



**City of Palm Bay
Police and Firefighters' Retirement System**

**Financial Statements
Years Ended September 30, 2016 and 2015**

**City of Palm Bay Police and Firefighters’
Retirement System
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Independent Auditors' Report

Board of Trustees
City of Palm Bay Police and Firefighters' Retirement System
Palm Bay, Florida

We have audited the accompanying financial statements of the City of Palm Bay Police and Firefighters' Retirement System (the "Plan"), which comprise the statements of fiduciary net position as of September 30, 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Palm Bay Police and Firefighters Retirement System as of September 30, 2016, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

Adoption of New Accounting Pronouncement

The Plan has adopted the disclosure requirements of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* in 2016. The provisions of the additional disclosure requirements are discussed in Note 3 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

United States generally accepted accounting principles require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Plan. The accompanying supplementary investment expenses and administrative expenses as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



2015 Financial Statements

The financial statements of the Plan as of and for the year ended September 30, 2015 were audited by Goldstein Schechter Koch, LLP ("GSK") whose partners and professional staff joined BDO USA, LLP as of August 15, 2016, and has subsequently ceased operations. GSK expressed an unmodified opinion on those financial statements in their report dated January 13, 2016.

BDO USA, LLP

January 26, 2017

Certified Public Accountants

Financial Statements

Management's Discussion and Analysis (Required Supplementary Information - Unaudited)

Our discussion and analysis of the City of Palm Bay Police and Firefighters' Retirement System (the "Plan") financial performance provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2016 and 2015. Its purpose is to provide explanations and insights into the information presented in the financial statements notes to the financial statements and required supplementary information. Please read it in conjunction with the Plan's financial statements, which follow this discussion.

Financial Highlights

- Plan assets exceeded its liabilities at the close of fiscal years ended September 30, 2016 and 2015 by \$173,435,770 and \$162,691,169 respectively, (reported as net position restricted for pensions). The Plan's net position is held in trust to meet future benefit payments. The increase of \$10,744,601 and decrease of \$5,534,527, respectively, has resulted primarily from the changes in the fair value of the Plan's investments due to volatile financial markets.
- For the fiscal year ended September 30, 2016, receivables increased \$12,780 (or 1.2%) due primarily to an increase in due from broker.

For the fiscal year ended September 30, 2015, receivables decreased \$1,441,461 (or 56.9%) due primarily to a decrease in receivable for securities sold and due from broker.

- For the fiscal year ended September 30, 2016, employer contributions to the Plan decreased \$71,456 (or 2%). Actual employer contributions as determined by the Plan's actuary were \$3,716,857 and \$3,788,313 for 2016 and 2015, respectively.

For the fiscal year ended September 30, 2015, employer contributions to the Plan, increased \$168,706 (or 5%). Actual employer contributions as determined by the Plan's actuary were \$3,788,313 and \$3,619,607 for 2015 and 2014, respectively.

- For the fiscal year ended September 30, 2016, employee contributions including buybacks increased by \$38,219 (or 4%). Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,124,063 and \$1,085,844 for 2016 and 2015, respectively. Employee contributions have fluctuated from year to year, based on the number of active members, salaries and buyback contributions.

For the fiscal year ended September 30, 2015, employee contributions including buybacks increased by \$51,464 (or 5%). Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,085,844 and \$1,034,380 for 2015 and 2014, respectively. Employee contributions have fluctuated from year to year, based on the number of active members, salaries and buyback contributions.

- For the fiscal year ended September 30, 2016, the Plan had net investment income of \$14,794,230 compared to a net investment loss of (\$586,238) for the fiscal year ended September 30, 2015. Actual results were \$10,836,572 and (\$4,036,457) of net appreciation (depreciation) in fair value of investments for the fiscal years ended 2016 and 2015, respectively, and \$4,872,639 and \$4,332,192 of income from interest and dividends for the fiscal years ended 2016 and 2015, respectively. Investment expenses increased by \$33,008 (or 4%).

Management's Discussion and Analysis (Required Supplementary Information - Unaudited)

For the fiscal year ended September 30, 2015, the Plan had an investment loss of (\$586,238) compared to net investment income of 16,875,013 for the fiscal year ended September 30, 2014. Actual results were (\$4,036,457) and \$14,133,380 of net (depreciation) appreciation in fair value of investments for the fiscal years ended 2015 and 2014, respectively, and \$4,332,192 and \$3,621,964 of income from interest and dividends for the fiscal years ended 2015 and 2014, respectively. Investment expenses increased by \$1,604 (or 0%).

- For the fiscal year ended September 30, 2016, benefit payments decreased by \$989,317 (or 10%). Refunds of contributions increased by \$49,042 (or 24%). Police refunds represented approximately 80.49% of total refunds.

For the fiscal year ended September 30, 2015, benefit payments increased by \$581,578 (or 6%). Refunds of contributions decreased by \$11,644 (or 5%). Police refunds represented approximately 99.55% of total refunds.

- For the fiscal year ended September 30, 2016, administrative expenses increased by \$44,242 from 2015 (or 10%) due primarily to an increase in payments for professional services.

For the fiscal year ended September 30, 2015, administrative expenses increased by \$30,711 from 2014 (or 7%) due primarily to an increase in payments for professional services.

Plan Highlights

The Palm Bay Police and Firefighters' Retirement System was formed in 1974 and celebrated its 42nd year as a plan in 2016. The projected trends reflect an increase in normal membership retirements and Deferred Retirement Option Program (DROP) participation of members reaching normal retirement of age 55 or 25 years of service years of service, regardless of age.

The Palm Bay Police and Firefighters' Retirement System has consistently achieved, in most cases, its one to ten year fiduciary goals and objectives. The board continues to offer increased availability and service to active and retired police officers and firefighters, still providing a community-minded responsible board making sound, informed financial decisions in the best interest of the membership and the City.

The total market return for the year ended September 30, 2016 was 10.0%. The domestic equity portfolio returned 13.2% while the international equity return was 8.4%. The returns for other investment asset categories for the year included convertible securities 8.5%, real estate 9.7% and the market income for fixed income was 5.5%. Further diversification continues to be a Plan objective.

Overall, actual net returns from investments were positive in 2016 primarily due to volatile financial markets.

Management's Discussion and Analysis (Required Supplementary Information - Unaudited)

The total market return for the year ended September 30, 2015 was 0.1%. The domestic equity portfolio returned 0.69% while the international equity return was (4.5%). The returns for other investment asset categories for the year included convertible securities (0.8%), real estate 14.5% and 3.1 for fixed income. Further diversification continues to be a Plan objective. Overall, actual net returns from investments were positive in 2014 primarily due to volatile financial markets.

Overview of the Financial Statements

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

The Plan presents required supplementary schedules, which include historical trend information about the plan.

