



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

**Financial Statements
Years Ended September 30, 2014 and 2013**

**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, 2014 and 2013, and the related statements of changes in fiduciary net position for the years 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 net fiduciary net position of the City of Palm Bay Police and Firefighters Retirement System as of September 30, 2014 and 2013, and the related statement of changes in net fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Independent Auditors' Report- continued

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2014, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The financial statements as of and for the year ended September 30, 2013 were restated due to the implementation of GASB Statement No. 67. 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 supplemental schedules of 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.

Goldstein Schechter Koch, P.A.

Hollywood, Florida
January 31, 2015



Management's Discussion and Analysis

(Required Supplementary Information - Unaudited)

September 30, 2014 and 2013

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, 2014 and 2013. 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, 2014 and 2013 by \$168,225,696 and \$155,882,979, 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 \$12,342,717 and \$16,664,555, 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, 2014, receivables increased \$831,445 (or 48.8%) due primarily to an increase in receivable for securities sold.

For the fiscal year ended September 30, 2013, receivables decreased \$1,116,107 (or 39.6%) due primarily to a decrease in receivable for securities sold.

- For the fiscal year ended September 30, 2014, employer contributions to the Plan, increased \$837,834 (or 30%). Actual employer contributions as determined by the Plan's actuary were \$3,619,607 and \$2,781,773 for 2014 and 2013, respectively.

For the fiscal year ended September 30, 2013, employer contributions to the Plan, increased \$1,607,847 (or 137%). Actual employer contributions as determined by the Plan's actuary were \$2,781,773 and \$1,173,926 for 2013 and 2012, respectively.

- For the fiscal year ended September 30, 2014, employee contributions including buybacks decreased by \$4,475 (or 0%). Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,034,380 and \$1,038,855 for 2014 and 2013, 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, 2013, employee contributions including buybacks decreased by \$82,359 (or 7.3%). Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,038,855 and \$1,121,214 for 2013 and 2012, respectively. Employee contributions have fluctuated from year to year, based on the number of active members, salaries and buyback contributions.

Management's Discussion and Analysis **(Required Supplementary Information - Unaudited)** **September 30, 2014 and 2013**

Financial Highlights – continued

- For the fiscal year ended September 30, 2014, the Plan had a net investment income of \$16,875,013 compared to net investment income of \$19,406,392 for the fiscal year ended September 30, 2013. Actual results were \$14,133,380 and \$16,775,944 of net appreciation in fair value of investments for the fiscal years ended 2014 and 2013, respectively, and \$3,621,964 and \$3,373,794 of income from interest and dividends for the fiscal years ended 2014 and 2013, respectively. Investment expenses increased by \$136,985 (or 18%).

For the fiscal year ended September 30, 2013, the Plan had a net investment income of \$19,406,392 compared to net investment income of \$21,340,850 for the fiscal year ended September 30, 2012. Actual results were \$16,775,944 and \$18,361,144 of net appreciation in fair value of investments for the fiscal years ended 2013 and 2012, respectively, and \$3,373,794 and \$3,609,429 of income from interest and dividends for the fiscal years ended 2013 and 2012, respectively. Investment expenses increased by \$113,623 (or 18%).

- For the fiscal year ended September 30, 2014, benefit payments increased by \$2,521,143 (or 35%). Refunds of contributions increase by \$127,105 (or 146%). Police refunds represented approximately 99.0% of total refunds.

For the fiscal year ended September 30, 2013, benefit payments increased by \$4,430,714 (or 156%). Refunds of contributions decreased by \$65,530 (or 42.9%). Police refunds represented approximately 52.5% of total refunds.

- For the fiscal year ended September 30, 2014, administrative expenses increased by \$24,234 from 2013 (or 6%) due primarily to an increase in payments for professional services.

For the fiscal year ended September 30, 2013, administrative expenses decreased by \$39,370 from 2012 (or 8.8%) due primarily to a decrease in payments for professional services and a decrease in payments for occupancy costs.

Plan Highlights

The Palm Bay Police and Firefighters Retirement System was formed in 1974 and celebrated its 40th year as a plan in 2014. 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, 2014 was 10.9%. The domestic equity portfolio returned 12.14% while the international equity return was 7.5%. The returns for other investment asset categories for the year included convertible securities (12.9%), real estate (12.1%) and the market loss for fixed income was 4.3%. Further diversification continues to be a Plan objective.

Management's Discussion and Analysis

(Required Supplementary Information – unaudited)
September 30, 2014 and 2013

Plan Highlights - continued

Overall, actual net returns from investments were positive in 2014 primarily due to volatile financial markets.

The total market return for the year ended September 30, 2013 was 14.1%. The domestic equity portfolio returned 22.8% while the international equity return was 18.9%. The returns for other investment asset categories for the year included convertible securities (18.9%), real estate (15.2%) and the market loss for fixed income was 2.2%. Further diversification continues to be a Plan objective. Overall, actual net returns from investments were positive in 2013 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.

