



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

**Financial Statements
Years Ended September 30, 2011 and 2010**



Goldstein Schechter Koch
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**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 statements of plan net assets of City of Palm Bay Police and Firefighters Retirement System (the "Plan") as of September 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Palm Bay Police and Firefighters Retirement System as of September 30, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the required supplementary information, as listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The required supplementary information for the years ended September 30, 2006 and 2007 was reported on by Koch Reiss & Co., P.A., whose report states that they did not audit this information and did not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Plan. The accompanying supplementary schedules of investment expenses and administrative expenses (other supplementary schedules) as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Other supplementary schedules have been subjected to auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goldstein Schechter Koch, P.A.

Hollywood, Florida
January 26, 2012



Management's Discussion and Analysis (Required Supplementary Information) - unaudited September 30, 2011 and 2010

Our discussion and analysis of 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, 2011 and 2010. 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, 2011 and 2010 by \$115,561,720 and \$117,514,570, respectively, (reported as net assets held in trust for pension benefits). Net assets are held in trust to meet future benefit payments. The decrease of \$1,952,850 (or 1.7%) and increase of \$9,597,149 (or 8.9%), of the respective years have resulted primarily from the changes in the fair value of the Plan's investments due to volatile financial markets.
- The Plan's funded ratio, a comparison of the actuarial value of assets to the actuarial accrued pension benefit liability, changed from 91.1% as of the October 1, 2008 actuarial valuation to 84.8% as of the October 1, 2009 valuation and 86.7% as of the October 1, 2010 valuation.
- For the fiscal year ended September 30, 2011, employer contributions to the Plan, increased \$772,361 or 60%. Actual employer contributions as determined by the Plan's actuary were \$2,049,874 and \$1,277,513 for 2011 and 2010, respectively.

For the fiscal year ended September 30, 2010, employer contributions to the Plan, increased \$230,550 or 22%. Actual employer contributions as determined by the Plan's actuary were \$1,277,513 and \$1,046,963 for 2010 and 2009, respectively.

- For the fiscal year ended September 30, 2011, employee contributions including buybacks decreased by \$137,066 or 10%. Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,265,826 and \$1,402,892 for 2011 and 2010, 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, 2010, employee contributions including buybacks decreased by \$129,049 or 8%. Actual employee contributions, including buybacks and employee purchases for additional pensionable compensation, were \$1,402,892 and \$1,531,941 for 2010 and 2009, 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, 2011 and 2010**

Financial Highlights - continued

- For the fiscal year ended September 30, 2011, the Plan had a net investment loss of \$372,815 compared to net investment income of \$10,495,313 for the fiscal year ended September 30, 2010. Actual results were (\$1,579,020) and \$10,917,607 in net (depreciation) appreciation in fair value of investments for 2011 and 2010, respectively, and \$1,522,532 and \$307,626 of income from interest and dividends for 2011 and 2010, respectively. Deferred Retirement Option Plan participants had (losses) earnings of (\$50,551) and \$323,554 for 2011 and 2010, respectively. Investment expenses decreased by \$39,488 or 10%.

For the fiscal year ended September 30, 2010, the Plan had net investment income of \$10,495,313 compared to net investment income of \$1,223,017 for the fiscal year ended September 30, 2009. Actual results were \$10,917,607 and \$840,296 in net appreciation in fair value of investments for 2010 and 2009, respectively, and \$307,626 and \$925,173 of income from interest and dividends for 2010 and 2009, respectively. Deferred Retirement Option Plan participants' earnings were \$323,554 and \$129,650 for 2010 and 2009, respectively. Investment expenses increased by \$6,436 or 2%.

- For the fiscal year ended September 30, 2011, benefit payments increased by \$1,213,803 or 28%. Refunds of contributions increased by \$67,197 or 107%. Police refunds represented 97% of total refunds.

For the fiscal year ended September 30, 2010, benefit payments increased by \$1,667,069 or 62%. Refunds of contributions decreased by \$72,779 or 54%. Police refunds represented 52% of total refunds.

- For the fiscal year ended September 30, 2011, administrative expenses increased by \$17,452 from 2010 or 6%.

For the fiscal year ended September 30, 2010, administrative expenses increased by \$13,564 from 2009 or 5%.

Plan Highlights

The Palm Bay Police and Firefighters Retirement System was formed in 1974 and celebrated its 37th year as a plan in 2011. 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, 52 and 25 years of service or 28 (30 years for firefighters) years of service, regardless of age.