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 that includes all of the Plan's assets and liabilities, with the balance representing the net position restricted for Pensions. It is a snapshot of the financial position of the Plan at that specific point in time and reflects the resources available to pay employees, retirees and beneficiaries at that point in time.

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

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

There is also *Required Supplementary information* included in this report as required by the Governmental Accounting Standards Board. The schedules consist of the Plan's actuarial methods and assumptions and provide data on changes in the City's net pension liability, the city's contributions, and the Plan's investment returns.

Management's Discussion and Analysis (Required Supplementary Information - Unaudited)

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

Condensed Statements of Fiduciary Net Position

The table below reflects condensed comparative statements of Fiduciary Net Position as of September 30:

	2016	2015	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 7,290,039	\$ 4,995,055	\$ 2,294,984	45.9%
Receivables	1,105,416	1,092,636	12,780	1.2
Investments	167,552,546	158,209,950	9,342,596	5.9
Other assets	34,411	42,847	(8,436)	19.7
Total assets	175,982,412	164,340,488	11,641,924)	7.1
Liabilities	2,546,642	1,649,319	897,323	54.4
Net Position restricted for pensions	\$ 173,435,770	\$ 162,691,169	\$ 10,744,601	6.6%

	2015	2014	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 4,995,055	\$ 3,979,816	\$ 1,015,239	25.5%
Receivables	1,092,636	2,534,097	(1,441,461)	(56.9)
Investments	158,209,950	165,502,538	(7,292,588)	(4.4)
Other assets	42,847	28,741	14,106	49.1
Total assets	164,340,488	172,045,192	(7,704,704)	(4.5)
Liabilities	1,649,319	3,819,496	(2,170,177)	(56.8)
Net Position restricted for pensions	\$ 162,691,169	\$ 168,225,696	\$ (5,534,527)	(3.3%)

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Management's Discussion and Analysis
(Required Supplementary Information - Unaudited)

Condensed Statements of Changes in Fiduciary Net Position

The table below reflects a condensed comparative summary of the changes in Plan Fiduciary Net Position and reflects the activities of the Plan for the fiscal years ended September 30:

	2016	2015	Increase/ (Decrease)	% Change
Additions:				
Contributions				
Employer	\$ 3,716,857	\$ 3,788,313	\$ (71,456)	(1.9)%
Employee	1,124,063	1,085,844	38,219	3.5
State	1,244,750	1,208,886	35,864	3.0
Total contributions	6,085,670	6,083,043	2,627	0.0
Net investment income (loss)	14,794,230	(586,238)	15,380,468	NM
Total additions	20,879,900	5,496,805	15,383,095	279.9

Deductions:				
Benefits paid	9,374,845	10,364,162	(989,317)	(9.5)
Refunds of contributions	251,833	202,791	49,042	24.2
Administrative expenses	508,621	464,379	44,242	9.5
Total deductions	10,135,299	11,031,332	(896,033)	(8.1)
Net increase (decrease)	10,744,601	(5,534,527)	16,279,128	NM
Net Position restricted pensions -				
Beginning of year	162,691,169	168,225,696	(5,534,527)	(3.3)
Net Position restricted pensions -				
End of year	\$ 173,435,770	\$ 162,691,169	\$ 10,744,601	6.6%

	2015	2014	Increase/ (Decrease)	% Change
Additions:				
Contributions				
Employer	\$ 3,788,313	\$ 3,619,607	\$ 168,706	4.7%
Employee	1,085,844	1,034,380	51,464	5.0
State	1,208,886	1,244,404	(35,518)	(2.9)
Total contributions	6,083,043	5,898,391	184,652	3.1
Net investment (loss) income	(586,238)	16,875,013	(17,461,251)	(103.5)
Total additions	5,496,805	22,773,404	(17,276,599)	(75.9)

Deductions:				
Benefits paid	10,364,162	9,782,584	581,578	5.9
Refunds of contributions	202,791	214,435	(11,644)	(5.4)
Administrative expenses	464,379	433,668	30,711	7.1
Total deductions	11,031,332	10,430,687	600,645	5.8
Net increase (decrease)	(5,534,527)	12,342,717	(17,877,244)	(144.8)
Net Position restricted pensions -				
Beginning of year	168,225,696	155,882,979	12,342,717	7.9
Net Position restricted pensions -				
End of year	\$ 162,691,169	\$ 168,225,696	\$ (5,534,527)	(3.3)%

Management's Discussion and Analysis (Required Supplementary Information - Unaudited)

The Plan's investment activity, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for fiscal year September 30, 2016 increased from the fiscal year ended September 30, 2015 and decreased from fiscal year ended September 30, 2014.

The benefit payments are a function of changing payments to retirees, their beneficiary (if the retiree is deceased) and new retirements during the period.

Asset Allocation

At the end of the fiscal year September 30, 2016, the domestic equity portion comprised 39% or \$67,935,461 of the total portfolio, which consists of common stocks and domestic equity funds. The allocation to fixed income securities was 23% or \$39,475,053 while cash and cash equivalents comprised 4% or \$7,290,039. The portion of investments allocated to international equity represented 12% or \$21,208,845 of the total portfolio and real estate represented 11% or \$18,947,829 while convertible securities represented 8% or \$13,898,927 of the total portfolio. The allocation of master limited partnership was 3% or \$6,086,431. The 4% in cash and cash equivalents includes a payout expense account to disburse monthly plan expenses and benefit payments. This lowers operating costs of the Plan by reducing fees previously incurred in raising cash on a bi-weekly basis.

At the end of the fiscal year September 30, 2015, the domestic equity portion comprised 41% or \$66,744,983 of the total portfolio, which consists of common stocks and domestic equity funds. The allocation to fixed income securities was 23% or \$37,074,355 while cash and cash equivalents comprised 3% or \$4,995,055. The portion of investments allocated to international equity represented 12% or \$19,544,314 of the total portfolio and real estate represented 10% or \$16,300,672 while convertible securities represented 8% or \$13,073,466 of the total portfolio. The allocation of master limited partnership was 3% or \$5,472,161. The 3% in cash and cash equivalents includes a payout expense account to disburse monthly plan expenses and benefit payments. This lowers operating costs of the Plan by reducing fees previously incurred in raising cash on a bi-weekly basis.

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

2016	2015	
35%	35%	Domestic equity
25%	25%	Fixed income
10%	10%	Real estate
15%	15%	International equity
10%	10%	Convertible securities
5%	5%	Master Limited Partnership

Contacting the Plan's Financial Management

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Palm Bay Police and Firefighters Retirement System, 1501 Robert J. Conlan Boulevard, Suite 240, Palm Bay, FL 32905 or call (321) 724-8877.