The Plan implemented the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 67, Financial Reporting for Pension Plans- an amendment of GASB statement No. 25 as approved by the Governmental Accounting Standards Board in June 2012 in the financial statements for the fiscal year ended September 30, 2014. The financial statements, notes to the financial statements, and required supplementary information reflect changes as required by this statement.

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 members, 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 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.

Management's Discussion and Analysis
(Required Supplementary Information – unaudited)
September 30, 2014 and 2013

Description of the Financial Statements - continued

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.

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

Condensed Statements of Fiduciary Net Position

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

	2014	2013 Restated	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 3,979,816	\$ 5,466,365	\$ (1,486,549)	(27.2%)
Receivables	2,534,097	1,702,652	831,445	48.8
Investments	165,502,538	152,907,005	12,595,533	8.2
Other assets	28,741	22,697	6,044	26.6
Total assets	172,045,192	160,098,719	11,946,473	7.5
Liabilities	3,819,496	4,215,740	(396,244)	(9.4)
Net Position restricted for pensions	\$ 168,225,696	\$ 155,882,979	\$ 12,342,717	7.9%

	2013 Re-stated	2012 Re-stated	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 5,466,365	\$ 6,058,834	\$ (592,469)	(9.8%)
Receivables	1,702,652	2,818,759	(1,116,107)	(39.6)
Investments	152,907,005	134,772,637	18,134,368	13.5
Other assets	22,697	20,434	2,263	11.1
Total assets	160,098,719	143,670,664	16,428,055	11.4
Liabilities	4,215,740	4,452,240	(236,500)	(5.3)
Net Position restricted for pensions	\$ 155,882,979	\$ 139,218,424	\$ 16,664,555	12.0%

Management's Discussion and Analysis
(Required Supplementary Information – unaudited)
September 30, 2014 and 2013

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:

	2014	2013 (restated)	Increase/ (Decrease)	% Change
Additions:				
Contributions				
Employer	\$ 3,619,607	\$ 2,781,773	837,834	30.1%
Employee	1,034,380	1,038,855	(4,475)	(0.4)
State	1,244,404	1,195,740	48,664	4.1
Total contributions	5,898,391	5,016,368	882,023	17.6
Net investment income	16,875,013	19,406,392	(2,531,379)	(13.0)
Total additions	22,773,404	24,422,760	(1,649,356)	(6.8)
Deductions:				
Benefits paid	9,782,584	7,261,441	2,521,143	34.7
Refunds of contributions	214,435	87,330	127,105	145.5
Administrative expenses	433,668	409,434	24,234	5.9
Total deductions	10,430,687	7,758,205	2,672,482	34.4
Net increase	12,342,717	16,664,555	(4,321,838)	(25.9)
Net Position restricted				
pensions -				
Beginning of year	155,882,979	139,218,424	16,664,555	12.0
Net Position restricted				
pensions -				
End of year	\$ 168,225,696	\$ 155,882,979	12,342,717	7.9%
	2013	2012	Increase/ (Decrease)	% Change
	(re-stated)	(re-stated)		
Additions:				
Contributions				
Employer	\$ 2,781,773	\$ 1,173,926	\$ 1,607,847	137.0%
Employee	1,038,855	1,121,214	(82,359)	(7.3)
State	1,195,740	1,167,285	28,455	2.4
Total contributions	5,016,368	3,462,425	1,553,943	44.9
Net investment income	19,406,392	21,340,850	(1,934,458)	(9.1)
Total additions	24,422,760	24,803,275	(380,515)	(1.5)
Deductions:				
Benefits paid	7,261,441	2,830,727	4,430,714	156.5
Refunds of contributions	87,330	152,860	(65,530)	(42.9)
Administrative expenses	409,434	448,804	(39,370)	(8.8)
Total deductions	7,758,205	3,432,391	4,325,814	126.0
Net increase	16,664,555	21,370,884	(4,706,329)	(22.0)
Net Position restricted				
for pensions -				
Beginning of year	139,218,424	117,847,540	21,370,884	18.1
Net Position restricted				
for pensions -				
End of year	\$ 155,882,979	\$ 139,218,424	\$ 16,664,555	12.0%

Management's Discussion and Analysis
(Required Supplementary Information – unaudited)
September 30, 2014 and 2013

Condensed Statements of Changes in Fiduciary Net Position - continued

The Plan's investment activity, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. Actual returns for fiscal year September 30, 2013 decreased from the fiscal year ended September 30, 2012 and increased from fiscal year ended September 30, 2011.

