

**WEST PALM BEACH
POLICE PENSION FUND**

FINANCIAL STATEMENTS
September 30, 2012

DAVIDSON, JAMIESON & CRISTINI, P.L.
Certified Public Accountants

WEST PALM BEACH POLICE PENSION FUND



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2012***

Presented to

City of West Palm Beach Police Pension Fund

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

WEST PALM BEACH POLICE PENSION FUND

September 30, 2012

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.Davidson, Jamieson & Cristini, P.L.
Certified Public Accountants

1956 Bayshore Boulevard
Dunedin, Florida 34698-2503
(727)734-5437 or 736-0771
FAX (727) 733-3487

Members of the Firm
John N. Davidson, CPA, CVA
Harry B. Jamieson, CPA
Richard A. Cristini, CPA, CPPT, CGFM
Jeanine L. Bittinger, CPA, CPPT

Member
American Institute of
Certified Public Accountants
Florida Institute of
Certified Public Accountants

The Board of Trustees
West Palm Beach Police
Pension Fund
West Palm Beach, Florida

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of plan net assets of the West Palm Beach Police Pension Fund (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 Board of Trustees. 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 audits 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 West Palm Beach Police Pension Fund as of September 30, 2012 and 2011 and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Board of Trustees
West Palm Beach Police Pension Fund
West Palm Beach, Florida

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplementary information on pages 24 through 26 of the West Palm Beach Police Pension Fund is required by Governmental Accounting Standards Board Statement No. 25 and is not a required part of the basic financial statements. The additional information on page 27 is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The above information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The West Palm Beach Police Pension Fund has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board under its Statement No. 34 has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Davidson, Jamison & Cristini, P.L.

November 15, 2012

WEST PALM BEACH POLICE PENSION FUND

STATEMENTS OF PLAN NET ASSETS

September 30, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Cash	\$ 4,855	\$ 6,152
Receivables:		
Drop loans	597,682	590,861
Interest and dividends	675,911	830,382
Broker-dealers	296,672	180,642
Other	33,849	35,539
Total receivables	1,604,114	1,637,424
Investments at fair value:		
U.S. Government securities	-	610,641
U.S. Government Agency securities	30,476,111	26,753,544
Corporate bonds	24,379,335	29,726,641
Domestic stocks	117,169,520	92,857,227
International stocks	8,590,192	6,697,727
International equity mutual fund	8,857,487	7,683,691
Real estate investment trust fund	10,987,096	9,629,371
Temporary investments	10,258,500	6,291,000
Total investments	210,718,241	180,249,842
Prepaid expenses	12,655	12,879
Total assets	212,339,865	181,906,297
	<u>Liabilities</u>	
Accounts payable	277,243	249,683
Broker-dealers	193,124	896
Total liabilities	470,367	250,579
Plan net assets held in trust for pension benefits	<u>\$ 211,869,498</u>	<u>\$ 181,655,718</u>

See Notes to Financial Statements.

WEST PALM BEACH POLICE PENSION FUND

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years ended September 30, 2012 and 2011

Additions:	2012	2011
Contributions:		
Employer	\$ 4,796,576	\$ 5,028,968
Participants	2,119,700	2,172,743
Buy back	892,785	482,438
DROP account	-	142,671
Share account	365,039	724,497
Total contributions	8,174,100	8,551,317
Intergovernmental revenue:		
Chapter 185 state excise tax rebate	992,713	996,459
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	26,548,083	(5,590,307)
Interest	3,039,032	3,418,363
Dividends	3,090,063	2,890,912
Commission rebate	4,942	19,052
Litigation settlement	12,765	29,937
Other	-	304
Investment income (loss)	32,694,885	768,261
Less investment expenses	1,058,904	1,015,298
Net investment income (loss)	31,635,981	(247,037)
Total additions	40,802,794	9,300,739
Deductions:		
Benefits:		
Age and service	6,585,539	6,137,364
Disability	372,496	318,754
Beneficiaries	505,349	407,515
Share accounts	1,004,408	1,504,500
Drop accounts	1,748,885	2,144,204
Refunds of contributions	115,789	68,486
Administrative expenses	256,548	261,204
Total deductions	10,589,014	10,842,027
Net increase (decrease)	30,213,780	(1,541,288)
Plan net assets held in trust for pension benefits:		
Beginning of year	181,655,718	183,197,006
End of year	\$ 211,869,498	\$ 181,655,718

See Notes to Financial Statements.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

1. Description of the Plan

The following brief description of the West Palm Beach Police Pension Fund (Plan) is provided for general information purposes only. Participants should refer to the Plan Agreement for more complete information.

General - The Plan was created in 1947 by a Special Act of the Florida legislature, Chapter 24981, Section 16, Laws of Florida, as amended. The Special Act was substantively amended in 1996, 2000, 2002, 2003, 2005 and 2012.

