach Retirement System, comparative financial data is not available.

Financial Highlights

- The Net Position held in trust for pension benefits totaled \$198,460,764.
- The Town of Palm Beach Retirement System Fund recorded an increase in Net Position of \$11,174,234.
- The funded ratio as of the September 30, 2012 actuarial valuation for the General Employee and Lifeguards plan was 80%, the Police plan was 76% and the Fire-Rescue plan was 71%.
- For fiscal year 2013, Town's contribution to the plan increased by \$1,095,116.
- Net investment income for fiscal year 2013 was \$23,831,760.
- Benefit payments for fiscal year 2013 were \$15,076,584.
- Administrative expense for fiscal year 2013 totaled \$417,651.

Plan Highlights

During the year, the Retirement Board worked with the Investment Consultant, Segal Rogerscasey, to consolidate the investments of the General Employee's, Police and Firefighter Retirement Plans into one consolidated Retirement System plan. For the fiscal year ended September 30, 2013, the relative return of the portfolio was 13.60% for the year, which was higher than the Target Index of 11.37%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Palm Beach Retirement System Fund's financial statements. The Town of Palm Beach Retirement System Fund financial statements consist of a Statement of Fiduciary Net Position, a Statement of Changes in Fiduciary Net Position and Notes to 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 employer contributions.

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 Fiduciary Net Position* presents information on the Town of Palm Beach Retirement System Fund's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two reported as *net position held in trust for pension benefits*. The Town did not have any deferred outflows or inflows of resources at September 30, 2013. 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. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Palm Beach Retirement System Fund is improving or deteriorating.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net position changed during the most recent fiscal year. Additions consist of contributions to the Plan and net investment income. Deductions consist of refunds, benefit payments, share plan distributions 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 Contributions* 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 the *Supplementary Information*. This section is not required but management has chosen to include it. It includes a Combining Statement of Fiduciary Net Position, a Combining State of Changes in Fiduciary Net Position, and Schedules of Investment Expenses and Administrative Expenses. The Combining Statement of Fiduciary Net Position presents the breakdown of assets between the General Employees, Police Officers and Firefighter groups. The Combining Statement of Changes in Fiduciary Net Position presents a breakdown of additions and deductions for each of the employee groups. 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.

Financial Analysis

The total net position held in trust for pension benefits at September 30, 2013 amounted to \$198,460,764 and a condensed statement of fiduciary net position is shown below.

Statement of Fiduciary Net Position

	<u>FY2013</u>
Assets	
Cash and cash equivalents	\$ 2,872,623
Receivables	85,338
Investments at fair value	200,071,879
Other	<u>83,245</u>
Total Assets	<u>203,113,085</u>
Liabilities	
Accounts payable	2,453,730
Prepaid Town contributions	2,169,320
DROP Plan liability	<u>29,271</u>
Total Liabilities	<u>4,652,321</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 198,460,764</u>

The largest portion of the Plan's assets (98%) consists of investments at fair value. The balance of total assets includes cash and short-term investments, accrued interest and dividends receivable and amounts due from brokers for securities sold. Liabilities total \$4,652,321 at September 30, 2013. The liabilities are comprised of accounts payable, amounts due to brokers for securities purchased, prepaid Town contributions and the liability for the DROP plan. A portion of the accounts payable balance consists of a negative cash balance of \$2,172,290 in the State Street Custodial Account. This negative balance was caused by a transfer to purchase an

investment in excess of the cash balance available. State Street, the Custodian for the Plan, erroneously provided an incorrect cash balance prior to the transfer. The Retirement Board placed the custodian on probation in November 2013 for the error and other reporting errors that had occurred.

The data relating to the change in net position is shown below:

Changes in Fiduciary Net Position

	FY2013
Additions	
Contributions	
Town of Palm Beach	\$ 3,976,907
Member	744,011
	4,720,918
Investment Income, Net	23,831,760
Total Additions	28,552,678
Deductions	
Benefit payments	15,076,584
Share distributions and expenses	1,764,969
Refunds of participants' contributions	119,240
Administrative expense	417,651
Total Deductions	17,378,444
Net Increase	11,174,234
Net Position - Beginning of Year	187,286,530
Net Assets - End of Year	\$ 198,460,764

Net position of the Town of Palm Beach Retirement System Fund increased by \$11,174,234 for FY2013. This increase was due to investment income from interest and dividends and a net appreciation in fair value of investments amounting to \$23,831,760, net of investment expenses. Contributions by the Town and the employees totaled \$4,720,918. The Town's actuarially determined contribution increased by \$1,095,116, and employee contributions decreased by \$1,100,720. Deductions for benefit payments amounted to \$15,076,584, share distributions and expenses amounted to \$1,764,969 and refunds and administrative expenses totaled \$536,891.