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, 2014, the domestic equity portion comprised 42% or \$71,249,236 of the total portfolio, which consists of common stocks and domestic equity funds. The allocation to fixed income securities was 22% or \$37,310,194 while cash and cash equivalents comprised 2% or \$3,979,816. The portion of investments allocated to international equity represented 12% or \$20,195,500 of the total portfolio and real estate represented 9% or \$14,233,008, while convertible securities represented 8% or \$13,985,632 of the total portfolio. The allocation of master limited partnership was 5% or \$8,528,967. The 2% 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, 2013, the domestic equity portion comprised 42% or \$65,772,250 of the total portfolio, which consists of common stocks and domestic equity funds. The allocation to fixed income securities was 22% or \$34,207,394 while cash and cash equivalents comprised 3% or \$5,466,365. The portion of investments allocated to international equity represented 14% or \$22,451,735 of the total portfolio and real estate represented 8% or \$12,693,736, while convertible securities represented 8% or \$12,682,544 of the total portfolio. The allocation of master limited partnership was 3% or \$5,099,346. 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:

2014	2013	
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

September 30, 2014

	Police Officers	Fire Fighters	General Employees	Total
Assets				
Cash and cash equivalents	\$ 2,723,471	\$ 1,256,290	\$ 55	\$ 3,979,816
Investments, at fair value:				
Common stocks	34,361,995	26,288,654	-	60,650,649
Domestic equity funds	6,066,939	4,405,973	125,676	10,598,588
U.S. Government securities	15,724,992	11,766,253	-	27,491,245
Corporate bonds	5,569,920	4,192,043	-	9,761,963
Bond funds	-	-	56,986	56,986
International equity funds	10,105,058	10,090,442	-	20,195,500
Real estate funds	7,116,504	7,116,504	-	14,233,008
Convertible securities	6,992,816	6,992,816	-	13,985,632
Master limited partnership	4,264,214	4,264,753	-	8,528,967
Total investments	90,202,438	75,117,438	182,662	165,502,538
Receivables:				
Accrued interest and dividends	156,526	128,118	113	284,757
Due from broker	1,151,966	919,992	-	2,071,958
State contributions	-	143,687	-	143,687
Employer contributions receivable	32,068	-	-	32,068
Other	1,627	-	-	1,627
Due to/from other funds	10,054	(6,563)	(3,491)	-
Total receivables	1,352,241	1,185,234	(3,378)	2,534,097
Other assets	16,407	12,297	37	28,741
Total assets	94,294,557	77,571,259	179,376	172,045,192
Liabilities				
Accounts payable and other liabilities	131,886	108,534	41	240,461
Deferred option benefits due and currently payable	6,741	2,169,499	-	2,176,240
Due to broker	778,299	599,461	-	1,377,760
Prepaid contributions	-	25,035	-	25,035
Total liabilities	916,926	2,902,529	41	3,819,496
Net position restricted for pensions	\$ 93,377,631	\$ 74,668,730	\$ 179,335	\$ 168,225,696

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

September 30, 2013

	Police Officers Restated	Fire Fighters Restated	General Employees Restated	Total Restated
Assets				
Cash and cash equivalents	\$ 3,129,327	\$ 2,335,023	\$ 2,015	\$ 5,466,365
Investments, at fair value:				
Common stocks	34,190,618	25,411,101	-	59,601,719
Domestic equity funds	3,573,282	2,483,128	114,121	6,170,531
U.S. Government securities	14,978,354	11,070,957	-	26,049,311
Corporate bonds	4,657,990	3,445,430	-	8,103,420
Bond funds	-	-	54,663	54,663
International equity funds	11,437,270	11,014,465	-	22,451,735
Real estate funds	6,346,868	6,346,868	-	12,693,736
Convertible securities	6,341,272	6,341,272	-	12,682,544
Master limited partnership	2,549,673	2,549,673	-	5,099,346
Total investments	84,075,327	68,662,894	168,784	152,907,005
Receivables:				
Accrued interest and dividends	156,786	126,031	92	282,909
Due from broker	749,059	530,283	-	1,279,342
State contributions	-	137,127	-	137,127
Other receivables	1,892	1,382	-	3,274
Due to/from other funds	1,681	416	(2,097)	-
Total receivables	909,418	795,239	(2,005)	1,702,652
Other assets	12,914	9,746	37	22,697
Total assets	88,126,986	71,802,902	168,831	160,098,719
Liabilities				
Accounts payable and other liabilities	112,680	90,696	32	203,408
Deferred option benefits due and currently payable, as restated	673,974	216,636		890,610
Due to broker	867,065	632,856	-	1,499,921
Prepaid contributions	601,289	1,020,512	-	1,621,801
Total liabilities	2,255,008	1,960,700	32	4,215,740
Net position restricted for pensions, as restated	\$ 85,871,978	\$ 69,842,202	\$ 168,799	\$ 155,882,979

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
Year ended September 30, 2014**