The Plan is a defined benefit pension plan covering all full-time police officers of the City of West Palm Beach, Florida (City). Participation in the Plan is required as a condition of employment. The Plan provides for pension, death and disability benefits. In addition, the Plan is a local law plan subject to provisions of Chapter 185 of the State of Florida Statutes.

The Plan, in accordance with the above statutes, is governed by a five member pension board. Two police officers, two City residents and a fifth member elected by the other four members constitute the pension board. The City and the Plan participants are obligated to fund all Plan costs based upon actuarial valuations.

During the fiscal year ended September 30, 2012, the Plan's membership consisted of:

Retirees and beneficiaries:	
Currently receiving benefits	186
Drop participants	27
Terminated employees entitled to benefits but not yet receiving them	11
	<hr/>
Total	<u>224</u>
Current employees:	
Vested	141
Nonvested	110
	<hr/>
Total	<u>251</u>

At September 30, 2011, the date of the most recent actuarial valuation, there were 210 retirees and beneficiaries receiving benefits.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

1. Description of Plan (Continued)

Pension Benefits - The pension plan provides retirement, death and disability benefits for its participants. A participant may retire with normal benefits after reaching age 50 and accumulating 20 or more years of credited service; reaching age 55 and accumulating 10 or more years of credited service; or at 25 or more years of continuous service.

Normal retirement benefits are stipulated in Laws of Florida, Chapter 24981, Section 16(9) and are contingent upon a participant's employment date, retirement date and length of service. In general, normal retirement benefits are 2.68% of the participant's final average salary multiplied by the number of years of credited service. Early retirement benefits are payable at a reduced amount for participants attaining age 50 with 10 or more years of service.

A participant with 10 or more years of credited service is eligible for deferred retirement. These benefits begin upon application on or after reaching age 50 and are computed the same as normal or early retirement, based on the participant's final average salary and credited service at date of termination. Benefits are reduced 3% per year for each year by which the participant's age at retirement preceded the participant's normal retirement age.

Effective January 1, 2013, the limit on the amount of overtime that is included in pensionable compensation is lowered from 400 hours to 300 hours.

Disability Benefits - Disability benefits for service related disabilities are paid to the participant for life. Benefits are calculated as the amount of accrued normal retirement pension benefit, subject to a minimum benefit equal to two-third's of the participant's final average salary to the later of age 55 or 5 years after disability. After expiration of the minimum benefit, the service related disability benefit is recalculated to be the participant's normal retirement but with additional service credit granted to the later of age 55 or 5 years of disability.

Disability benefits for non-service related disabilities are paid to a participant for life. Benefits are calculated as the accrued normal retirement amount if the disability occurs after normal retirement eligibility. If the disability occurs before normal retirement eligibility and the participant has completed ten or more years of credited service, the disability benefit is computed as the normal retirement benefit with a minimum of 25% of the participant's final average salary. If the disability occurs before normal retirement eligibility and the participant has completed at least five but less than ten years of credited service, the disability benefit is computed as the normal retirement benefit with a minimum of 20% of the participant's final average salary.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

1. Description of Plan (Continued)

Death Benefits - Pre-retirement death benefits for service related deaths are paid to participant's widow for life. Benefits are calculated at two-third's of the participant's highest twelve consecutive months' salary or the current top step police officer pay, whichever is greater. Unmarried children under age 18 each receive \$150 per month. If no eligible widow exists, unmarried children each receive an equal share of one third of the participants' final average salary.

Pre-retirement death benefits for non-service related deaths are paid to participant's widow for life. Non-service related death benefits are available to participants with five or more years of service. Benefits are computed as two-third's the amount of what the participant would have received had he retired the day before death, subject to a minimum of one-seventh of the participant's final average salary. If no eligible widow exists, unmarried children under age 18 will each receive an equal share of the calculated amount.

Post-retirement death benefits are payable to the participant's eligible widow equal to two-third's of the member's pension at the time of death and are payable until death. If no eligible widow exists, the participant's unmarried children under the age of 18 receive equal shares. If no eligible widow or children exist, and death occurs within 10 years of retirement, the payment of the pension is continued to a designated beneficiary for the balance of the 10 year period. Optional forms of payment are available on an "equivalent actuarial value" basis to the 10 year certain and life forms of payment.

Cost of Living Adjustments - Post-retirement cost of living adjustments are made by the Board of Trustees each January 1 following the attainment of age 65 by each retiree. Benefits are increased by a percentage of the base retirement benefit amount equal to the increase in the Consumer Price Index.