Economic Factors and Future Rates

The employer contribution to the Plan for FY2014 increased by \$1,939,921. A portion of the actuarially determined increase resulted from a change in the investment assumption from 8% to 7.5% creating an incremental change of \$930,690. This amount is being offset by a transfer from the prepaid contribution reserve. The Town accumulated a prepaid reserve due to the “overpayment” to the fund by systematically contributing the actuarial determined amount rather than the State required amount calculated as a percent of payroll. The balance of the increase is due to increased retirement activity and the final year of smoothing the investment losses from 2008. In addition, the Town modified employee contribution requirements which increased the Town’s contribution by \$152,515.

Asset Allocation

At the end of the fiscal year ended September 30, 2013, the domestic equity comprised 27.21% of the total portfolio and international equity was 27.00% of the total portfolio. The allocation to fixed income securities was 26.11%. Alternatives and hedge funds comprised 15% of the portfolio. Commodities, real estate, and private equity comprised 5.3% of the total portfolio. A negative cash position represented –.62% of the portfolio.

The target asset allocation range versus the actual allocation is shown below:

	<i>Target Range</i>	<i>Actual</i>
Domestic Equity	10-20%	27.21%
International Equity	15-35%	27.00%
Fixed Income	12-34%	26.11%
Alternatives	10-20%	15.00%
Commodities	0-6%	2.45%
Real Estate	5-15%	1.14%
Private Equity	5-15%	1.71%
Cash	0%	-.62%

Requests for Information

This financial report is designed to provide a general overview of the Town of Palm Beach Retirement System Fund’s finances for all those with an interest in the Fund’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Finance Department
Town of Palm Beach
360 South County Road
Palm Beach, Florida 33480
(561) 838-5444**

FINANCIAL STATEMENTS

TOWN OF PALM BEACH RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2013

Assets

Cash and Cash Equivalents \$ 2,872,623

Investments, at Fair Value

U.S. government securities	940,376
Corporate bonds and notes	1,666,071
Municipal obligations	18,956
Mortgage backed securities	1,356,016
Domestic fixed income funds	48,089,020
Common stock	12,641,352
Domestic equity funds	40,971,006
International equity funds	53,902,804
Inflation hedging funds	8,824,712
Hedge funds	25,758,823
Private equity funds	3,367,951
Real estate funds	<u>2,534,792</u>

Total Investments 200,071,879

Receivables:

Interest and dividends receivable	51,670
Due from broker for securities sold	<u>33,668</u>

Total Receivables 85,338

Prepaid Expenses 83,245

Total Assets 203,113,085

Liabilities

Accounts payable and other accrued liabilities	127,335
Due to Town of Palm Beach	129,360
Due to broker for securities purchased	2,197,035
Prepaid Town contributions	2,169,320
Deferred retirement option plan (DROP) payable	<u>29,271</u>

Total Liabilities 4,652,321

Net Position Held in Trust for Pension Benefits \$ 198,460,764

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

TOWN OF PALM BEACH RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	2013
Additions	
Contributions	
Town	\$ 3,976,907
Member	<u>744,011</u>
Total Contributions	<u>4,720,918</u>
Investment Income	
Net appreciation in fair value of investments	22,994,796
Interest and dividends	1,282,420
Share investment earnings	188,103
Other	<u>5,055</u>
	24,470,374
Less: investment expenses	<u>(638,614)</u>
Net Investment Income	<u>23,831,760</u>
Total Additions	<u>28,552,678</u>
Deductions	
Benefit payments	15,076,584
Transfer to Share reserve account	208,695
Share distributions	1,556,274
Refunds of participants' contributions	119,240
Administrative expenses	<u>417,651</u>
Total Deductions	<u>17,378,444</u>
Net Increase	11,174,234
Net Position Held in Trust for Pension Benefits	
Beginning of year (Note 7)	<u>187,286,530</u>
End of year	<u><u>\$ 198,460,764</u></u>

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

NOTES TO FINANCIAL STATEMENTS

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of the Town of Palm Beach Retirement System (the Plan) are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Town contributions are recognized when due pursuant to the actuarial valuation. 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.