The Palm Bay Police and Firefighters Retirement System has consistently achieved, in most cases, their 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.

Management's Discussion and Analysis **(Required Supplementary Information) – unaudited** **September 30, 2011 and 2010**

Plan Highlights - continued

The total market return for year ended September 30, 2011 was -0.3%. The domestic equity portfolio returned -3.1% while the international equity return was -11.9%. The best performing asset categories for the year were real estate (18.1%) and fixed income (5.6%). Further diversification continues to be a Plan objective. Overall, actual net returns from investments were negative in 2011 primarily due to volatile financial markets.

The total market return for year ended September 30, 2010 was 9.8%. The domestic equity portfolio returned 13.1% while the international equity return was 8%. The fixed income portfolio returned 8.5% while the real estate portfolio returned 5.8%. Further diversification continues to be a Plan objective. Actual net returns from investments increased in 2010 primarily due to improving financial markets.

Overview of the Financial Statements

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

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

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

Description of the Financial Statements

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

The *Statement of Changes in Plan Net Assets* reports how the Plan's net assets changed during the fiscal year. The additions and deductions to net assets are summarized in this statement. The additions include contributions to the retirement plans from employers and employees and net investment income (loss), which include interest, dividends, investment expenses, and the net appreciation or depreciation in the fair value of investments. The deductions include benefit payments, refunds of employee 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, 2011 and 2010

Description of the Financial Statements - continued

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

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

Statement of Plan Net Assets

The table below reflects condensed comparative statements of plan net assets as of September 30:

	2011	2010	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 12,387,333	\$ 4,153,138	\$ 8,234,195	198%
Receivables	365,798	112,821	252,977	224
Investments	107,717,700	117,761,827	(10,044,127)	(9)
Other assets	18,078	12,845	5,233	41
Total assets	120,488,909	122,040,631	(1,551,722)	(1)
Liabilities	4,927,189	4,526,061	401,128	9
Net assets held in trust for pension benefits	\$ 115,561,720	\$ 117,514,570	\$ (1,952,850)	(2%)

	2010	2009	Increase/ (Decrease)	% Change
Cash and cash equivalents	\$ 4,153,138	\$ 3,147,234	\$ 1,005,904	32%
Receivables	112,821	62,111	50,710	82
Investments	117,761,827	107,242,896	10,518,931	10
Other assets	12,845	17,709	(4,864)	(27)
Total assets	122,040,631	110,469,950	11,570,681	10
Liabilities	4,526,061	2,552,529	1,973,532	77
Net assets held in trust for pension benefits	\$ 117,514,570	\$ 107,917,421	\$ 9,597,149	9%

Management's Discussion and Analysis
(Required Supplementary Information) – unaudited
September 30, 2011 and 2010

Statement of Changes in Plan Net Assets

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

	2011	2010	Increase/ (Decrease)	% Change
Additions:				
Contributions				
Employer	\$ 2,049,874	\$ 1,277,513	\$ 772,361	60%
Employee	1,265,826	1,402,892	(137,066)	(10)
State	1,129,432	1,148,146	(18,714)	(2)
Total contributions	4,445,132	3,828,551	616,581	16
Net investment (loss) income	(372,815)	10,495,313	(10,868,128)	(104)
Total additions	4,072,317	14,323,864	(10,251,547)	(72)
Deductions:				
Benefits paid	5,570,970	4,357,167	1,213,803	28
Refunds of contributions	129,776	62,579	67,197	107
Administrative expenses	324,421	306,969	17,452	6
Total deductions	6,025,167	4,726,715	1,298,452	27
Net (decrease) increase	(1,952,850)	9,597,149	(11,549,999)	(120)
Net assets held in trust for pension benefits at -				
Beginning of year	117,514,570	107,917,421	9,597,149	9
Net assets held in trust for pension benefits at -				
End of year	\$ 115,561,720	\$ 117,514,570	\$ (1,952,850)	(2%)

Management's Discussion and Analysis
(Required Supplementary Information) – unaudited
September 30, 2011 and 2010