Supplemental Pension Distributions - The Board of Trustees may make a supplemental distribution each year from net accumulated investment and mortality experience from all sources, to the extent of investment earnings in excess of 7% (to a maximum 2% excess) for participants employed before April 1, 1987 and in excess of 8.25% (to a maximum of .75% excess) for participants employed after March 31, 1987 plus one-half of investment earnings in excess of 9.0%, if any, for all participants, applied to the actuarial present value of future pension benefits estimated to be paid to retired participants' beneficiaries. No supplemental distributions were paid in the fiscal year ended September 30, 2012 and 2011.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

1. Description of Plan (Continued)

Refund of Participant Contributions - A non-vested participant who terminates employment is refunded his or her contributions, without interest, unless he or she voluntarily elects to leave the contributions in the member's deposit account for a period of up to five years, pending the participant's possibility of re-employment.

Share Accounts - Effective October 1, 1988, Share Accounts (defined contribution accounts) were established for each participant in the Plan. The accounts are funded by Chapter 185 state excise tax rebate payments. Chapter 185 receipts are allocated to the accounts every October 1 in proportion to each participant's number of pay periods during the preceding calendar year. On September 30 of each year, share accounts are credited with a pro rata share of excess pension plan investment savings and forfeited accounts. Eligible participants, meeting certain service criteria, whose employment is terminated or an eligible beneficiary may receive payment of the share account on application to the Board of Trustees. Distributions may be in lump sum, or partial as permitted by Board policy.

DROP Plan - Any participant who is eligible to receive a normal retirement pension benefit who has completed between 25 and 27 years of service may elect to participate in a deferred retirement option plan (DROP) while continuing his or her active employment as a police officer. Upon participation in the DROP, the participant becomes a retiree for all plan purposes so that he or she ceases to accrue any further benefits under the pension plan; however, participants are still eligible to receive allocation to Chapter 185 share accounts. Normal retirement payments that would have been payable to the participant as a result of retirement are accumulated and invested in the DROP to be distributed to the participant upon his or her termination of employment. Participation in the DROP ceases for a member after the earlier of 5 years or the attainment of 30 years of service.

Effective October 1, 2012, the fixed interest rate for Share Plan and DROP accounts is lowered to 8.25% to 8.00% per year. If the investment earnings paid as fixed interest on Share Plan accounts creates a deficiency as compared to the gross earnings of the pension fund, the rate will be reduced to 4.00% effective the following October 1. The rate will be returned to 8.00% effective the following October 1 after the deficiency is satisfied.

Participants may borrow from their DROP accounts a minimum of \$5,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their DROP account balance. The loans are secured by the balance in the members' DROP account and bear interest at the lowest published prime rate at the issue date for the loan. Principal and interest is paid ratably through monthly payments.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

2. Summary of Significant Accounting Policies

Basis of Accounting - Basis of accounting is the method by which revenues and expenses are recognized in the accounts and are reported in the financial statements. The accrual basis of accounting is used for the Plan. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Plan participant contributions are recognized in the period in which the contributions are due. City contributions to the plan as calculated by the Plan's actuary, are recognized as revenue when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Basis of Presentation - The accompanying financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and the Codification of Governmental Accounting and Financial Reporting Standards which covers the reporting requirements for defined benefit pensions established by a governmental employer. The accompanying financial statements include solely the accounts of the Plan which include all programs, activities and functions relating to the accumulation and investment of the assets and related income necessary to provide the service, disability and death benefits required under the terms of the Special Act and the amendments thereto.

Valuation of Investments - Investments in common stock and bonds traded on a national securities exchange are valued at the last reported sales price on the last business day of the 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 mean between the past reported bid and asked prices; investments in securities not having an established market value are valued at fair value as determined by the Board of Trustees. The fair value of an investment is the amount that the Plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, other than in a forced or liquidation sale. Purchases and sales of investments are recorded on a trade date basis.

Investment income is recognized on the accrual basis as earned. Unrealized appreciation in fair value of investments includes the difference between cost and fair value of investments held. The net realized and unrealized investment appreciation or depreciation for the year is reflected in the Statement of Changes in Plan Net Assets.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Custody of Assets - Custodial and investment services are provided to the Plan under contract with a national trust company having trust powers. The Plan's investment policies are governed by Florida State Statutes and ordinances of the City of West Palm Beach, Florida.

Authorized Plan Investments - The Board recognizes that the obligations of the Plan are long-term and that its investment policy should be made with a view toward performance and return over a number of years. The general investment objective is to obtain a reasonable total rate of return defined as interest and dividend income plus realized and unrealized capital gains or losses commensurate with the prudent investor rule and Chapter 185 of the Florida Statutes.

Permissible investments include obligations of the U.S. Treasury and U.S. agencies, high capitalization common or preferred stocks, pooled equity funds, high quality bonds or notes and fixed income funds, real estate and derivative investments. In addition, the Board requires that Plan assets be invested with no more than 70% in stocks and convertible securities measured at market value at the end of each reporting period. Further information regarding the permissible investments from the Plan can be found in the Investment Policy Objectives and Guidelines.

Actuarial Cost Method - The Plan has elected the Entry Age Normal for funding purposes. This method allocates the actuarial present value of each participant's projected benefit on a level basis over the participant's earnings from the date of entry into the Plan through the date of retirement.