METHODS USED TO VALUE INVESTMENTS

Investments are recorded at fair value in the statement of fiduciary net position. 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 Plan has entered into requires a range of techniques to determine fair value. The overall valuation processes and information sources by major investment classification authorized by the Plan are as follows:

- Debt securities: Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporate bonds and notes, and 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 year end. 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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

METHODS USED TO VALUE INVESTMENTS (CONTINUED)

- Inflation hedging funds: The fair values of these investments are based on quoted net asset values of the shares as of September 30, 2013 and 2012.
- 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 the year. Real estate fair values are based on the most recent appraisal available. 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 in fair value of investments on the statement of changes in fiduciary net position 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.

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.

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

The Board implemented the following GASB Statement during the year ended September 30, 2013 that had an impact on the financial statements:

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It further identifies net position as the residual of all other elements presented in a statement of fiduciary net position. There was no material impact on the Plan's financial statements as a result of this implementation.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION

The Town of Palm Beach Retirement System (the Town) is the administrator of a single-employer Public Employee Retirement System defined benefit pension plan established to provide pension benefits for its employees. The Town's retirement system was established on July 1, 1947, by an ordinance of the Town of Palm Beach. The Plan is considered part of the Town's financial reporting entity and is included in the Town's financial statements as a pension trust fund. The plan was amended by ordinance 4-2012, effective April 1, 2012 which required that the retirement system be administered by a single board of trustees and ordinance No. 6-2012, effective May 1, 2012 which amended participant benefits.

Prior to April 1, 2012, separate pension plans were maintained for the general and lifeguard employees, police officers, and firefighters. Effective April 1, 2012, the general employees and lifeguard employees board of trustees, police officer board of trustees, and firefighter board of trustees were eliminated and a new consolidated board of trustees was created. The existing contracts, investment holdings, assets and liabilities of the general employees' and lifeguard employees', police officers', and firefighters' 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, an amended consolidated plan was established, covering all employees of the Town. The new consolidated plan is known as the Town of Palm Beach Retirement System (the Plan).

The Plan is administered by the Town of Palm Beach Retirement System Board of Trustees. There are nine members on the 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 officer 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.

All employees working in excess of 1,040 hours per year are covered by the Plan. The Town Council is authorized to establish benefit levels and to approve the actuarial assumptions used in the determination of contribution levels. The contributions and benefits are segregated between general employees and lifeguards, police officers, and firefighters.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

At September 30, 2012, the date of the most recent actuarial valuation, the plan membership consisted of the following:

	<u>General</u>	<u>Police</u>	<u>Fire</u>	<u>Totals</u>
Retirees and beneficiaries receiving benefits	189	94	94	377
Terminated plan members entitled to but not yet receiving benefits	13	8	6	27
Active plan members:				
Vested	88	23	20	131
Non-vested	<u>67</u>	<u>24</u>	<u>31</u>	<u>122</u>
	<u>357</u>	<u>149</u>	<u>151</u>	<u>657</u>

The following brief description of the Plan is provided for general information purposes only. Participants should refer to Town ordinances for more complete information.

GENERAL EMPLOYEES

NORMAL RETIREMENT:

Eligibility

Grandfathered and April 30, 2012 frozen accrued benefits.

General: 30 or more years of service, regardless of age; or, age 55 with 10 or more years of credited service.

Lifeguards: Age 50 with 10 or more years of service. Members with at least 10 years of credited service who retire after 2/9/93 are eligible when the individual's age plus credited service totals 65 years or more.

New Plan benefits accrued after April 30, 2012.

General: Age 65 with 10 or more years of service.

Lifeguards: Age 65 with 10 or more years of service.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

NORMAL RETIREMENT (CONTINUED):

Pension Amount

Grandfathered and April 30, 2012 frozen accrued benefits.

General: Average final compensation times the sum of a) 2.75% for service earned after 9/30/90, to a maximum of 82.5%, plus 2.35% for service earned on or before 9/30/90 for the first 30 years of service, plus, b) 1.0% for service in excess of 30 years.

Lifeguards: Average final compensation times the sum of a) 2.85% for the first 25 years of service with a maximum of 71.25% of AFC, plus, b) 1.0% for service in excess of 25 years.

New Plan benefits accrued after April 30, 2012.

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for life. Also, see Automatic Death After Retirement Pension heading.

Type of Average Final Compensation

Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

DROP RETIREMENT:

Eligibility – Same as Normal Retirement, election must be made within 7 years of the date the member first reaches general retirement eligibility. Participation must be terminated within the shorter of 5 years participation or 120 months from normal retirement date.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

DROP RETIREMENT (CONTINUED):

Pension Amount – 98% of the member's accrued benefit at the date of election to participate in DROP. As of September 30, 2013, there were 39 members in the DROP and the value was \$909,920 which is held outside of the Plan.