**City of Palm Bay Police and Firefighters
Retirement System
Statement of Fiduciary Net Position**

<i>September 30, 2016</i>	Police Officers	Fire Fighters	General Employees	Total
Assets				
Cash and cash equivalents	\$ 3,914,049	\$ 3,369,813	\$ 6,177	\$ 7,290,039
Investments, at fair value:				
Common stocks	34,472,258	23,848,449	-	58,320,707
Domestic equity funds	5,617,886	3,881,260	115,608	9,614,754
U.S. Government securities	15,803,124	10,638,326	-	26,441,450
Corporate bonds	7,754,096	5,220,060	-	12,974,156
Bond funds	-	-	59,447	59,447
International equity funds	10,604,724	10,604,121	-	21,208,845
Real estate funds	9,473,915	9,473,914	-	18,947,829
Convertible securities	6,965,587	6,933,340	-	13,898,927
Master limited partnership	3,044,614	3,041,817	-	6,086,431
Total investments	93,736,204	73,641,287	175,055	167,552,546
Receivables:				
Accrued interest and dividends	168,523	126,476	93	295,092
Due from broker	420,418	305,682	-	726,100
State contributions	-	52,011	-	52,011
Employer contributions receivable	-	30,292	-	30,292
Other	1,012	909	-	1,921
Due to/from other funds	1,765	2,130	(3,895)	-
Total receivables	591,718	517,500	(3,802)	1,105,416
Other assets	19,339	15,024	48	34,411
Total assets	98,261,310	77,543,624	177,478	175,982,412
Liabilities				
Accounts payable and other liabilities	145,604	116,596	61	262,261
Deferred retirement option benefits due and currently payable	-	411,510	-	411,510
Due to broker	1,098,939	773,932	-	1,872,871
Total liabilities	1,244,543	1,302,038	61	2,546,642
Net position restricted for pensions	\$ 97,016,767	\$ 76,241,586	\$ 177,417	\$ 173,435,770

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

**City of Palm Bay Police and Firefighters
Retirement System
Statement of Fiduciary Net Position**

<i>September 30, 2015</i>	Police Officers	Fire Fighters	General Employees	Total
Assets				
Cash and cash equivalents	\$ 2,314,331	\$ 2,680,372	\$ 352	\$ 4,995,055
Investments, at fair value:				
Common stocks	33,792,634	23,140,722	-	56,933,356
Domestic equity funds	5,678,772	4,024,761	108,094	9,811,627
U.S. Government securities	15,531,196	10,482,059	-	26,013,255
Corporate bonds	6,631,265	4,373,561	-	11,004,826
Bond funds	-	-	56,274	56,274
International equity funds	9,772,435	9,771,879	-	19,544,314
Real estate funds	8,150,336	8,150,336	-	16,300,672
Convertible securities	6,528,338	6,545,127	-	13,073,465
Master limited partnership	2,736,756	2,735,405	-	5,472,161
Total investments	88,821,732	69,223,850	164,368	158,209,950
Receivables:				
Accrued interest and dividends	171,343	115,115	115	286,573
Due from broker	382,938	293,185	-	676,123
State contributions	-	94,465	-	94,465
Employer contributions receivable	-	32,583	-	32,583
Other	1,624	1,268	-	2,892
Due to/from other funds	10,685	(15,607)	4,922	-
Total receivables	566,590	521,009	5,037	1,092,636
Other assets	23,963	18,826	58	42,847
Total assets	91,726,616	72,444,057	169,815	164,340,488
Liabilities				
Accounts payable and other liabilities	139,589	109,345	48	248,982
Deferred retirement option benefits due and currently payable	577,126	251,219	-	828,345
Due to broker	326,841	245,151	-	571,992
Total liabilities	1,043,556	605,715	48	1,649,319
Net position restricted for pensions	\$ 90,683,060	\$ 71,838,342	\$ 169,767	\$ 162,691,169

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

**City of Palm Bay Police and Firefighters
Retirement System
Statement of Changes in Fiduciary Net Position**

<i>Year ended September 30, 2016</i>	Police Officers	Fire Fighters	General Employees	Total
Additions:				
Contributions:				
Employer	\$ 1,651,022	\$ 2,065,835	\$ -	\$ 3,716,857
Employee	605,032	519,031	-	1,124,063
State	684,840	559,910	-	1,244,750
Total contributions	2,940,894	3,144,776	-	6,085,670
Investment income				
Net appreciation in fair value of investments	6,621,550	4,211,868	3,154	10,836,572
Interest and dividends	2,666,123	2,192,994	13,522	4,872,639
Total investment income	9,287,673	6,404,862	16,676	15,709,211
Less: Investment expenses	508,709	406,157	115	914,981
Net investment income	8,778,964	5,998,705	16,561	14,794,230
Total additions	11,719,858	9,143,481	16,561	20,879,900
Deductions:				
Benefits paid	4,856,501	4,514,229	4,115	9,374,845
Refunds of contributions	250,723	1,110	-	251,833
Administrative expenses	278,927	224,898	4,796	508,621
Total deductions	5,386,151	4,740,237	8,911	10,135,299
Net increase	6,333,707	4,403,244	7,650	10,744,601
Net position restricted for pensions				
Beginning of year	90,683,060	71,838,342	169,767	162,691,169
End of year	\$ 97,016,767	\$ 76,241,586	\$ 177,417	\$ 173,435,770

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

**City of Palm Bay Police and Firefighters
Retirement System
Statement of Changes in Fiduciary Net Position**

<i>Year ended September 30, 2015</i>	Police Officers	Fire Fighters	General Employees	Total
Additions:				
Contributions:				
Employer	\$ 1,811,984	\$ 1,976,329	\$ -	\$ 3,788,313
Employee	611,358	474,486	-	1,085,844
State	618,683	590,203	-	1,208,886
Total contributions	3,042,025	3,041,018	-	6,083,043
Investment (loss) income				
Net (depreciation) in fair value of investments	(2,213,756)	(1,799,400)	(23,301)	(4,036,457)
Interest and dividends	2,358,190	1,948,812	25,190	4,332,192
Total investment income	144,434	149,412	1,889	295,735
Less: Investment expenses	480,915	400,944	114	881,973
Net investment (loss) income	(336,481)	(251,532)	1,775	(586,238)
Total additions	2,705,544	2,789,486	1,775	5,496,805
Deductions:				
Benefits paid	4,984,255	5,374,694	5,213	10,364,162
Refunds of contributions	163,228	39,563	-	202,791
Administrative expenses	252,632	205,617	6,130	464,379
Total deductions	5,400,115	5,619,874	11,343	11,031,332
Net (decrease)	(2,694,571)	(2,830,388)	(9,568)	(5,534,527)
Net position restricted for pensions				
Beginning of year	93,377,631	74,668,730	179,335	168,225,696
End of year	\$ 90,683,060	\$ 71,838,342	\$ 169,767	\$ 162,691,169

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

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

1. Description of the Plan

Organization

The City of Palm Bay Police and Firefighters Retirement System (the "Plan") is a single employer defined benefit plan established by the City of Palm Bay, Florida (the "City"). The Plan reflects the provisions and requirements of Ordinance No. 74-9, as amended. Since the Plan is sponsored by the City, the Plan is included as a pension trust fund in the City's comprehensive financial report as part of the City's financial reporting entity. Participants should refer to the Plan summary for more detailed and comprehensive information.