Reporting Entity - The financial statements presented are only for the Plan and are not intended to present the basic financial statements of the City of West Palm Beach, Florida.

The Plan is included in the City's Comprehensive Annual Financial Report (CAFR) for the years ended September 30, 2012 and 2011, which are separately issued documents. Anyone wishing further information about the City is referred to the City's CAFR.

The Plan is a pension trust fund (fiduciary fund type) of the City which accounts for the single employer defined benefit pension plan for all City Police Officers. The provisions of the Plan provide for retirement, disability, and survivor benefits.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Funding Policy - Contribution requirements are established and may be amended by the Florida Legislature. The contribution requirements are determined based on the benefit structure negotiated by the City and the participants bargaining unit, the Palm Beach County Police Benevolent Association. Participants are required to contribute 10.0% effective January 1, 2006 and 11.0% effective January 1, 2007 and January 1, 2008 of their annual earnings. Pursuant to Chapter 185 of the Florida Statutes, a premium tax on certain casualty insurance contracts written on West Palm Beach properties is collected by the State and is remitted to the Fund. The City is required to contribute the remaining amounts necessary to finance the benefits through periodic contributions of actuarially determined amounts. The required employer contribution for the fiscal year ended September 30, 2012 was determined by the September 30, 2011 actuarial valuation. Administrative costs are financed through employer contributions and charges against Share and DROP accounts and supplemental distributions.

The Fund may also accept rollover contributions from participants' accumulated sick or vacation leave and qualified deferred compensation plans. Rollover contributions are held in the participants' Share or DROP accounts, as requested by the participant. Participants are immediately vested in rollover contributions.

A rehired member may buy back not more than 5 years of continuous past service by paying into the Plan the amount of contributions that the participant would otherwise have paid for such continuous past service, plus the interest that would have been earned had such funds been invested by the Plan during that time.

Effective October 1, 2011, the member contribution rate is increased to 18%, and Chapter 185 revenue received in calendar years 2011 and 2012 will be used to reduce member contributions to 11%, then the City will make up the difference. Effectively, Chapter 185 revenue received during calendar years 2011 and 2012 will be used to offset the required contributions for the fiscal years beginning October 1, 2011 and October 1, 2012. Share accounts will not receive any allocation of Chapter 185 revenue during fiscal years ending September 30, 2011 and September 30, 2012. Effective October 1, 2013, the member contribution rate is lowered back to 11% and Chapter 185 revenue will be allocated to the Share Plan accounts.

The City's funding policy is to make an actuarially computed annual contribution to the Plan in an amount, such that when combined with participants' contributions and the State insurance excise tax rebate, all participants' benefits will be fully provided for by the time that they retire.

The City's actuarially determined contribution rate for the year ended September 30, 2012 and 2011 was 21.25% and 23.58%, respectively. This rate consists of 12.54% and 14.17% of member salaries to pay normal costs plus 8.71% and 9.41% to amortize the unfunded actuarially accrued liability pursuant to the September 30, 2011 actuarial valuation.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

2. Summary of Significant Accounting Policies (Continued)

Administrative Costs - All administrative costs of the Plan are financed through charges allocated against the Share and DROP and supplemental distribution accounts. The City contributes the remainder of the cost of administration of the Plan.

Cash - The Plan considers money market and demand account bank and broker-dealer deposits as cash. Temporary investments, shown on the balance sheet are composed of investments in short-term custodial proprietary money market funds.

Federal Income Taxes - A favorable determination letter dated October 20, 1994 indicating that the Plan is qualified and exempt from Federal income taxes was issued by the Internal Revenue Service. Although the Plan has been amended since receiving this determination, the Board believes that the Plan is designed and continues to operate in compliance with the applicable requirements of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events - Management has adopted the provisions set forth in GASB Statement No. 56, *Subsequent Events*, and considered subsequent events through the date of the audit report which is the date that the financial statements were available to be issued.

Restatement - Certain figures in the financial statements for the fiscal year ended September 30, 2011 have been restated to conform to the presentation used in the financial statements for the fiscal year ended September 30, 2012.

3. Deposits and Investments

Deposits

Fiduciary International of the South (FTIOS) periodically holds uninvested cash in its respective capacity as custodian for the Plan. These funds exist temporarily as cash in the process of collection from the sale of securities.

Investments

Investments that are not evidenced by securities that exist in physical or book-entry form include investments in open-ended international and domestic mutual funds and a commingled pooled trust fund.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

3. Deposits and Investments (Continued)

The Plan's independently managed investments are segregated into eight separate accounts and managed under separate investment agreements with Oakridge Investments, LLC, Anchor Capital Advisors, Inc., Garcia, Hamilton, Jackson & Associates, L.P., Earnest Partners, L.L.C., Eagle Asset Management, Inc., Valley Forge Asset Management Corp., G.W. Capital, Inc. and Wentworth, Hauser & Violich. These eight accounts give FTIOS the custodianship, but give these listed money managers the authority to manage the investments. One mutual fund investment is held by Dimensional Investment Group International, and the REIT is held by U.S. Real Estate Investment Fund, L.L.C. (U.S. Real Estate). These assets are invested in accordance with the specific investment guidelines as set forth in Section 21 of the Special Act entitled "Investments." Investment management fees are calculated quarterly as a percentage of the fair market value of the Fund's assets managed.