EARLY RETIREMENT (GENERAL):

Eligibility – Age 50 with 10 or more years of credited service. Frozen accrued benefits as of April 30, 2012 are vested immediately. New Plan provisions eligibility is age 60 with 10 or more years of credited service.

Pension Amount – Computed as a normal retirement benefit but reduced 6/10 of 1% (3/10 of 1% if service credit is 20 or more years) for each month early retirement precedes the member's projected normal retirement date. The new plan provides for an actuarial equivalent reduction.

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; failure to do so results in forfeiture of the vested benefit.

Pension Amount – Computed as for normal retirement, based upon service and average final compensation at time of termination.

DUTY DISABILITY RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount – To earliest normal retirement eligibility date: Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation. At earliest normal retirement eligibility date: computed as a regular retirement. The minimum shall be applicable for at least 5 years if the member attains such age for retirement less than 5 years after duty disability benefits commence.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

NON-DUTY DISABILITY BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – Computed as for normal retirement.

DUTY DEATH BEFORE RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retiree's AFC and the aggregate amount paid to children for the month.

NON-DUTY DEATH BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

AUTOMATIC DEATH AFTER RETIREMENT PENSION:

Grandfathered and April 30, 2012 frozen accrued benefits.

To Surviving Child(ren): 25% of the retiree's pension payable to age 18, not to exceed an equal share of 75% of the retiree's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

To Surviving Spouse: The difference, if any, between 75% of the deceased retiree's pension and the aggregate amount paid to any surviving children for the month.

New Plan benefits accrued after April 30, 2012.

Reduced optional forms of payment are available.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

GENERAL EMPLOYEES (continued)

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS:

Grandfathered and April 30, 2012 frozen accrued benefits.

Members who retire after 9-30-68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Other adjustments have been made periodically. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3-year deferral period.

New Plan benefits accrued after April 30, 2012.

None.

POLICE OFFICERS

NORMAL RETIREMENT:

Eligibility

Grandfathered and April 30, 2012 frozen accrued benefits.

20 or more years of service, regardless of age; or, age 50 with 10 or more years of credited service; or, members with at least 10 years of credited service who retire after 9/30/90 are eligible when the individual's age plus credited service totals 65 years or more.

New Plan benefits accrued after April 30, 2012.

Age 65 with 10 or more years of service.

Pension Amount

Grandfathered and April 30, 2012 frozen accrued benefits.

Average final compensation multiplied by the greater of.

- a) 3.5% per year of credited service to a maximum of 25 years, or
- b) 2.0% per year of credited service to a maximum of 50 years.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

POLICE OFFICERS (continued)

NORMAL RETIREMENT (CONTINUED):

New Plan benefits accrued after April 30, 2012.

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for 10 years certain. Also, see Automatic Death after Retirement heading.

Average Final Compensation

Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

DROP RETIREMENT:

Eligibility – Same as Normal Retirement, election must be made within 7 years of the date the member first reaches normal retirement eligibility.

Pension Amount – 100% of the member's accrued benefit at the date of election to participate in DROP.

Distributions – Monthly amounts are paid from the Retirement System into self-directed member accounts. As of September 30, 2013, there were 14 members in the DROP and the value was \$954,879 which is held outside of the Plan.

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of credited service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; failure to do so results in forfeiture of the vested benefit. Frozen accrued benefits as of April 30, 2012 are vested immediately.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

POLICE OFFICERS (continued)

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT) (CONTINUED):

Pension Amount – Computed as for normal retirement, based upon service and average final compensation at time of termination.

DUTY DISABILITY RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount - Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation.

NON-DUTY DISABILITY BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – Computed as for normal retirement.

DUTY DEATH BEFORE RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or an equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retirant's AFC and the aggregate amount paid to children for the month.

NON-DUTY DEATH BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

POLICE OFFICERS (continued)

AUTOMATIC DEATH AFTER RETIREMENT PENSION:

Grandfathered and April 30, 2012 frozen accrued benefits.

To Surviving Child(ren): 25% of the retirant's pension payable to age 18, not to exceed an equal share of 75% of the retirant's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

To Surviving Spouse: The difference, if any, between 75% of the deceased retirant's pension and the aggregate amount paid to any surviving children for the month.

New Plan benefits accrued after April 30, 2012.

Reduced optional forms of payment are available.

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS:

Grandfathered and April 30, 2012 frozen accrued benefits.

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Other adjustments have been made periodically. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3 year deferral period.

New Plan benefits accrued after April 30, 2012.

None.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS

NORMAL RETIREMENT:

Eligibility

Grandfathered and April 30, 2012 frozen accrued benefits.