The Plan's governing board is made up of a Board of Trustees consisting of 5 members:

- two are appointed by the City's commission
- two are elected by the Plan's members and are active participants
- one is appointed by the Board of Trustees and is a retired member

Participants

Participants are the police officers and firefighters with permanent status in the Police and Fire Department of the City of Palm Bay, Florida. General employees were eligible to receive benefits if participating in the Plan prior to the formation of the defined contribution plan for the City general employees. Firefighter members are further divided in the following two tiers.

Tier One members are those firefighters hired prior to March 15, 2012.

Tier Two members are those firefighters hired on or after March 15, 2012.

Membership

As of October 1, 2015 and 2014, membership in the Plan consisted of:

	2015			2014		
	Police Officers	Fire Fighters	General Employees	Police Officers	Fire Fighters	General Employees
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	105	78	2	101	76	4
Current employees:						
Vested	97	76		87	63	-
Nonvested	42	32	-	54	38	-
	139	108	-	141	101	-

City of Palm Bay Police and Firefighters Retirement System Notes to Financial Statements

Contributions

The Plan provides for member employee contributions of 8.76%, for firefighters and police officers of their annual base salary plus certain other compensation items provided by Ordinance, to the Plan.

Pension Benefits

All participants

All regular full-time certified police officers and firefighters are eligible to participate in the Plan. Full time police officers and tier 1 firefighter's benefits vest 50% after five years of service plus 10% per year thereafter to 100% after 10 years. Tier 2 firefighters vest 100% after 10 or more years. Early retirement, delayed retirement, supplemental, death and disability benefits are also provided.

Police officer members

Normal retirement shall be the earlier of attainment of (1) age 55, (2) completion of 30 years of credited service regardless of age, (3) age 52 with 25 years of credited service, (4) for police officers who are employed on or after October 1, 2006 and retire after that date, 28 years of credited service, regardless of age, or (5) for police officers who are employed on or after April 5, 2012, completion of 25 years of credited service, regardless of age. Average Final Compensation (AFC) is one and a half times the average of the highest five years of the last ten years of credited service. Payments for unused leave are not included in AFC.

Each police officer member with less than 20 years of credited service will have a monthly normal retirement benefit in an amount equal to 2% of the member's AFC multiplied by the member's credited service performed prior to June 1, 1992 and 2½% of the member's AFC multiplied by the member's credited service performed on and after June 1, 1992. For members who have completed 20 years of credited service as sworn police officers, instead of the amount described in the previous sentence, the member's monthly normal retirement benefit shall be an amount equal to 3% of the member's AFC multiplied by the member's credited service plus 5% of AFC for service after 20 years to a maximum of 100% of the AFC upon the completion of 28 years of service.

Firefighter members

Tier One members

Normal retirement shall be the earlier of attainment of (1) age 55, (2) completion of 25 years of credited service at 85% of AFC or completion of 28 years of credited service regardless of age, or (3) age 52 with 25 years of credited service effective September 30, 2002. Average Final Compensation (AFC) is one and a half times the average of the highest five years of the last ten years of credited service. Payments for unused leave are not included in AFC.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

Each firefighter member hired before March 15, 2012, with less than 20 years credited service will have a monthly normal retirement benefit in an amount equal to 2% of the member's AFC multiplied by the member's credited service performed prior to October 1, 1991, and 2½% of the member's AFC multiplied by the member's credited service performed on and after October 1, 1991. For members who have completed 20 years of credited service as a firefighter, instead of the amount described in the previous sentence, the member's monthly normal retirement benefit shall be an amount equal to 3% of the member's AFC multiplied by the member's credited service plus 5% of AFC for service after 20 years to a maximum of 100% of the AFC upon the completion of 28 years of service.

Tier Two members

Normal retirement shall be the first day of the month coincident with or next following the completion of 25 years of credited service regardless of age. Provided, however that a vested member who terminates prior to attaining 25 years of credited service shall be eligible for normal retirement benefits upon reaching age 55 with 10 years of credited service. Average Final Compensation (AFC) is one and a half times the average of the highest five years of the last ten years of credited service. Payments for unused leave are not included in AFC.

Each firefighter member with less than 20 years credited service will have a monthly normal retirement benefit in an amount equal to 2 ½ % of the member's AFC multiplied by the member's credited service For members who have completed 20 years of credited service as a firefighter, instead of the amount described in the previous sentence, the member's monthly normal retirement benefit shall be an amount equal to 3.2% of AFC for service after 20 years to a maximum of 90% of the AFC, excluding supplemental benefits.

Deferred Retirement Option Plan (DROP)

Effective September 30, 2000 for police officers and September 30, 2001 for firefighters, members who continue in employment past normal retirement date may either accrue larger pensions or freeze their accrued benefit and enter the DROP. Each participant in the DROP has an account credited monthly with benefits not received and quarterly with investment earnings net of expenses based on the Plan's earnings. The DROP is administered by the Board of Trustees. Participation in the DROP is limited to 60 months.

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**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

A summary of the changes in the DROP balance as of September 30 is as follows:

	2016		
	Fire	Police	Total
Beginning Balance	\$ 4,619,268	\$ 1,699,499	\$ 6,318,767
Additions	1,052,076	481,046	1,533,122
Distributions	(1,183,730)	(280,176)	(1,463,906)
Interest	440,922	168,803	609,725
Ending balance	<u>\$ 4,928,536</u>	<u>\$ 2,069,172</u>	<u>\$ 6,997,708</u>

	2015		
	Fire	Police	Total
Beginning Balance	\$ 5,797,789	\$ 2,012,356	\$ 7,810,145
Additions	1,320,820	552,409	1,873,229
Distributions	(2,528,130)	(849,898)	(3,378,028)
Interest	28,789	(15,368)	13,421
Ending balance	<u>\$ 4,619,268</u>	<u>\$ 1,699,499</u>	<u>\$ 6,318,767</u>

Supplemental Benefits

Police officer members

Police officers who retire after October 1, 2006 receive a Supplemental Benefit equal to \$25 per month times completed years of Credited Service. The benefit shall cease upon retiree reaching age 65. Members approved for disability retirement are ineligible for the supplemental retirement benefit.