The investment managers listed above are monitored by the Board of Trustees and an investment advisor.

Except for the investments held by U.S. Real Estate, the Plan's investments are uninsured and unregistered and are held in the custodians' or the Bank's accounts in the Plan's name as described above. The mutual fund is open-ended, and U.S. Real Estate is a real estate investment trust.

U.S. Real Estate Investment Trust is an alternative investment vehicle valued using the net asset value (NAV) provided by the investment managers of this fund. The NAV is based on the value of the underlying assets owned by this fund minus its liabilities and then divided by the number of shares or percentage of ownership outstanding. The NAV's unit price is quoted on a private market that is not active; however, the unit price is based on underlying investments which are traded on an active market.

The values of these alternative investments are not necessarily indicative of the amount that could be realized in a current transaction. The fair value may differ significantly from the value that would have been used had a ready market for the underlying funds existed, and the differences could be material. Future confirming events will also affect the estimates of fair value and the effect of such events on the estimates of fair value could be material.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

3. Deposits and Investments (Continued)

The Plan held no investments that individually represent 5% or more of the Plan’s net assets available for benefits during the years ended September 30, 2012 and 2011, respectively.

The Plan has no instrument that, in whole or in part, is accounted for as a derivative instrument under GASB statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* during the current Plan year.

The Plan held the following fixed investments as of September 30, 2012 and 2011:

Investment Type	%	Fair Value		Overall Credit Rating	Average		
		of Fund	9/30/12		9/30/11	Effective Duration (Years)	
U.S. Government securities	- %	\$	-\$	610,641	AA	0.12	
U.S. Government agency securities	14.4			30,476,111	26,753,544	AA	0.92
Corporate bonds	11.5			24,379,335	29,726,641	A-AAA	3.27
Temporary investments	4.8			10,258,500	6,291,000	N/A	N/A
Total	<u>30.7%</u>	\$		<u>65,113,946</u>	<u>63,381,826</u>		

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. Generally, the longer the time to maturity, the greater the exposure to interest rate risks. Through its investment policies the Plan manages its exposure to fair value losses rising from increasing interest rates. The Plan limits the effective duration of its investment portfolio through the adoption of the Barclay Intermediate Aggregate Bond Index benchmark.

Credit Risk - Credit risk is the risk that a debt issuer will not fulfill its obligations. Consistent with state law the Plan’s investment guidelines limit its fixed income investments to a quality rating of “A” or equivalent as rated by Moody’s or by Standard & Poor’s bond rating services at the time of purchase. Fixed income investments which are downgraded below the minimum rating must be liquidated at the earliest beneficial opportunity.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

3. Deposits and Investments (Continued)

Custodial Credit Risk - Custodial credit risk is defined as the risk that the Plan may not recover cash and investments held by another party in the event of a financial failure. The Plan requires all securities to be held by a third party custodian in the name of the Plan. Securities transactions between a broker-dealer and the custodian involving the purchase or sale of securities must be made on a “delivery vs. payment” basis to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. The investments in mutual funds and investment fund are considered *unclassified* pursuant to the custodial risk categories of GASB Statement No. 3, because they are not evidenced by securities that exist in physical or book-entry form.

Investing in Foreign Markets - Investing in foreign markets may involve special risks and considerations not typically associated with investing in companies in the United States of America. These risks include revaluation of currencies, high rates of inflation, repatriation restrictions on income and capital, and future adverse political, social, and economic developments. Moreover, securities of foreign governments may be less liquid, subject to delayed settlements, taxation on realized or unrealized gains, and their prices are more volatile than those of comparable securities in U.S. companies.

Foreign Tax Withholdings and Reclaims - Withholding taxes on dividends from foreign securities are provided for based on rates established via treaty between the United States of America and the applicable foreign jurisdiction, or where no treaty exists at the prevailing rate established by the foreign country. Foreign tax withholdings are reflected as a reduction of dividend income in the statement of operations. Where treaties allow for a reclaim of taxes, the Fund will make a formal application for refund. Such reclaims are included as an addition to dividend income.