Statement of Changes in Plan Net Assets - continued

	2010	2009	Increase/ (Decrease)	% Change
Additions:				
Contributions				
Employer	\$ 1,277,513	\$ 1,046,963	\$ 230,550	22%
Employee	1,402,892	1,531,941	(129,049)	(8)
State	1,148,146	1,162,826	(14,680)	(1)
Total contributions	3,828,551	3,741,730	86,821	2
Net investment income	10,495,313	1,223,017	9,272,296	758
Total additions	14,323,864	4,964,747	9,359,117	189
Deductions:				
Benefits paid	4,357,167	2,690,098	1,667,069	62
Refunds of contributions	62,579	135,358	(72,779)	(54)
Administrative expenses	306,969	293,405	13,564	5
Total deductions	4,726,715	3,118,861	1,607,854	52
Net increase	9,597,149	1,845,886	7,751,263	420
Net assets held in trust for pension benefits at -				
Beginning of year	107,917,421	106,071,535	1,845,886	2
Net assets held in trust for pension benefits at -				
End of year	\$ 117,514,570	\$ 107,917,421	\$ 9,597,149	9%

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, 2011 decreased from those of fiscal years ended September 30, 2010 and September 30, 2009.

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

Management's Discussion and Analysis (Required Supplementary Information) – unaudited September 30, 2011 and 2010

Asset Allocation

At the end of the fiscal year September 30, 2011, the domestic equity portion comprised 40% or \$48,334,516 of the total portfolio. The allocation to fixed income securities was 24% or \$28,058,862 while cash and cash equivalents comprised 10% or \$12,387,333. The portion of investments allocated to international equity represented 11% or \$13,407,958 of the total portfolio and real estate represented 8% or \$9,873,486, while convertible securities represented 7% or \$8,042,878 of the total portfolio. The 10% 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, 2010, the domestic equity portion comprised 47% or \$57,543,380 of the total portfolio. The allocation to fixed income securities was 31% or \$37,196,177 while cash and cash equivalents comprised 3% or \$4,153,138. The portion of investments allocated to international equity represented 13% or \$15,294,846 of the total portfolio, while real estate comprised 6% or \$7,727,424. 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:

2011	2010	
40%	45%	Domestic equity
25%	30%	Fixed income
10%	10%	Real estate
15%	15%	International equity
10%	-	Convertible securities

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 260, Palm Bay, FL 32905 or call (321) 724-8877.

City of Palm Bay Police and Firefighters

Retirement System

Statement of Plan Net Assets

September 30, 2011

	Police Officers	Fire Fighters	General Employees	Total
Assets				
Cash and cash equivalents	\$ 6,992,098	\$ 5,392,909	\$ 2,326	\$ 12,387,333
Investments, at fair value:				
Common stocks	20,829,954	13,848,412	-	34,678,366
Domestic equity funds	7,729,950	5,840,287	85,913	13,656,150
Fixed income securities	16,002,184	11,995,401	61,277	28,058,862
International equity funds	6,703,979	6,703,979	-	13,407,958
Real estate funds	4,936,743	4,936,743	-	9,873,486
Convertible securities	4,021,439	4,021,439	-	8,042,878
Total investments	60,224,249	47,346,261	147,190	107,717,700
Receivables:				
Accrued interest and dividends	128,373	98,012	70	226,455
Employee contributions	24,281	18,698	-	42,979
Employer contributions	26,510	-	-	26,510
State contributions	-	66,751	-	66,751
Other receivables	1,759	1,340	4	3,103
Due to/from other funds	44,266	(39,436)	(4,830)	-
Total receivables	225,189	145,365	(4,756)	365,798
Other assets	10,212	7,840	26	18,078
Total assets	67,451,748	52,892,375	144,786	120,488,909
Liabilities				
Accounts payable and other liabilities	590,884	113,084	122	704,090
Prepaid contributions	-	223,673	-	223,673
Deferred retirement option plan payable	1,485,889	2,513,537	-	3,999,426
Total liabilities	2,076,773	2,850,294	122	4,927,189
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 24)				
	\$ 65,374,975	\$ 50,042,081	\$ 144,664	\$ 115,561,720