Firefighter members

Tier One members

Firefighters receive a Supplemental Benefit of \$189 per month payable over the life of the retiree only. Firefighters who retire on or after October 1, 2006, receive \$458 per month, instead of \$189. Firefighters who terminate after October 1, 2007, receive a Supplemental Benefit equal to \$25 per month times years of credited service earned prior to March 15, 2012. Effective March 15, 2012, firefighters who have not attained age 55 with 10 or more years of credited service or 25 years of credited service regardless of age on that date, who either terminate while vested or terminate upon reaching normal or early retirement shall receive a supplemental benefit of \$12 per month for each year of credited service. The benefit shall cease upon retiree reaching the age of Medicare eligibility and members approved for disability retirement are ineligible for the supplemental retirement benefit.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

Tier Two members

Firefighters are eligible to receive a Supplemental Benefit of \$12 per month for each year of credited service. The benefit shall commence upon entry into the DROP or upon receipt of a retirement benefit and separation from the City. This benefit shall only be payable over the life of the member, will cease upon member reaching the age of Medicare eligibility and members approved for disability retirement are ineligible for the supplemental retirement benefit.

Cost-of-Living Adjustment

Police officer members

The Plan provides for cost-of-living adjustment to police officers who retire or enter the DROP on or after September 30, 2000. The retirement benefits will increase by 3% each year commencing with the September 30th following three years of retirement.

Firefighter members

Tier One members

The Plan provides for cost-of-living adjustment to firefighters who retire or enter the DROP on or after September 30, 2001. The retirement benefits will increase by 3% each year commencing with the September 30th following six years of retirement.

Tier Two members

The retirement benefit will increase by 2% commencing with the September 30th following six years of retirement.

Investments

The Plan has contracts with investment counselors who supervise and direct the investment of equity and fixed income securities. In addition, the Plan utilizes an investment consultant who monitors the investing activity. The investments owned are held by custodians in the name of the Plan. The Plan provides for investment in U.S. Government securities, money market funds, bonds, notes, convertible securities, domestic, international equity securities, and master limited partnership.

Funding Requirements

Pursuant to Florida Statutes, Chapters 175 and 185, contributions from the State of Florida (the "State) consist of an excise tax imposed by the City upon certain casualty insurance companies on the gross amount of receipt of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the City. The allowable portion of the State contribution is used to reduce the City's contribution when received. The City 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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

2. Summary of Significant Accounting Policies

Basis of Accounting

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

Cash equivalents

The Plan considers all highly liquid investment with maturity of three months or less when purchased, to be cash equivalents.

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. Refer to Note 5 to the financial statements for more detail regarding the methods used to measure the fair value of investments.

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.

Given the inherent nature of investments it is reasonably possible that changes in the value of those investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of fiduciary net position.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles in requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Plan is tax exempt from Federal income taxes under the Internal Revenue Code, therefore, has recorded no income tax liability or expense.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

Risks and Uncertainties

Contributions to the Plan and the actuarial information included in the required supplementary information (RSI) are reported based on certain assumptions pertaining to the interest rates, inflation rates and member compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in settling assumptions, that the effect of such changes could be material to the financial statements.

Adoption of Accounting Pronouncements

In 2016, the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72 addresses accounting and financial reporting issues related to fair value measurement of assets and liabilities. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB 72 resulted in increased disclosures related to the fair value measurement of investments.

Subsequent Events

Management has evaluated subsequent events through January 26, 2017, the date which the financial statements were available for issue.

3. Net Pension Liability (Asset) of the City

The components of the net pension liability of the City at September 30, 2016 and 2015 were as follows:

	2016			
	Police	Fire	General	Total
Total pension liability	\$ 108,962,555	\$ 93,704,610	\$ 21,536	\$ 202,688,701
Plan fiduciary net position - ending	(97,016,767)	(76,241,586)	(177,417)	(173,435,770)
Actuarial adjustments **	111	87	-	198
City's net pension liability (asset)	\$ 11,945,899	\$ 17,463,111	\$ (155,881)	\$ 29,253,129
Plan fiduciary net position - actuarial as a percentage of the total pension liability (asset)	89.04%	81.36%	(823.82)%	85.57%

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

	2015			
	Police	Fire	General	Total
Total pension liability	\$ 101,473,437	\$ 87,380,409	\$ 31,818	\$ 188,885,664
Plan fiduciary net position - ending	(90,683,060)	(71,838,342)	(169,767)	(162,691,169)
Actuarial adjustments **	(1)	-	-	(1)
City's net pension liability (asset)	\$ 10,790,376	\$ 15,542,067	\$ (137,949)	\$ 26,194,494
Plan fiduciary net position - actuarial as a percentage of the total pension liability (asset)	89.37%	82.21%	(533.56)%	86.13%

**Figures include actuarial assumption of future buybacks to be purchased by members.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2015 using the following actuarial assumptions applied to all measurement periods.

Inflation	3.00%
Salary increases*	6.50%
Investment rate of return	8.00%

* Not applicable for general employees' plan.

Mortality rates are calculated with the RP 2000 Mortality Table (combined Healthy) and based on a study of over 650 public safety funds, this table reflects a 10.00% margin for future mortality improvements. 75.00% of Deaths are assumed to be service connected.

The actuarial assumptions used in the October 1, 2015 valuations were based on the results of an actuarial experience study for the period 2005-2014

The long- term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016 and 2015 are summarized in the following table.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

Long-Term Expected Real Rate of Return Asset Class	2016	2015
Domestic Equity	8.0%	8.0%
International Equity	3.0%	3.0%
Bonds	4.4%	4.4%
Convertibles	6.4%	6.4%
Private Real Estate	4.6%	4.6%
MLPs	10.4%	10.4%

Discount Rate

The discount rate used to measure the total pension liability was 8.0% for 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rates and that contributions from the City will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary Net Position was projected to be available to make all projected future benefic payments of current Plan members. Therefore, the long term expected rate of return on pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the City using the discount rate of 8%, as well as what the employer net pension liability would if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 Percent) than the current rate:

September 30, 2016	City Net Pension Liability		
	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Fire	\$ 29,259,691	\$ 17,463,111	\$ 7,848,938
Police	26,993,731	11,945,899	(256,457)
General	(154,898)	(155,881)	(156,783)

September 30, 2015	City Net Pension Liability		
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Fire	\$ 25,695,139	\$ 15,542,067	\$ (1,292,292)
Police	23,812,776	10,790,376	(6,361,736)
General	(136,865)	(137,949)	(138,950)

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

4. Contributions

Actual Contributions

The actual City (employer) contribution for active employees and the State contribution for the years ended September 30, 2016 and 2015 amounted to \$4,961,607 and \$4,997,199, respectively, and the actual amount of covered payroll was approximately \$12,895,000 and \$12,319,000, respectively.