20 or more years of service, regardless of age; or, age 50 with 10 or more years of credited service; or, members with at least 10 years of credited service who retire after 9/30/90 are eligible when the individual's age plus credited service totals 65 years or more.

New Plan benefits accrued after April 30, 2012.

Age 65 with 10 or more years of service.

Pension Amount

Grandfathered and April 30, 2012 frozen accrued benefits.

Average final compensation multiplied by the greater of,
a) 3.5% per year of credited service to a maximum of 25 years, or
b) 2.0% per year of credited service to a maximum of 50 years.

New Plan benefits accrued after April 30, 2012.

Average final compensation multiplied by 1.25% per year of credited service after April 30, 2012.

The normal form of pension is a pension payable for 10 years certain. Also, see Automatic Death after Retirement heading.

Average Final Compensation

Grandfathered and April 30, 2012 frozen accrued benefits.

Highest 2 consecutive years within the member's last 5 years of credited service.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS (continued)

NORMAL RETIREMENT (CONTINUED):

New Plan benefits accrued after April 30, 2012.

Average compensation after April 30, 2012 over a period increasing up to the final 5 years of credited service on or after April 30, 2017.

DROP RETIREMENT:

Eligibility – Same as Normal Retirement, election must be made within 7 years of the date the member first reaches normal retirement eligibility.

Pension Amount – 100% of the member's accrued benefit at the date of election to participate in DROP. As of September 30, 2013, there were 13 members in the DROP with a value of \$997,726 which is held outside of the Plan.

DEFERRED RETIREMENT (VESTED TERMINATION BENEFIT):

Eligibility – 10 or more years of credited service. Pension begins upon meeting requirement for normal retirement. Contributions must be left on deposit in the System; failure to do so results in forfeiture of the vested benefit. Frozen accrued benefits as of April 30, 2012 are vested immediately.

Pension Amount – Computed as for normal retirement, based upon service and average final compensation at time of termination.

DUTY DISABILITY RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount – Computed as a regular retirement with additional service credit granted from date of disability to earliest normal retirement eligibility date. Minimum benefit is 60% of average final compensation.

NON-DUTY DISABILITY BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – Computed as for normal retirement.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS (continued)

DUTY DEATH BEFORE RETIREMENT:

Eligibility – No age or service requirements.

Pension Amount – A pension to each surviving child of 25% of the member's average final compensation not to exceed 50% or an equal share of 75% of the member's AFC when there are 4 or more surviving children being paid. A pension to the widow of the difference, if any, between 75% of the retirant's AFC and the aggregate amount paid to children for the month.

NON-DUTY DEATH BEFORE RETIREMENT:

Eligibility – 10 or more years of credited service.

Pension Amount – 75% of normal retirement benefit to a surviving spouse or equal shares of 75% of the normal retirement benefit to surviving unmarried children under 18.

AUTOMATIC DEATH AFTER RETIREMENT PENSION:

Grandfathered and April 30, 2012, frozen accrued benefits.

To Surviving Child(ren): 25% of the retirant's pension payable to age 18, not to exceed an equal share of 75% of the retirant's pension. Payments to surviving children may be paid to age 25 if no spouse benefits are payable.

To Surviving Spouse: The difference, if any, between 75% of the deceased retirant's pension and the aggregate amount paid to any surviving children for the month.

New Plan benefits accrued after April 30, 2012.

Reduced optional forms of payment are available.

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS:

Grandfathered and April 30, 2012, frozen accrued benefits.

Members who retire after 9/30/68 and prior to 10/1/90 receive an annual 1.0% increase computed on the base benefit. Other adjustments have been made periodically. Pensions effective after 9/30/90 will be increased 2.0% annually based on the total pension payable subsequent to an initial 3 year deferral period.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

FIREFIGHTERS (continued)

POST-RETIREMENT COST-OF-LIVING ADJUSTMENTS (CONTINUED):

New Plan benefits accrued after April 30, 2012.

None.

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 were funded annually using Chapter 175 monies that have not been otherwise committed for benefits for firefighter members. As of September 30, 2013, \$1,108,097 was held in Share accounts included in the Plan's net position.

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

As of September 30, 2013, \$2,105,181 reflects the amount 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.

NOTE 3 – CONTRIBUTIONS

GENERAL MEMBER CONTRIBUTIONS

The contribution requirement of the plan members are established and may be amended by the Town Council. General employees and lifeguard employees hired before May 1, 1992 are required to contribute 4.47% and 5.21% of their compensation, respectively. All general employee and lifeguard employees hired on or after 5/1/1992 are required to contribute 2.47% and 3.21% of their compensation, respectively.