	Police Officers	Fire Fighters	General Employees	Total
Additions:				
Contributions:				
Employer	\$ 1,730,607	\$ 1,889,000	\$ -	\$ 3,619,607
Employee	607,616	426,764	-	1,034,380
State	604,886	639,518	-	1,244,404
Total contributions	2,943,109	2,955,282	-	5,898,391
Investment income				
Net appreciation in fair value of investments	7,778,673	6,353,397	1,310	14,133,380
Interest and dividends	1,942,077	1,662,253	17,634	3,621,964
Total investment income	9,720,750	8,015,650	18,944	17,755,344
Less: Investment expenses	477,261	402,952	118	880,331
Net investment income	9,243,489	7,612,698	18,826	16,875,013
Total additions	12,186,598	10,567,980	18,826	22,773,404
Deductions:				
Benefits paid	4,223,023	5,551,726	7,835	9,782,584
Refunds of contributions	212,322	2,113	-	214,435
Administrative expenses	245,600	187,613	455	433,668
Total deductions	4,680,945	5,741,452	8,290	10,430,687
Net increase	7,505,653	4,826,528	10,536	12,342,717
Net position restricted for pensions				
Beginning of year	85,871,978	69,842,202	168,799	155,882,979
End of year	\$ 93,377,631	\$ 74,668,730	\$ 179,335	\$ 168,225,696

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

Year ended September 30, 2013

	Police Officers Restated	Fire Fighters Restated	General Employees Restated	Total Restated
Additions:				
Contributions:				
Employer	\$ 1,301,877	\$ 1,479,896	\$ -	\$ 2,781,773
Employee	606,160	432,695	-	1,038,855
State	572,954	622,786	-	1,195,740
Total contributions	2,480,991	2,535,377	-	5,016,368
Investment income				
Net appreciation in				
fair value of investments	9,262,275	7,505,681	7,988	16,775,944
Interest and dividends	1,838,105	1,523,514	12,175	3,373,794
Total investment income	11,100,380	9,029,195	20,163	20,149,738
Less: Investment expenses	410,673	332,673	-	743,346
Net investment income	10,689,707	8,696,522	20,163	19,406,392
Total additions	13,170,698	11,231,899	20,163	24,422,760
Deductions:				
Benefits paid	4,847,365	2,404,490	9,586	7,261,441
Refunds of contributions	45,851	41,479	-	87,330
Administrative expenses	232,438	175,046	1,950	409,434
Total deductions	5,125,654	2,621,015	11,536	7,758,205
Net increase	8,045,044	8,610,884	8,627	16,664,555
Net position restricted for pensions:				
Beginning of year, as restated	77,826,934	61,231,318	160,172	139,218,424
End of year, as restated	\$ 85,871,978	\$ 69,842,202	\$ 168,799	\$ 155,882,979

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

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 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, 2013 and 2012, membership in the Plan consisted of:

	2013			2012		
	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	94	72	4	87	66	5
Current employees:						
Vested	93	64	-	96	68	-
Nonvested	51	28	-	45	28	-
	144	92	-	141	96	-

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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 1 - Description of the Plan - continued

Pension Benefits

All participants

All regular full-time certified police officers and firefighters are eligible to participate in the Plan. Benefits vest 50% after five years of service plus 10% per year thereafter to 100% after 10 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.

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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 1 - Description of the Plan - continued

Pension Benefits - continued

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.

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

	2014		
	Fire	Police	Total
Beginning Balance	\$ 6,523,783	\$ 1,750,430	\$ 8,274,213
Additions	2,125,254	605,216	2,730,470
Distributions	(3,636,556)	(537,582)	(4,174,138)
Interest	785,308	194,291	979,599
Ending balance	\$ 5,797,789	\$ 2,012,355	\$ 7,810,144

	2013		
	Fire	Police	Total
Beginning Balance	\$ 4,486,660	\$ 2,320,821	\$ 6,807,481
Additions	2,028,451	908,298	2,936,749
Distributions	(747,698)	(1,775,398)	(2,523,096)
Interest	756,370	296,709	1,053,079
Ending balance	\$ 6,523,783	\$ 1,750,430	\$ 8,274,213

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 1 - Description of the Plan - continued

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.

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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 1 - Description of the Plan - continued

Tier Two members

The cost-of-living adjustment 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.

Note 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 one year or less when purchased, to be cash equivalents.

Investments

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

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 2 - Summary of Significant Accounting Policies - continued

Investments - continued

- Equity investments: These include common stock, domestic and international equity funds and convertible securities. 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, 2014 and 2013. 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.
- Real estate funds: To value real estate funds, management, in consultation with the general partner and investment advisors, determines the fair values of the individual investments based upon the partnerships most recent available financial information adjusted for cash flow activities through September 30, 2014 and 2013. The estimated fair value of this investment may differ from values that would have been used had a ready market existed.
- Debt securities: Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, convertible securities, corporate bond, and bond funds. These securities can typically be valued using the close or last traded price on a specific date (quoted prices in active markets). When quoted prices are not available, fair value is determined based on valuation models that use inputs that include market observable inputs. These inputs included recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the investment's type.
- Master Limited Partnership (MLP): The MLP employee benefit Common and Commingled Trust Fund is a tax-exempt investment vehicle for qualified pension plan. The Fund strikes a daily NAV (Net Asset Value) as all underlying securities are publicly traded and priced through an independent pricing service at its master custodian, Bank of New York Mellon.