Investing in Real Estate - The Plan is subject to the risks inherent in the ownership and operation of real estate. These risks include, among others, those normally associated with changes in the general economic climate, trends in the industry including creditworthiness of tenants, competition for tenants, changes in tax laws, interest rate levels, the availability of financing and potential liability under environmental and other laws.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

**4. Net Increase (Decrease) in Realized and
Unrealized Appreciation (Depreciation) of Investments**

The Plan's investments appreciated (depreciated) in value during the years ended September 30, 2012 and 2011 as follows:

	2012			2011		
	Realized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)	Total	Realized Appreciation (Depreciation)	Unrealized Appreciation (Depreciation)	Total
Investments at fair value as determined by quoted market price:						
U.S. Government securities	\$ (7,461)	\$ 4,570	\$ (2,891)	\$ 410,104	\$ 6,782	\$ 416,886
U.S. Government agency securities	(960,121)	142,950	(817,171)	(465,628)	(239,190)	(704,818)
Corporate bonds	417,676	2,350,759	2,768,435	2,834,825	(2,807,007)	27,818
Domestic stocks	1,646,142	19,987,987	21,634,129	7,431,334	(10,321,857)	(2,890,523)
International stocks	25,136	1,545,158	1,570,294	(117,075)	(1,239,960)	(1,357,035)
Domestic equity mutual fund	-	-	-	7,650	-	7,650
International equity mutual funds	-	596,915	596,915	-	(1,669,678)	(1,669,678)
Real estate investment trust fund	-	798,372	798,372	-	579,393	579,393
Net increase in realized and unrealized appreciation (depreciation) of investments	<u>\$ 1,121,372</u>	<u>\$ 25,426,711</u>	<u>\$ 26,548,083</u>	<u>\$ 10,101,210</u>	<u>\$ (15,691,517)</u>	<u>\$ (5,590,307)</u>

The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments.

Unrealized gains and losses on investments sold in 2012 that had been held for more than one year were included in net appreciation (depreciation) reported in the prior year.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

5. Investments

The Plan's investments at both carrying value and cost or adjusted cost as of September 30, 2012 and 2011 are summarized as follows:

Investment	2012		2011	
	Cost	Fair Value	Cost	Fair Value
U.S. Government securities	\$ -	\$ -	\$ 615,211	\$ 610,641
U.S. Government agency securities	30,243,411	30,476,111	26,663,794	26,753,544
Corporate bonds	22,630,767	24,379,335	30,328,832	29,726,641
Domestic stocks	100,361,424	117,169,520	96,451,488	92,857,227
International stocks	8,463,079	8,590,192	8,115,772	6,697,727
International equity mutual funds	13,333,056	8,857,487	12,756,175	7,683,691
Real estate investment trust fund	9,638,570	10,987,096	9,079,217	9,629,371
Temporary Investments	10,258,500	10,258,500	6,291,000	6,291,000
Total	<u>\$ 194,928,807</u>	<u>\$ 210,718,241</u>	<u>\$ 190,301,489</u>	<u>\$ 180,249,842</u>

6. Mortgage-Backed Securities

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS
September 30, 2012 and 2011

7. Plan's Funded Status

The Plan's funded status as of the October 1, 2011 actuarial valuation is presented below:

Actuarial Valuation Date September 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Actuarial Value of Assets as a Percentage of the Actuarial Accrued Liability	Annual Covered Payroll	Ratio of the Unfunded Actuarial Liability to Covered Payroll
2011	\$ 193,879	\$ 254,617	\$ 60,738	76.1%	\$ 19,142	317.3%

Dollar amounts are in thousands.

The required schedule of funding progress immediately 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 actuarial accrued liability for benefits.

The actuarial methods and significant assumptions used are summarized as follows:

- (a) Actuarial cost method - Entry Age Normal
- (b) Asset valuation method - Four years smoothed market
- (c) Actuarial assumptions:
 - Investment rate of return - 8.00%
 - Post retirement benefit increases - 3.00% per year after retirement
(beginning at age 65)
 - Projected salary increases - 5.00%
 - Seniority and merit - 3.00% to 0%
- (d) Amortization method - Level percent of payroll
- (e) Remaining amortization period 1-24 years (weighted average is 14.7 years)

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

8. Designations

A portion of the plan net assets are designated for benefits that accrue in relation to the Share accounts and DROP accounts as further described in Note 1. Allocations to the DROP and Share plan accounts for the year ended September 30, 2012 are presented below as determined in the most recent annual valuation available for the year ended September 30, 2012:

Designated for Share accounts (fully funded)	\$	38,421,934
Designated for DROP accounts (fully funded)		34,079,824
Designated for the supplemental pension distribution reserve		-
Total designated plan net assets		72,501,758
 Undesignated plan net assets		 139,367,740
Total plan net assets		\$ 211,869,498

9. DROP Loans

During the fiscal year ended September 30, 2012, certain DROP participants borrowed from their respective DROP accounts. These loans require repayment in sixty months at interest rates based on the lowest prime rate of interest listed in the Wall Street Journal at the time that the loan is issued.