FIRE 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%.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 – CONTRIBUTIONS (CONTINUED)

FIRE MEMBER CONTRIBUTIONS (CONTINUED)

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.

POLICE 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 are 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, Chapters 175 and 185, contributions from the State of Florida Department of Insurance consist of an excise tax imposed by the Town upon certain casualty insurance companies on the gross amount of receipts of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the Town. The allowable portion of the State contribution was used to reduce the Town's contribution when received. Effective March 14, 2012, the Town withdrew from participation under Chapters 175 and 185.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 – INVESTMENTS

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	2013
Domestic equity funds	15%
Developed equity funds	15%
Emerging markets equity funds	10%
Fixed income funds	20%
TIPS (Treasury Inflation Protected Securities / Bond Mutual Fund)	2.5%
Alternative investments	15%
Inflation hedging funds	2.5%
Real estate funds	10%
Private equity funds	10%

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:

	Fair Value	Remaining Maturity			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	Greater Than 10Years
U.S. Treasuries	\$ 574,199	\$ --	\$ 212,204	\$ 144,137	\$ 217,858
U.S. Federal agencies	366,177	--	366,177	--	--
U.S. mortgage backed securities	1,187,061	--	194,428	37,049	955,584
Municipal obligations	18,956	--	--	--	18,956
Corporate obligations	1,666,071	266,292	705,350	297,617	396,812
Collateralized mortgage obligations	168,955	--	--	45,142	123,813
Domestic fixed income funds	48,089,020	16,537,989	21,922,449	9,628,582	--
	<u>\$ 52,070,439</u>	<u>\$ 16,804,281</u>	<u>\$ 23,400,608</u>	<u>\$ 10,152,527</u>	<u>\$ 1,713,023</u>

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 – INVESTMENTS (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:

Credit Rating by Standard & Poor's	Fair Value	Corporate	Municipal	U.S. Government	Domestic Fixed Income Funds
AAA	\$26,662,487	\$ --	\$ --	\$ 123,813	\$ 26,538,674
AA +	1,588,652	35,414	--	1,553,238	--
AA	1,989,262	66,240	--	--	1,923,022
AA-	97,244	97,244	--	--	--
A+	267,256	248,300	18,956	--	--
A	5,814,018	429,557	--	--	5,384,461
A-	399,300	399,300	--	--	--
BBB+	245,178	245,178	--	--	--
BBB	10,530,998	134,179	--	--	10,396,819
BBB-	10,659	10,659	--	--	--
BB	769,209	--	--	--	769,209
Not rated	3,696,176	--	--	619,341	3,076,835
Total Fixed Income Securities	<u>\$52,070,439</u>	<u>\$ 1,666,071</u>	<u>\$ 18,956</u>	<u>\$ 2,296,392</u>	<u>\$ 48,089,020</u>

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, 2013.

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.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 – INVESTMENTS (CONTINUED)

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.

RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of fiduciary net position. The Plan, through its investment advisor, monitors the Plan's investment and the risks associated therewith on a regular basis, which the Plan believes minimizes these risks.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 5 – FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of September 30, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

(Dollar Amounts in Thousands)						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
September 30, 2012	(a)	(b)	(b)-(a)	(a)/(b)	(c)	((b-a)/c)
General Employees	\$ 72,393	\$ 90,681	\$ 18,288	79.8%	\$ 9,884	185.0%
Police Officers	61,028	80,129	19,101	76.2%	4,241	450.4%
Firefighters	56,304	79,887	23,583	70.5%	4,087	577.0%

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:

	<u>General</u>	<u>Police</u>	<u>Fire</u>
Additional information as of the latest actuarial valuation follows:			
Actuarial valuation date	September 30, 2012	September 30, 2012	September 30, 2012
Actuarial cost method	Entry-age	Entry-age	Entry-age
Amortization method	Level percent-of-payroll	Level percent-of-payroll	Level percent-of-payroll
Remaining amortization period	19-30 years	14-30 years	19-30 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	7.3% to 3.7%	7.3% to 3.7%	7.3% to 3.5%
Includes inflation and other general increases at	3.50%	3.50%	3.50%
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 deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12.	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 deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12.	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 deferral period. Benefits accrued after 4/30/12 are not adjusted for those not eligible for normal retirement as of 5/1/12.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

NOTE 6 – TAX STATUS

Management believes that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

NOTE 7 – BEGINNING NET POSITION

Net position, as of October 1, 2012, the first day of the financial statements of the combined employee groups under the new consolidated board was determined as follows based on the separately issued audited plan financial statements for the general employees, police officers and firefighters.