City and State contributions consisted of the following:

	2016		2015	
	Amount	Percent of Actual Covered Annual Payroll	Amount	Percent of Actual Covered Annual Payroll
City	\$ 3,716,857	28.8%	\$ 3,788,313	30.8%
State	1,244,750	9.7%	1,208,886	9.8%
Total contributions from City and State	\$ 4,961,607	38.5%	\$ 4,997,199	40.6%

Employee contributions were \$1,090,434 and \$1,085,844, including buybacks and employee purchases for additional pensionable compensation of \$33,629 and \$5,777 in the years ended September 30, 2016 and 2015 respectively.

Actuarially Determined Contributions

Effective May 30, 2012, the Division of Retirement mandated that local governments confer with the Plan's actuary to select and maintain a contribution method (percentage of payroll or fixed dollar contribution) that best fits the funding requirements of the Plan. For the year end September 30, 2012, the Plan selected to use the percentage of payroll contribution amount and the fixed dollar contribution beginning with the fiscal year end September 30, 2013.

The contributions required from the City and the State for the years ended September 30, 2016 and 2015, was originally actuarially determined by the October 1, 2014 and 2013 valuations to be \$4,797,501 and \$4,899,250, respectively. The actuarially computed annual covered payroll used in the October 1, 2015 and 2014 valuations was \$12,911,171 and \$11,713,539, respectively.

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**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

The required City and State contributions cover the following for the fiscal years ended September 30:

	2016		2015	
	Amount	Percent of Actual Covered Annual Payroll	Amount	Percent of Actual Covered Annual Payroll
Normal cost	\$ 2,554,539	19.8%	\$ 2,883,309	23.4%
Payment to amortize unfunded actuarial accrued liability	2,242,962	17.4%	2,015,941	16.4%
Total required from City and State	\$ 4,797,501	37.2%	\$ 4,899,250	39.8%

5. Deposit and Investment Risk Disclosures

Cash and cash equivalents

Deposits are carried at cost and are included in cash and cash equivalents in the statement of Fiduciary Net Position. Cash and cash equivalents include demand accounts and short-term investment funds (STIF). Cash and cash equivalents at September 30 consists of the following:

	2016	2015
Invested cash and currency	\$ 26,249	\$ 20,023
Short-term investment	7,263,790	4,975,032
Total	\$ 7,290,039	\$ 4,995,055

Investment Authorization

The Plan's investment policy is determined by the Board of Trustees. The policy has been identified by the Board as having the greatest expected investment return, and the resulting positive impact on asset values, funded status, and benefits, without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to stocks and bonds. The primary investment objective of the Plan is the preservation of invested capital. The secondary objective is to achieve moderate long-term real growth of the assets while minimizing the volatility of returns.

The Trustees are authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account. Investment in all equity securities shall be limited to those listed on a major U.S. stock exchange and limited to no more than 75% (at market) of the Plan's total asset value with no more than 5% at cost value of an investment manager's equity portfolio invested in the shares of a single corporate issuer. Investments in stocks of foreign companies shall be limited to 25% (at market) of the investment portfolio. Convertible securities shall be limited to 25% of the Plan's total portfolio. Investment in equity securities whose market capitalization is less than \$3 billion dollars shall be limited to 25% of the total equity portfolio. Investments in those corporations whose stock has been publicly traded for less than one year are limited to 15% of the equity portfolio.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

The fixed income portfolio shall be comprised of securities rated “BBB” or higher by Standard & Poor’s or Baa or higher by Moody’s rating services with no more than 10% at cost of an investment manager’s total fixed income portfolio invested in the securities of any single corporate issuer. However, investments in securities rated below “A” shall be limited to 20% of the total fixed income portfolio.

Investments in Collateralized Mortgage Obligations (CMO) shall not exceed 25% of the fixed income portfolio and real estate shall not exceed 15% of the total portfolio or market, respectively.

The Plan has contracts with investment counselors who supervise and direct the investment of equity and fixed income securities. In this regard, the Plan does utilize mutual funds as the investment vehicles for all its fixed income investments. In addition, the Plan utilizes an investment advisor who monitors the investing activity. The investments owned are held by a custodian in the name of the Plan.

Types of Investments

Florida statutes and Plan investment policy authorize the Trustees to invest funds in various investments. The current target and actual allocation of these investments at market are as follows:

	2016		2015	
	Target % of portfolio	Actual % of portfolio	Target% of portfolio	Actual % of portfolio
Authorized investments				
Domestic equities	35%	39%	35%	41%
Fixed income	25	23	25	23
International equities	15	12	15	10
Real estate	10	11	10	12
Convertible securities	10	8	10	8
Master Limited Partnership	5	3	5	3
Cash equivalents	0	4	0	3

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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

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

2016					
Investment Maturities (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 15,657,200	\$ 1,942,745	\$ 9,517,075	\$2,166,710	\$ 2,030,670
U.S. agencies	10,784,250	-	-	-	10,784,250
Debt securities	12,974,156	131,385	2,020,072	4,293,545	6,529,154
Bond funds	59,447	-	-	-	59,447
Total fixed income	\$ 39,475,053	\$ 2,074,130	\$11,537,147	\$6,460,255	\$19,403,521

2015					
Investment Maturities (in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 15,968,845	\$ 1,423,356	\$ 6,591,300	\$ 4,125,062	\$ 3,829,127
U.S. agencies	10,044,410	-	-	1,487,983	8,556,427
Debt securities	11,004,826	146,080	2,380,114	2,675,625	5,803,007
Bond funds	56,274	-	-	-	56,274
Total fixed income	\$ 37,074,355	\$ 1,569,436	\$ 8,971,414	\$8,288,670	\$ 18,244,835

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.

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**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

The following tables disclose credit ratings by investment type, at September 30, 2016 and 2015, as applicable:

	2016		2015	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. government guaranteed *	\$ 26,441,450	67.0%	\$ 26,013,255	70.2%
Quality rating of credit risk debt securities:				
AAA	2,793,111	7.1	2,001,145	5.4
AA+	106,727	0.3	232,618	0.6
AA-	1,053,145	2.7	188,947	0.5
AA	386,568	1.0	122,905	0.3
A+	135,499	0.3	1,147,285	3.1
A	323,546	0.8	802,415	2.2
A-	1,569,781	4.0	1,175,453	3.2
B	-	-	117,258	0.3
BB+	161,081	0.4	391,035	1.1
BB	233,553	0.6	-	-
BBB+	1,585,365	4.0	2,209,001	6.0
BBB	2,385,082	6.0	563,119	1.5
BBB-	1,954,244	5.0	1,557,405	4.2
Other	345,901	0.9	552,514	1.4
Total credit risk debt securities	13,033,603	33.0	11,061,100	29.8
Total fixed income securities	\$ 39,475,053	100.0%	\$ 37,074,355	100.0%

*Obligations of the U.S. government or obligations explicitly or implicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

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 Fiduciary Net Position at September 30, 2016 and 2015.