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 investments are recorded on a trade-date basis.

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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 2 - Summary of Significant Accounting Policies - continued

Income Tax Status

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

Risks and Uncertainties

Contributions to the Plan and the actuarial information included in the required supplementary information (RSI) are reported based on certain assumptions pertaining to the interest rates, inflation rates and 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.

Recently Adopted Accounting Pronouncements

The Plan adopted Governmental Accounting Standards Board (“GASB”) Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* (GASB Statement No. 67). GASB Statement No. 67 applies to pension plans that administer pension benefits for governments through a trust or equivalent arrangement that meets certain specified criteria. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the net pension liability of employers for benefits provided through the pension plan. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information to be disclosed. The adoption of GASB 67 also required a restatement of prior years’ liabilities in accordance with GASB 67. See Note 6.

Subsequent Events

Management has evaluated subsequent events through January 31, 2015, the date which the financial statements were available for issue.

Note 3 – Net Pension Liability (Asset) of the City

The components of the net pension liability of the City at September 30, 2014 and 2013 were as follows:

	2014			
	Police	Fire	General	Total
Total pension liability	\$ 99,313,316	\$ 82,338,710	\$ 30,691	\$ 181,682,717
Plan fiduciary net position - ending	(93,377,631)	(74,668,730)	(179,335)	(168,225,696)
Actuarial adjustments **	(98,804)	-	(1)	(98,803)
City’s net pension liability (asset)	\$ 5,836,881	\$ 7,669,980	\$ (148,643)	\$ 13,358,218
 Plan fiduciary net position - actuarial as a percentage of the total pension liability (asset)	 94.12%	 90.68%	 (584.32%)	 92.65%

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 3 – Net Pension Liability (Asset) of the City - continued

	2013			
	Police	Fire	General	Total
Total pension liability	\$ 94,482,521	\$ 80,299,745	\$ 35,962	\$ 174,818,228
Plan fiduciary net position – ending	(85,871,978)	(69,842,202)	(168,798)	(155,882,978)
Actuarial adjustments **	(139,147)	(1)	-	(139,148)
City’s net pension liability	\$ 8,471,396	\$ 10,457,542	\$ (132,836)	\$ 18,796,102
Plan fiduciary net position - actuarial as a percentage of the total pension liability (asset)	91.03%	86.98%	(469.38%)	89.25%

**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, 2013 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, 2013 valuations were based on the results of an actuarial experience study for the period 2000-2005

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, 2014 are summarized in the following table

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 3 – Net Pension Liability (Asset) of the City - continued

Actuarial Assumptions - continued

Long-Term Expected Real Rate of Return

Asset Class	2014
Domestic Equity	7.8%
International Equity	2.2%
Bonds	3.7%
Convertibles	5.3%
Private Real Estate	4.9%
MLPs	12.7%

Discount Rate

The discount rate used to measure the total pension liability was 8%. 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 benefit 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, 2014	City Net Pension Liability		
	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Fire	\$ 15,379,228	\$ 7,669,980	\$ (1,292,292)
Police	16,589,205	5,836,881	(6,361,736)
General	(147,443)	(148,643)	(149,752)

Note 4 - Contributions

Actual Contributions

The actual City (employer) contribution for active employees and the State contribution for the years ended September 30, 2014 and 2013 amounted to \$4,864,011 and \$3,977,513, respectively, and the actual amount of covered payroll was approximately \$11,710,000 and \$11,814,000, respectively.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 4 – Contributions - continued

Actual Contributions - continued

City and State contributions consisted of the following:

	2014		2013	
	Amount	Percent of Actual Covered Annual Payroll	Amount	Percent of Actual Covered Annual Payroll
City	\$ 3,619,607	30.9%	\$ 2,781,773	23.5%
State	1,244,404	10.6%	1,195,740	10.1
Total contributions from City and State	\$ 4,864,011	41.5%	\$ 3,977,513	33.6%

Employee contributions were \$1,034,380 and \$1,038,855, including buybacks and employee purchases for additional pensionable compensation of \$8,274 and \$2,750 in the years ended September 30, 2014 and 2013 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, 2014 and 2013, was originally actuarially determined by the October 1, 2012 and 2011 valuations to be \$4,747,791 and \$3,925,294, respectively. The actuarially computed annual covered payroll used in the October 1, 2013 and 2012 valuations was \$13,053,146 and \$13,846,317, respectively.