Net position as of September 30, 2012:

General Employees	\$ 72,778,562
Police Officers	58,114,391
Firefighters	<u>56,393,577</u>
	<u>\$187,286,530</u>

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
(General Employees)

(Dollar Amounts in Thousands)

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$72,161	\$77,632	\$5,471	93.0%	\$12,697	43.1%
2008	73,732	83,758	10,026	88.0%	12,687	79.0%
2009	72,370	89,658	17,288	80.7%	13,304	129.9%
2010	73,809	93,147	19,338	79.2%	11,580	167.0%
2011 (a)	74,247	82,974	8,727	89.5%	10,926	79.9%
2012 (a)	72,393	90,681	18,288	79.8%	9,884	185.0%

Schedule of Contributions From Employer
(General Employees)

Plan Year Ended September 30	Annual Required Contribution	Percentage Contributed
2008	\$2,614,902	100.0%
2009	2,420,128	100.0%
2010	2,616,484	100.0%
2011	2,460,540	100.0%
2012	811,440	100.0%
2013	1,349,163	100.0%

(a) After changes in benefit provisions and/or actuarial assumptions and/or actuarial cost methods.

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Police Officers)

(Dollar Amounts in Thousands)

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$58,486	\$63,742	\$5,256	91.8%	\$5,334	98.5%
2008	61,668	68,525	6,857	90.0%	5,309	129.2%
2009	63,000	74,257	11,257	84.8%	6,187	181.9%
2010	64,079	76,694	12,615	83.6%	6,043	208.8%
2011 (a)	63,554	72,421	8,867	87.8%	5,222	169.8%
2012 (a)	61,028	80,129	19,101	76.2%	4,241	450.4%

Schedule of Contributions From Employer

(Police Officers)

Plan Year Ended September 30	Annual Required Contribution	Percentage Contributed
2008	\$2,592,527	100.0%
2009	2,330,352	100.0%
2010	2,491,095	100.0%
2011	2,496,264	100.0%
2012	1,235,000	100.0%
2013	1,257,107	100.0%

(a) After changes in benefit provisions and/or actuarial assumptions and/or actuarial cost methods.

TOWN OF PALM BEACH RETIREMENT SYSTEM

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
(Firefighters)

(Dollar Amounts in Thousands)

Actuarial Valuation Date September 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	\$54,723	\$67,027	\$12,304	81.6%	\$5,573	220.8%
2008	57,652	71,813	14,161	80.3%	5,823	243.2%
2009	57,852	78,139	20,287	74.0%	6,398	317.1%
2010	59,219	81,598	22,379	72.6%	6,219	359.8%
2011 (a)	58,899	72,928	14,029	80.8%	5,142	272.8%
2012 (a)	56,304	79,887	23,583	70.5%	4,087	577.0%

Schedule of Contributions From Employer
(Firefighters)

Plan Year Ended September 30	Annual Required Contribution	Percentage Contributed
2008	\$2,875,169	100.0%
2009	2,709,281	100.0%
2010	2,997,164	100.0%
2011	2,919,314	100.0%
2012	1,415,000	100.0%
2013	1,370,637	100.0%

(a) After changes in benefit provisions and/or actuarial assumptions and/or actuarial cost methods.

TOWN OF PALM BEACH RETIREMENT SYSTEM

NOTES TO THE SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER

SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

2012 Change in plan provisions and actuarial methods since prior actuarial valuations:

- The Board adopted changes in assumptions reducing the long-term investment return assumption from 8% to 7.5%
- Reduced wage inflation assumption from 4.5% to 3.5%.