A schedule of the changes of these loans is summarized as follows:

	Balance 9/30/11	Additions	Repayments	Balance 9/30/12
DROP Loans Receivable				
September 30, 2012	\$ 590,861	\$ 280,490	\$ 273,669	\$ 597,682

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

9. DROP Loans (Continued)

Future minimum annual principal payments on these loans are as follows:

	<u>September 30</u>		
	2013	\$	194,825
	2014		171,223
	2015		126,859
	2016		63,353
	2017		<u>41,422</u>
Total		\$	<u><u>597,682</u></u>

Loan interest income for the year ended September 30, 2012 was \$21,364.

10. Plan Amendments

The Special Act was amended during the fiscal year ended September 30, 2012. Terms of this amendment are summarized as follows:

- Effective January 1, 2013, the limit on the amount of overtime that is included in pensionable compensation is lowered from 400 hours to 300 hours.
- The benefit multiplier is lowered from 3.00% to 2.68% for service earned after October 1, 2011.
- The investment return assumption is lowered from 8.25% to 8.00% per year (net of investment expenses).
- Effective October 1, 2012, the fixed interest rate for Share Plan and DROP accounts is lowered from 8.25% to 8.00% per year. If the investment earnings paid as fixed interest on Share Plan accounts creates a deficiency as compared to the gross earnings of the pension fund, the rate will be reduced to 4.00% effective the following October 1. The rate will be returned to 8.00% effective the following October 1 after the deficiency is satisfied.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

10. Plan Amendments (Continued)

- Effective October 1, 2011, the member contribution rate is increased to 18%, and Chapter 185 revenue in calendar years 2011 and 2012 will be used to reduce member contributions to 11%. If the Chapter 185 revenue is not sufficient to reduce the member contributions to 11%, then the City will make up the difference. If the Chapter 185 revenue exceeds the amount needed to reduce the member contributions to 11%, then the excess will be placed into a reserve account to be used at the City's discretion. Effective October 1, 2013, the member contribution rate is lowered back to 11% and Chapter 185 revenue will be allocated to the Share Plan accounts.
- Effective October 1, 2012, qualified plan rollovers are not eligible to be invested in the fixed interest rate option.

Based on the actuarial impact statement these changes will reduce the City's funding requirement by seven percent of covered payroll.

The Plan was not amended during the fiscal year ended September 30, 2011.

11. Plan Termination

Although it has not expressed an intention to do so, the City may terminate the Plan in accordance with the provisions of the Special Act governing the Plan and the provisions of Florida Statutes §185.37. In the event that the Plan is terminated or contributions to the Plan are permanently discontinued, the benefits of each police officer in the Plan at such termination date would be non-forfeitable.

12. Commitments and Contingencies

As described in Note 1, certain members of the Plan are entitled to refunds of their accumulated contributions, without interest, upon termination of employment with the City prior to being eligible for pension benefits. At September 30, 2012 aggregate contributions from active members of the Plan were approximately \$17,474,000. The portion of these contributions which are refundable to participants who may terminate with less than ten years of service has not been determined.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

13. Risk and Uncertainties

The Plan invests in a variety of investment funds. Investments in general are exposed to various risks, such as interest rate, credit, and overall volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

14. Lease (License) Agreements

During the fiscal year the Plan entered a certain non-cancellable operating equipment lease agreement expiring through 2013. The future minimum annual payments under this agreement are summarized as follows:

<u>Year</u>	<u>Amount</u>
<u>End</u>	
2013	\$ 1,981

The space lease (license) agreement is on a month-to-month basis at \$500 per month.

Lease (license) expense for the fiscal year ended September 30, 2012 and 2011 is \$7,981 and \$7,981, respectively.

WEST PALM BEACH POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

September 30, 2012 and 2011

15. Actuarial Assumption Changes

The Plan's actuarial assumptions were changes with the actuarial valuation report as of September 1, 2011 as follows:

- A. The assumed annual salary increases were changes from an age-based table of rates to 5% per year.
- B. The assumed rates of employment termination were changed to a select (service based using 10 years of service) and ultimate (age based) table.
- C. Normal retirement rates were changes to a table based on the number of years eligible.
- D. The mortality table was changed from the 1982 Group Annuity Mortality Table to the RP-2000 Combined Healthy Participant Mortality Table. The provision for future mortality improvements is being made using Scale AA after 2000. The change in the mortality assumption is being phased in over five years starting October 1, 2011. This valuation reflects 20% of the effect of the mortality assumption change.
- E. The payroll growth assumption was lowered from 5.00% to 4.50%.
- F. All unfunded accrued liability amortization bases as of September 30, 2011 have been combined and a single remaining amortization period has been set such that the amortization payment next year would equal the payment before the combination of bases. The remaining period is 14.7 years.