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

	2014		2013	
	Amount	Percent of Actual Covered Annual Payroll	Amount	Percent of Actual Covered Annual Payroll
Normal cost	\$ 2,572,863	18.6%	\$ 2,072,413	15.0%
Payment to amortize unfunded actuarial accrued liability	2,174,928	22.0%	1,852,881	13.4
Total required from City and State	\$ 4,747,791	40.6%	\$ 3,925,294	28.4%

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 5 - Deposit and Investment Risk Disclosures

Cash and cash equivalents

Deposits are carried at cost and are included in cash and cash equivalents in the statement of Fiduciary Net Position. Cash and cash equivalents include demand accounts and short-term investment funds (STIF). Cash and cash equivalents at September 30, 2013 consists of the following:

	2014	2013
Invested cash and currency	\$ 77,056	\$ 24,440
Short-term investment	3,902,760	5,441,925
Total	\$ 3,979,816	\$ 5,466,365

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.

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.

City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013

Note 5 - Deposit and Investment Risk Disclosures - continued

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:

Authorized investments	2014		2013	
	Target % of portfolio	Actual % of portfolio	Target% of portfolio	Actual % of portfolio
Domestic equities	35%	42%	35%	42%
Fixed income	25	22	25	22
International equities	15	12	15	14
Real estate	10	8	10	8
Convertible securities	10	8	10	8
Master Limited Partnership	5	5	5	3
Cash equivalents	0	2	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.

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:

2014					
Investment Maturities					
(in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 17,165,117	\$ 2,117,254	\$ 9,077,160	\$ 4,939,235	\$ 1,031,468
U.S. agencies	10,326,128	-	-	516,221	9,809,907
Debt securities	9,761,963	593,542	2,917,587	2,001,688	4,249,146
Bond funds	56,986	-	-	-	56,986
Total fixed income	\$ 37,310,194	\$ 2,710,796	\$ 11,994,747	\$ 7,457,144	\$ 15,147,507

2013					
Investment Maturities					
(in years)					
Investment Type	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 14,078,630	\$ 2,625,443	\$ 7,424,151	\$ 2,989,317	\$ 1,039,719
U.S. agencies	11,970,681	-	-	1,304,005	10,666,676
Debt securities	8,103,420	882,484	2,440,552	2,149,903	2,630,481
Bond funds	54,663	-	-	54,663	-
Total fixed income	\$ 34,207,394	\$ 3,507,927	\$ 9,864,703	\$ 6,497,888	\$ 14,336,876

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 5 - Deposit and Investment Risk Disclosures - continued

Credit Risk

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk.

The following tables disclose credit ratings by investment type, at September 30, 2014 and 2013, as applicable:

	2014		2013	
	Fair Value	Percentage of Portfolio	Fair Value	Percentage of Portfolio
U.S. government guaranteed *	\$ 27,491,244	73.7%	\$ 26,049,311	76.2%
Quality rating of credit risk debt securities:				
AAA	545,347	1.5	103,789	0.3
AA	749,804	2.0	345,221	1.0
AA-	341,960	0.9	409,257	1.2
AA	467,062	1.3	174,748	0.5
A+	351,747	0.9	1,046,325	3.1
A	787,708	2.1	876,426	2.6
A-	1,806,782	4.8	651,678	1.9
BB+	134,660	.4	116,108	0.3
BBB+	1,250,204	3.4	992,164	2.9
BBB	1,421,275	3.8	1,250,732	3.7
BBB-	640,644	1.7	944,207	2.7
Other	1,321,757	3.5	1,247,428	3.6
Total credit risk debt securities	9,818,950	26.3	8,158,083	23.8
Total fixed income securities	\$ 37,310,194	100.0%	\$ 34,207,394	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, 2014 and 2013.

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
September 30, 2014 and 2013**

Note 5 - Deposit and Investment Risk Disclosures - continued

Custodial Credit Risk - continued

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, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 10.82% for Police Officers, 11.04% for Firefighters and 11.43% for general. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 6 - Restatement of Financial Statements

In accordance with U.S. GAAP and paragraph 49 of GASB 67, certain changes in accounting principles were retrospectively applied, and therefore, comparative financial statements include a restatement of all prior periods presented for the following changes made to comply with the requirements of GASB 67.

The Plan administers a DROP (see Note 2). During the DROP participation period, each member's monthly retirement benefit accrues and the balance accumulates within the DROP account. Upon termination of employment at the end of the DROP period, each retired member's funds are immediately due and payable. Monthly accruals were previously expensed and accordingly recorded as a deduction on the Statement of Changes in Fiduciary Net Position. Similarly, the total amount of deferred retirement benefits that had accumulated but not yet been distributed at fiscal year-end were previously classified as a liability on the Statement of Fiduciary Net Position. According to paragraph 98 of GASB 67, "DROP balances, similar to other benefit payments, should be recognized as a pension plan liability only when ultimately due to the plan member". Further clarification is provided by question 37 in the GASB 67 implementation guide which states that "benefits generally would be considered due and payable only when they are required to be distributed to the plan member from the DROP account."