SUPPLEMENTARY INFORMATION

TOWN OF PALM BEACH RETIREMENT SYSTEM

COMBINING STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2013

	General	Police Officers	Firefighters	Total
Assets				
Cash and Cash Equivalents	\$ 1,128,944	\$ 896,276	\$ 847,403	\$ 2,872,623
Investments, at Fair Value				
U.S. government securities	369,573	293,402	277,401	940,376
Corporate bonds and notes	654,768	519,824	491,479	1,666,071
Municipal obligations	7,450	5,914	5,592	18,956
Mortgage backed securities	532,916	423,085	400,015	1,356,016
Domestic fixed income funds	18,899,052	15,004,063	14,185,905	48,089,020
Common stock	4,968,069	3,944,178	3,729,105	12,641,352
Domestic equity funds	16,101,663	12,783,200	12,086,143	40,971,006
International equity funds	21,183,878	16,817,998	15,900,928	53,902,804
Inflation hedging funds	3,468,124	2,753,363	2,603,225	8,824,712
Hedge funds	10,123,254	8,036,907	7,598,662	25,758,823
Private equity funds	1,323,609	1,050,821	993,521	3,367,951
Real estate funds	996,177	790,870	747,745	2,534,792
Total Investments	<u>78,628,533</u>	<u>62,423,625</u>	<u>59,019,721</u>	<u>200,071,879</u>
Receivables:				
Interest and dividends receivable	20,307	16,121	15,242	51,670
Due from broker for securities sold	13,231	10,505	9,932	33,668
Total Receivables	<u>33,538</u>	<u>26,626</u>	<u>25,174</u>	<u>85,338</u>
Prepaid Expenses	32,715	25,973	24,557	83,245
Total Assets	<u>79,823,730</u>	<u>63,372,500</u>	<u>59,916,855</u>	<u>203,113,085</u>
Liabilities				
Accounts payable and other accrued liabilities	50,043	39,729	37,563	127,335
Due to Town of Palm Beach	50,839	40,361	38,160	129,360
Due to broker for securities purchased	863,440	685,487	648,108	2,197,035
Prepaid Town contributions	852,544	676,842	639,934	2,169,320
Deferred retirement option plan (DROP) payable	11,503	9,133	8,635	29,271
Total Liabilities	<u>1,828,369</u>	<u>1,451,552</u>	<u>1,372,400</u>	<u>4,652,321</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 77,995,361</u>	<u>\$ 61,920,948</u>	<u>\$ 58,544,455</u>	<u>\$ 198,460,764</u>

TOWN OF PALM BEACH RETIREMENT SYSTEM

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General	Police Officers	Firefighters	Total
Additions				
Contributions				
Town	\$ 1,349,164	\$ 1,257,107	\$ 1,370,636	\$ 3,976,907
Member	373,040	180,924	190,047	744,011
Total Contributions	<u>1,722,204</u>	<u>1,438,031</u>	<u>1,560,683</u>	<u>4,720,918</u>
Investment Income				
Net appreciation in fair value of investments	8,935,778	7,135,285	6,923,733	22,994,796
Interest and dividends	498,348	397,935	386,137	1,282,420
Share investment earnings	--	--	188,103	188,103
Other	1,965	1,568	1,522	5,055
	9,436,091	7,534,788	7,499,495	24,470,374
Less: investment expenses	<u>(248,165)</u>	<u>(198,162)</u>	<u>(192,287)</u>	<u>(638,614)</u>
Net Investment Income	<u>9,187,926</u>	<u>7,336,626</u>	<u>7,307,208</u>	<u>23,831,760</u>
Total Additions	<u>10,910,130</u>	<u>8,774,657</u>	<u>8,867,891</u>	<u>28,552,678</u>
Deductions				
Benefit payments	5,528,915	4,699,716	4,847,953	15,076,584
Transfer to Share reserve account	--	--	208,695	208,695
Share distributions	--	21,664	1,534,610	1,556,274
Refunds of participants' contributions	2,117	117,123	--	119,240
Administrative expenses	162,299	129,597	125,755	417,651
Total Deductions	<u>5,693,331</u>	<u>4,968,100</u>	<u>6,717,013</u>	<u>17,378,444</u>
Net Increase	5,216,799	3,806,557	2,150,878	11,174,234
Net Position Held in Trust for Pension Benefits				
Beginning of year (Note 7)	<u>72,778,562</u>	<u>58,114,391</u>	<u>56,393,577</u>	<u>187,286,530</u>
End of year	<u>\$ 77,995,361</u>	<u>\$ 61,920,948</u>	<u>\$ 58,544,455</u>	<u>\$ 198,460,764</u>

TOWN OF PALM BEACH RETIREMENT SYSTEM

SCHEDULE OF ADMINISTRATIVE AND INVESTMENT EXPENSES

FOR THE YEAR ENDED SEPTEMBER 30, 2013

SUPPLEMENTARY INFORMATION

Administrative Expenses

Administrator fees	\$ 146,028
Legal fees	60,057
Fiduciary insurance	56,359
Audit fees and accounting fees	56,213
Salaries and employee benefits	49,163
Actuarial services	37,700
Software	8,440
Medical exams	2,300
Postage, office and miscellaneous expense	<u>1,391</u>

Total Administrative Expenses \$ 417,651

Investment Expenses

Investment management fees	\$ 378,168
Investment consultant services	152,500
Custodial fees	<u>107,946</u>

Total Investment Expenses \$ 638,614

REPORTING SECTION

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Palm Beach Retirement System (the Plan), as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated February 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, however, we identified an observation and recommendation in the separate communication to those charged with governance.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Fort Lauderdale, FL
February 12, 2014