REQUIRED SUPPLEMENTARY INFORMATION

WEST PALM BEACH POLICE PENSION FUND

SCHEDULE OF FUNDING PROGRESS

September 30, 2002 through September 30, 2011

Actuarial Valuation Date <u>September 30</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	(Funded) Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>a/b</u>	Active Participant Covered Payroll <u>(c)</u>	UAAL as Percentage of Active Participant Covered Payroll <u>(b-a)/(c)</u>
2002	\$ 121,789	\$ 132,426	\$ 10,637	92.0%	\$ 15,589	68.2%
2003	126,420	145,824	19,404	86.7	17,355	111.8
2004	128,623	153,354	24,731	83.9	17,834	138.7
2005	139,646	165,387	25,741	84.4	17,853	144.2
2006	154,408	182,231	27,823	84.7	18,391	151.3
2007	187,332	200,536	13,204	93.4	21,394	67.6
2008	191,001	209,842	18,841	91.0	21,394	88.1
2009	193,614	224,471	30,858	86.3	21,264	145.1
2010	197,179	235,148	37,969	83.9	19,830	191.5
2011	193,879	254,617	60,738	76.1	19,142	317.3

Dollar amounts are in thousands.

Analysis of the dollar of actuarial value of assets, actuarial accrued liability, or unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the system's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage is, the stronger the plan is.

The unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage is, the stronger the plan is.

WEST PALM BEACH POLICE PENSION FUND

SCHEDULE OF CONTRIBUTIONS FROM THE CITY

September 30, 2003 through September 30, 2012

Year Ended September 30	City	
	Annual Required Contribution	Percentage Contributed
2003	\$ 1,975,410	100.0%
2004	3,498,786	100.0
2005	4,197,731	100.0
2006	3,799,257	100.0
2007	3,812,530	100.0
2008	4,056,590	100.0
2009	3,433,646	100.0
2010	4,057,571	100.0
2011	5,028,968	100.0
2012	4,796,576	100.0

WEST PALM BEACH POLICE PENSION FUND

NOTES TO THE ADDITIONAL SCHEDULES

September 30, 2002 through September 30, 2012

The information presented in the supplementary schedules on pages 23 and 24 was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	September 30, 2011
Actuarial cost method	Entry age Normal
Amortization method	Level percent of payroll
Remaining amortization period	1 - 24 years, closed (weighted average is 14.7 years)
Asset valuation method	Four year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases attributable to:	
Inflation	5.0%
Seniority and merit	3.0% to 0%
Cost of living adjustments:	
Beginning at age 65	3.0%

The activities of the Pension Plan and its members generated an experience loss of \$14,463,674 during the plan year ended September 30, 2011, which increased the contribution requirements to 33.05% of payroll. The principal source of the net loss was a funding value return on investments of -3.7% versus 8.00% expected.

In addition the actuarial value of assets, which is used to determine the contribution requirements and funded ratios for the Plan is greater than the market value by 7% of \$13.2 million. This means that there are losses from prior periods as well as the current fiscal year that will be recognized in the 2012-2014 years.

ADDITIONAL INFORMATION

WEST PALM BEACH POLICE PENSION PLAN

SCHEDULE OF INVESTMENT AND ADMINISTRATIVE EXPENSES

Years ended September 30, 2012 and 2011

	2012		2011	
	Investment Expenses	Administrative Expenses	Investment Expenses	Administrative Expenses
Actuary fees	\$ -	\$ 38,434	\$ -	\$ 52,935
Accounting fees	-	3,000	-	2,000
Administrator's fees	-	88,388	-	87,490
Audit fees	-	18,300	-	16,900
Computer service	-	14,737	-	17,248
Custodial fees	101,647	-	92,265	-
Directors' insurance	-	18,507	-	18,240
Investment managers' fees:				
Anchor Capital Advisors, Inc.	82,607	-	80,488	-
Munder Capital Management,	-	-	43,987	-
Oakridge Investments, LLC	106,255	-	57,143	-
Garcia Hamilton Jackson & Associates, L.P. (FX)	117,214	-	123,705	-
Garcia Hamilton Jackson & Associates, L.P. (EQ)	90,158	-	115,604	-
Eagle Asset Management,	101,550	-	68,655	-
Earnest Partners, L.L.C.	125,386	-	114,766	-
Valley Forge Asset Management Corp.	69,278	-	66,580	-
G W Capital, Inc.	81,397	-	78,838	-
Wentworth, Hauser &	114,412	-	104,267	-
Legal fees	-	40,684	-	34,523
Office expenses	-	3,468	-	1,361
Space and equipment	-	7,981	-	7,981
Performance monitor	69,000	-	69,000	-
Printing expense	-	2,818	-	1,845
Seminar expense	-	17,342	-	17,971
Telephone	-	2,889	-	2,710
	<u>\$ 1,058,904</u>	<u>\$ 256,548</u>	<u>\$ 1,015,298</u>	<u>\$ 261,204</u>
Percentage of plan net assets	<u>0.50%</u>	<u>0.12%</u>	<u>0.56%</u>	<u>0.14%</u>