As a result of the preceding, financial statements have been restated to report a liability only for benefits due but not yet distributed to members who had ended their participation in the DROP program at September 30. Likewise, deductions have been restated to include only DROP amounts actually distributed to participants as well as amounts due but not yet distributed. Additions have also been restated to exclude those that relate to the DROP for investment income earned by the DROP account.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2014 and 2013**

Note 6 - Restatement of Financial Statements - continued

The cumulative effect of the restatement is as follows:

Statement of Fiduciary Net Position	
Total liabilities, previously reported	\$ 12,489,952
<u>Impact of restatement</u>	<u>(8,274,212)</u>
<u>Total liabilities, as restated</u>	<u>\$ 4,215,740</u>
Fiduciary Net Position restricted for pensions, previously reported	\$ 147,608,767
<u>Impact of restatement</u>	<u>8,284,212</u>
<u>Total Fiduciary Net Position restricted for pensions, as restated</u>	<u>\$ 155,882,979</u>

Statement of Changes in Fiduciary Net Position	
Total additions, previously reported	\$ 23,369,680
<u>Impact of restatement</u>	<u>1,053,080</u>
<u>Total additions, as restated</u>	<u>\$ 24,422,760</u>
Total deductions, previously reported	\$ 8,171,858
<u>Impact of restatement</u>	<u>(413,653)</u>
<u>Total deductions, as restated</u>	<u>\$ 7,758,205</u>

Note 7 - Commitments

The Plan also entered into an operating lease for office space in February 2012. The lease term is for 60 months expiring in January 2017. 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:

For the year ending September 30,	Amount
2015	\$ 22,512
2016	22,512
2017	7,506
	<u>\$ 52,530</u>

During the years ended September 30, 2014 and 2013, rent expense under the lease agreement amounted to \$22,512 and \$22,512, respectively, 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 2014

	Police	Fire	General	Total
Total pension liability				
Service cost	\$ 1,682,546	\$ 1,299,634	\$ -	\$ 2,982,180
Interest	7,499,442	6,293,170	2,564	13,795,176
Change in Excess State Money	84,152			
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	-	-	-
Changes of assumptions	-	-	-	-
Benefit payments, including refunds of member contributions	(4,435,345)	(5,553,839)	(7,835)	(9,997,019)
Net change in total pension liability	4,830,795	2,038,965	(5,271)	6,864,489
Total pension liability- beginning	94,482,521	80,299,745	35,962	174,818,228
Total pension liability- ending	99,313,316	82,338,710	30,691	181,682,717
Plan fiduciary net position				
Contributions - employer	1,730,607	1,889,000	-	3,619,607
Contributions - state	604,886	639,518	-	1,244,404
Contributions - member (employee)	607,616	426,764	-	1,034,380
Net investment income	9,243,489	7,612,698	18,826	16,875,013
Benefit payments, including refunds of member contributions	(4,435,345)	(5,553,839)	(7,835)	(9,997,019)
Administrative expenses	(245,600)	(187,613)	(455)	(433,668)
Net change in plan fiduciary net position	7,505,653	4,826,528	10,536	12,342,717
Plan fiduciary net position – beginning	85,871,978	69,842,202	168,799	155,882,979
Plan fiduciary net position - ending	93,377,631	74,668,730	179,335	168,225,696
Plus: Actuarial adjustments **	98,804	-	(1)	98,803
Plan fiduciary net position - actuarial	93,476,435	74,668,730	179,334	168,324,499
City's net pension liability (asset)	\$ 5,836,881	\$ 7,669,980	\$ (148,643)	\$ 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.

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 2013

	Police	Fire	General	Total
Total pension liability				
Service cost	\$ 1,557,913	\$ 1,203,365	\$ -	\$ 2,761,278
Interest	7,164,797	6,027,029	3,019	13,194,845
Change in Excess State Money	-	-	-	-
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	-	-	-	-
Changes of assumptions	-	-	-	-
Benefit payments, including refunds of member contributions	(4,893,215)	(2,445,969)	(9,586)	(7,348,770)
Net change in total pension liability	3,829,495	4,784,425	(6,567)	8,607,353
Total pension liability- beginning	90,653,026	75,515,320	42,529	166,210,875
Total pension liability- ending	94,482,521	80,299,745	35,962	174,818,228
Plan fiduciary net position				
Contributions - employer	1,301,877	1,479,896	-	2,781,773
Contributions - state	572,954	622,786	-	1,195,740
Contributions - member (employee)	606,160	432,695	-	1,038,855
Net investment income	10,689,707	8,696,522	20,163	19,406,392
Benefit payments, including refunds of member contributions	(4,893,216)	(2,445,969)	(9,586)	(7,348,771)
Administrative expenses	(232,438)	(175,046)	(1,950)	(409,434)
Net change in plan fiduciary net position	8,045,044	8,610,884	8,627	16,664,555
Plan fiduciary net position – beginning	77,826,934	61,231,318	160,171	139,218,423
Plan fiduciary net position - ending	85,871,978	69,842,202	168,798	155,882,978
Plus: Actuarial adjustments **	139,147	1	-	139,148
Plan fiduciary net position - actuarial	\$ 86,011,125	\$ 69,842,203	\$ 168,798	\$ 156,022,126
City's net pension liability (asset)	8,471,396	10,457,542	(132,836)	18,796,102

* 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.