Custodial Credit Risk

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments 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.

City of Palm Bay Police and Firefighters Retirement System Notes to Financial Statements

Consistent with the Plan's investment policy, substantially all the investments are held by the Plan's custodial bank 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.

Rate of Return

For the years ended September 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 9.81% and (0.36%) for Police Officers, 8.44% and (0.34%) for Firefighters, and 10.02% and 1.02% for General, respectively. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Valuation

GASB 72 establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the specific characteristics of the investment. Fair value represents 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. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Investments traded in an active market with available quoted prices for identical assets as of the reporting date.

Level 2 - Investments not traded on an active market but for which observable market inputs are available for an asset, either directly or indirectly, as of the reporting date.

Level 3 - Investments not traded in an active market and for which no significant observable market inputs are available as of the reporting date.

The Plan has established a framework to consistently measure the fair value of the Plan's assets and liabilities in accordance with applicable accounting, legal, and regulatory guidance. This framework has been provided by establishing valuation policy and procedures that will provide reasonable assurance that assets and liabilities are carried at fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Plan's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the investment.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

The following table summarizes the valuation of the Plan's investments in accordance with the above mentioned fair value hierarchy levels as of September 30, 2016:

	<u>Fair Value Measurements Using</u>			
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level				
Debt securities				
U.S. Government securities	\$ 26,441,450	\$ -	\$ 26,441,450	\$ -
Convertible corporate bonds	11,973,379	-	11,973,379	-
Non-convertible corporate bonds	12,974,156	-	12,974,156	-
<u>Total debt securities</u>	<u>51,388,985</u>	<u>-</u>	<u>51,388,985</u>	<u>-</u>
Equity securities				
Non-convertible stocks	58,320,706	57,983,490	337,216	-
Convertible and other equities	2,036,030	1,897,555	138,475	-
<u>Total equity securities</u>	<u>60,356,736</u>	<u>59,881,045</u>	<u>475,691</u>	<u>-</u>
Alternative investments				
Real estate equity	18,947,829	-	-	18,947,829
<u>Total alternative investments</u>	<u>18,947,829</u>	<u>-</u>	<u>-</u>	<u>18,947,829</u>
Total Investments by fair value level	130,693,550	\$59,881,045	\$ 51,864,676	\$ 18,947,829
Investments measured at net asset value ("NAV")				
Mutual funds				
Domestic equity	3,171,499			
International equity	21,208,845			
Bond fund	59,447			
Commingled domestic equity funds	12,419,205			
<u>Total investments measured at NAV</u>	<u>36,858,996</u>			
Total investments measured at fair value	\$167,552,546			

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**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

Debt securities: Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporations, securitized offerings backed by residential and commercial mortgages, TIPS and foreign debt securities. 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 domestic and international equities. Domestic securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Securities traded in the over-the counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at September 30, 2016 and 2015. 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.

Alternative investments: These investments include real estate equity investments where no readily ascertainable market value exists. To value these investments, management, in consultation with the general partner and investment advisors, determines the fair values for the individual investments based upon the partnership's or limited liability company's most recent available financial information adjusted for cash flow activities through September 30, 2016. The estimated fair value of these investments may differ from values that would have been used had a ready market existed.

The Plan's valuation methods for investments measured at the net asset value ("NAV") per share (or its equivalent) as of September 30, 2016, are as follows:

2016 Investments Measured at the NAV				
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Mutual funds (1)	\$ 24,439,792	\$ -	Daily	Same Day
Commingled domestic equity funds (2)	12,419,204		Monthly	Up to 15 Days
Total investments measured at the NAV	\$ 36,858,996	\$ -		

- (1) These mutual funds are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. They are determined to be actively traded. The funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.
- (2) Commingled domestic equity funds consist of two commingled investment vehicles investing primarily in publicly traded equity securities. The funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements**

6. Commitments

Subsequent to year-end the Plan renewed its operating lease for office space. The lease term is for 60 months expiring in January 2022. The monthly rent is \$1,876, which includes base rent, maintenance and insurance.

The following is a schedule of the future minimum lease payments under these leases:

<u>For the year ending September 30,</u>	<u>Amount</u>
2017	\$ 22,512
2018	22,512
2019	22,512
2020	22,512
2021	22,512
2022	7,504
	<u>\$ 120,064</u>

During the years ended September 30, 2016 and 2015, rent expense under the lease agreement amounted to \$22,520 for each year and is included in administrative expenses in the statement of changes in Fiduciary Net Position.

Required Supplementary Information

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of Changes in the City's Net Pension Liability (Asset) (Unaudited)
Fiscal Year September 30,**

	2016	2015	2014
Total pension liability			
Service cost	\$ 3,101,767	\$ 3,023,970	\$ 2,982,180
Interest	14,930,382	14,318,148	13,795,176
Change in Excess State Money	164,106	97,949	84,152
Differences between expected and actual experience	(971,416)	324,055	-
Changes of assumptions	6,171,246	-	-
Contributions Buy Back	33,629	5,777	-
Benefit payments including refunds of member contributions	(9,626,677)	(10,566,952)	(9,997,019)
Net change in total pension liability	13,803,037	7,202,947	6,864,489
Total pension liability- beginning	188,885,664	181,682,717	174,818,228
Total pension liability- ending	202,688,701	188,885,664	181,682,717
Plan fiduciary net position			
Contributions - employer	3,716,857	3,788,313	3,619,607
Contributions - state	1,244,750	1,208,886	1,244,404
Contributions - member (employee)	1,090,434	1,085,844	1,034,380
Contributions - buy back (employee)	33,629	-	-
Net investment (loss) income	14,794,229	(586,238)	16,875,013
Benefit payments, including refunds of contributions	(9,626,677)	(10,566,953)	(9,997,019)
Administrative expenses	(508,621)	(464,379)	(433,668)
Net change in plan fiduciary net position	10,744,601	(5,534,527)	12,342,717
Plan fiduciary net position - beginning	162,691,169	168,225,696	155,882,979
Plan fiduciary net position - ending	173,435,770	162,691,169	168,225,696
Plus: actuarial adjustments**	(198)	1	98,803
Plan fiduciary net position - actuarial	173,435,572	162,691,170	168,324,499
City's net pension liability (asset)	\$ 29,253,129	\$ 26,194,494	\$ 13,358,218

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

** Figures include actuarial assumption of future buybacks to be purchased by members.

See accompanying independent auditor's report and notes to the required supplementary information.