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

	2014				2013			
	Police	Fire	General	Total	Police	Fire	General	Total
Total pension liability	\$ 99,313,316	\$ 82,338,710	\$ 30,691	\$ 181,682,717	\$ 94,482,521	\$ 80,299,745	\$ 35,962	\$ 174,818,228
Plan fiduciary net position - ending	\$ (93,377,631)	(74,668,730)	(179,335)	\$ (168,225,696)	\$ (85,871,978)	\$ (69,842,202)	\$(168,798)	\$ (155,882,978)
Actuarial adjustments**	(98,804)	-	1	\$ (98,803)	(139,147)	(1)	-	\$ (139,148)
City's net pension liability (asset)	\$ 5,836,881	\$ 7,669,980	\$ (148,643)	\$ 13,358,218	\$ 8,471,396	\$ 10,457,542	\$(132,836)	\$ 18,796,102
Plan fiduciary net position as a percentage of the total pension liability	94.12%	90.68%	(584.32)%	0.05%	91.03%	86.98%	(469.38)%	89.25%
Covered – employee payroll	\$ 6,841,804	\$ 4,871,735	\$ -	\$ 11,713,539	\$ 6,877,781	\$ 4,937,031	\$ -	\$ 11,814,812
City's net pension liability as a percentage of covered – employee payroll	85.31%	157.44%	0.00%	114.04%	123.17%	211.82%	0.00%	159.09%

* 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.

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of Contributions by Employer (Unaudited)
Last Two Fiscal Years**

	2014			2013		
	Police	Fire	General	Police	Fire	General
Actuarially determined contribution	\$ 2,219,273	\$ 2,528,518	\$ -	\$ 1,822,612	\$ 2,102,682	\$ -
Contributions in relation to the actuarially determined contribution	2,219,273	2,528,518	-	1,822,612	2,102,682	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 6,841,804	\$ 4,871,735	\$ -	\$ 6,877,781	\$ 4,937,031	\$ -
Contributions as a percentage of covered-employee payroll	32.44%	51.90%	0.00%	26.50%	42.59%	0.00%

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

**City of Palm Bay Police and Firefighters
Retirement System
Required Supplementary Information
Schedule of Investment Returns (Unaudited)
For the Years Ended September 30, 2014 and 2013**

<u>Annual money-weighted rate of return, net of investment expense</u>	Police	Fire	General
2014	10.82%	11.04%	11.43%
2013	13.87%	14.02%	13.06%

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

**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.

Remaining amortization period: 3.0 years

Inflation: 3.0 years

Salary Increase- Total Payroll:* 4.0% per year.

Salary Increase- Individual:* 6.5% per year.

Interest Rates: 8.0% per year (previously 8.5%), net of investment related expenses

Payroll Growth:* 4.0% per year.

*Not applicable for general employee's plan.

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.

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>Age</u>	<u>Police Officer</u>	
	<u>Termination Probability</u>	<u>Disability Probability</u>
20	0.200	0.0014
30	0.050	0.0018
40	0.0350	0.0030
50	0.020	0.0100

<u>Age</u>	<u>Firefighter</u>	
	<u>Termination Probability</u>	<u>Disability Probability</u>
20	0.140	0.0014
30	0.005	0.0018
40	0.022	0.0030
50	0.006	0.0100

* Not applicable for general employees plan.

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, 2014 and 2013

	2014	2013
Schedule "1" - Schedule of Investment Expenses		
Financial management and custodial:		
SunTrust Bank, Inc.	\$ 404,768	\$ 384,261
Regions Bank, Inc.	42,410	39,231
JP Morgan Investment Management, Inc.	136,908	119,563
SSI Investment Management, Inc.	60,677	49,790
Advent Capital Management, Inc.	60,828	50,692
Eagle Asset Management, Inc.	45,278	38,100
Westwood Holdings Group, Inc.	74,462	6,709
Total financial management and custodial expenses	825,331	688,346
Investment consultant fees:		
Burgess Chambers and Associates, Inc.	55,000	55,000
Total investment expenses	\$ 880,331	\$ 743,346
Schedule "2" - Schedule of Administrative Expenses		
Professional services:		
Actuarial	\$ 40,708	\$ 41,898
Accounting	24,660	20,700
Administrator	60,000	51,035
Audit	18,000	18,280
Legal	35,200	27,075
Total professional services	178,568	158,988
Other:		
Pension staff salaries	83,609	79,301
Computer expense	43,913	32,442
Conferences	42,221	53,575
Supplies	26,526	27,700
Insurance	18,789	17,859
Occupancy cost	24,074	26,008
Utility expense	12,378	9,650
Dues and subscriptions	1,740	1,755
Postage	1,850	2,156
Total other	255,100	250,446
Total administrative expenses	\$ 433,668	\$ 409,434



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