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of the City's Net Pension Liability (Asset) (Unaudited)**

<i>September 30,</i>	2016		2015		2014	
Total pension liability	\$ 202,688,701	\$ 188,885,664	\$ 181,682,717			
Plan fiduciary net position - ending	(173,435,572)	(162,698,820)	(168,225,696)			
Actuarial adjustments**	-	(1)	(98,803)			
City's net pension liability (asset)	\$ 29,253,129	\$ 26,186,843	\$ 13,358,218			
Plan fiduciary net position as a percentage of the total pension liability	85.57%	86.14%	92.65%			
Actuarially computed – employee payroll	\$ 12,911,171	\$ 12,318,730	\$ 11,709,551			
City's net pension liability as a percentage of covered – employee payroll	226.57%	212.58%	114.08%			

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

** Figures include actuarial assumption of future buybacks to be purchased by members.

See accompanying independent auditor's report and notes to the required supplementary information.

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of Contributions by Employer (Unaudited)
Fiscal Year Ended September 30,**

	2016	2015	2014
Actuarially determined contribution	\$ 4,797,501	\$ 4,899,250	\$ 4,747,791
Contributions in relation to the actuarially determined contribution	4,797,501	4,899,250	4,747,791
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Actuarially computed - payroll	N/A	N/A	\$ 11,711,865
Contributions as a percentage of covered-employee payroll	N/A	N/A	41%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditor's report and notes to the required supplementary information.

City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of Investment Returns (Unaudited)
For the Years Ended September 30,

Annual money-weighted rate of return, net of investment expense	Police	Fire	General	Total
2016	9.81%	8.44%	10.02%	10.0%
2015	-0.36%	-0.34%	1.02%	0.1%
2014	10.82%	11.04%	11.43%	10.9%
2013	13.87%	14.02%	13.06%	14.1%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditor's report and notes to the required supplementary information.

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Notes to Required Supplementary Information (Unaudited)
Last Ten Fiscal Years**

Method and assumptions used in calculations of the City's actuarially determined contributions. The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of October 1, one year prior to the end of the fiscal year in which contributions are reported. Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of the City's contributions.

Funding Method: Prior to 2005: Frozen Entry Age Cost Method. This is the same as the Aggregate Method when the Unfunded Actuarial Liability = 0.

2005+: Entry Age Normal Cost Method.

Asset valuation method:* The market value of assets is adjusted to recognize, over a four-year period, investment earnings greater than (or less than) the assumed investment return. The Actuarial Value of Assets shall not be more than 120% nor less than 80% of the market value of assets. Details are shown in the Asset Information Section of the report.

Amortization Method Level Percentage of Pay. Closed

Remaining amortization period: 30 years

Inflation: 2.70% per year.

Salary Increase- Total Payroll:* 6.50% per year.

Salary Increase- Individual:* 6.50% per year.

Interest Rates: 8.0% per year compounded annually, net of investment related expenses

Payroll Growth:* 4.0% per year.

*Not applicable for general employee's plan.

See accompanying independent auditor's report.

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Notes to Required Supplementary Information (Unaudited) - continued
Last 10 Fiscal Years**

Service Retirement: Members will retire Early at a rate of 5% per year prior to Normal Retirement. When a Member reaches 25 years of Credited Service, there is a 50% probability of retirement and then a 100% probability at the earlier of 1.) Age 55, 2.) 28 years of Credited Service, regardless of Age, or 3.) Age 52 with 25 years of Credited Service.

Percentage Married at Retirement: 100% of active members are assumed married at retirement.
Spouse Ages: For active members reaching retirement, wives are assumed to be three years younger than husbands. Where spousal information was included for retirees, that information was used. If the age of the spouse was not provided, we have assumed that all spouses are still alive, and that female spouses are three years younger than their husbands.

Actuarial Value of Assets: The market value of assets is adjusted to recognize, over a four year period, investment earnings greater than (or less than) the assumed investment return. The Actuarial Value of Assets shall not be more than 120% nor less than 80% of the market value of assets. Reset to Market Value for October 1, 2010 report.

Mortality Rates:
Service Retirement: RP2000 (Combined Healthy)
Disability Retirement: RP2000 (Combined Healthy)
Spouse: RP2000 (Combined Healthy)
Based on a study of over 650 public safety funds, this table reflects a 10.00% margin for future mortality improvements. 75.00% of Deaths are assumed to be service connected.

Other Information *Termination and Disability Rate Table

	<u>Police Officer</u>	
	<u>Termination</u>	<u>Disability</u>
<u>Age</u>	<u>Probability</u>	<u>Probability</u>
20	0.200	0.0014
30	0.120	0.0018
40	0.035	0.0030
50	0.020	0.0100
	<u>Firefighter</u>	
	<u>Termination</u>	<u>Disability</u>
<u>Age</u>	<u>Probability</u>	<u>Probability</u>
20	0.140	0.0014
30	0.074	0.0018
40	0.026	0.0030
50	0.008	0.0100

* Not applicable for general employees plan.

See accompanying independent auditor's report.

Other Supplementary Schedules

City of Palm Bay Police and Firefighters Retirement System

Other Supplementary Schedules of Investment Expenses and Administrative Expenses

For the Years Ended September 30,

2016

2015

Schedule "1" - Schedule of Investment Expenses

Financial management and custodial:

SunTrust Bank, Inc.	\$ 267,000	\$ 362,523
Regions Bank, Inc.	41,326	42,217
JP Morgan Investment Management, Inc.	183,925	153,570
SSI Investment Management, Inc.	65,061	65,461
Polen	81,582	16,189
Wells Capital	79,164	15,675
Advent Capital Management, Inc.	62,329	64,397
Eagle Asset Management, Inc.	26,007	40,505
Westwood Holdings Group, Inc.	51,087	66,436
Total financial management and custodial expenses	857,481	826,973

Investment consultant fees:

Burgess Chambers and Associates, Inc.	57,500	55,000
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Total investment expenses	\$ 914,981	\$ 881,973
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Schedule "2" - Schedule of Administrative Expenses

Professional services:

Actuarial	\$ 70,309	\$ 99,244
Accounting	35,400	27,855
Administrator	63,000	60,000
Audit	21,500	18,500
Legal	32,595	29,606
Total professional services	222,804	235,205

Other:

Pension staff salaries	84,184	78,355
Computer expense	41,699	26,121
Conferences	84,975	49,842
Supplies	17,497	17,692
Insurance	18,635	18,864
Occupancy cost	22,520	22,520
Utility expense	2,332	11,844
Communications	10,216	-
Dues and subscriptions	2,250	2,486
Postage	1,509	1,449

Total other	285,817	229,173
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Total administrative expenses	\$ 508,621	\$ 464,378
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