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

City of Palm Bay Police and Firefighters

Retirement System

Statement of Plan Net Assets

September 30, 2010

	Police Officers	Fire Fighters	General Employees	Total
Assets				
Cash and cash equivalents	\$ 2,283,570	\$ 1,865,725	\$ 3,843	\$ 4,153,138
Investments, at fair value:				
Common stocks	14,080,703	9,289,859	-	23,370,562
Domestic equity funds	19,999,109	14,081,640	92,069	34,172,818
Fixed income securities	21,913,461	15,219,633	63,083	37,196,177
International equity funds	7,647,423	7,647,423	-	15,294,846
Real estate funds	3,863,712	3,863,712	-	7,727,424
Total investments	67,504,408	50,102,267	155,152	117,761,827
Receivables:				
Accrued interest and dividends	15,225	9,889	6	25,120
Employer contributions	33,151	-	-	33,151
State contributions	-	52,108	-	52,108
Other receivables	2,442	-	-	2,442
Due to/from other funds	(5,370)	9,170	(3,800)	-
Total receivables	45,448	71,167	(3,794)	112,821
Other assets	7,480	5,353	12	12,845
Total assets	69,840,906	52,044,512	155,213	122,040,631
Liabilities				
Accounts payable and other liabilities	592,839	75,578	118	668,535
Prepaid contributions	-	158,074	-	158,074
Deferred retirement option plan payable	2,555,120	1,144,332	-	3,699,452
Total liabilities	3,147,959	1,377,984	118	4,526,061
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 24)				
	\$ 66,692,947	\$ 50,666,528	\$ 155,095	\$ 117,514,570

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

City of Palm Bay Police and Firefighters

Retirement System

Statement of Changes in Plan Net Assets

Year ended September 30, 2011

	Police Officers	Fire Fighters	General Employees	Total
Additions:				
Contributions:				
Employer	\$ 850,364	\$ 1,199,510	\$ -	\$ 2,049,874
Employee	701,191	564,635	-	1,265,826
State	534,262	595,170	-	1,129,432
Total contributions	2,085,817	2,359,315	-	4,445,132
Investment income				
Net (depreciation) appreciation in fair value of investments	(770,708)	(809,627)	1,315	(1,579,020)
Interest and dividends	820,993	700,285	1,254	1,522,532
Total investment income	50,285	(109,342)	2,569	(56,488)
Less: Investment expenses	197,516	169,094	268	366,878
Deferred retirement option plan participants' earnings (losses)	65,741	(116,292)	-	(50,551)
Net investment (loss) income	(212,972)	(162,144)	2,301	(372,815)
Total additions	1,872,845	2,197,171	2,301	4,072,317
Deductions:				
Benefits paid	2,881,234	2,678,633	11,103	5,570,970
Refunds of contributions	126,311	3,465	-	129,776
Administrative expenses	183,272	139,520	1,629	324,421
Total deductions	3,190,817	2,821,618	12,732	6,025,167
Net decrease	(1,317,972)	(624,447)	(10,431)	(1,952,850)
Net assets held in trust for pension benefits:				
Beginning of year	66,692,947	50,666,528	155,095	117,514,570
End of year	\$ 65,374,975	\$ 50,042,081	\$ 144,664	\$ 115,561,720

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

City of Palm Bay Police and Firefighters

Retirement System

Statement of Changes in Plan Net Assets

Year ended September 30, 2010

	Police Officers	Fire Fighters	General Employees	Total
Additions:				
Contributions:				
Employer	\$ 505,532	\$ 771,981	\$ -	\$ 1,277,513
Employee	698,183	704,709	-	1,402,892
State	544,192	603,954	-	1,148,146
Total contributions	1,747,907	2,080,644	-	3,828,551
Investment income				
Net appreciation in fair value of investments	6,369,074	4,531,683	16,850	10,917,607
Interest and dividends	173,024	134,210	392	307,626
Total investment income	6,542,098	4,665,893	17,242	11,225,233
Less: Investment expenses	219,207	186,839	320	406,366
Deferred retirement option plan participants' earnings	255,579	67,975	-	323,554
Net investment income	6,067,312	4,411,079	16,922	10,495,313
Total additions	7,815,219	6,491,723	16,922	14,323,864
Deductions:				
Benefits paid	2,288,677	2,055,948	12,542	4,357,167
Refunds of contributions	32,328	30,251	-	62,579
Administrative expenses	163,074	142,544	1,351	306,969
Total deductions	2,484,079	2,228,743	13,893	4,726,715
Net increase	5,331,140	4,262,980	3,029	9,597,149
Net assets held in trust for pension benefits:				
Beginning of year	61,361,807	46,403,548	152,066	107,917,421
End of year	\$ 66,692,947	\$ 50,666,528	\$ 155,095	\$ 117,514,570

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, 2011 and 2010**

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 entity. Participants should refer to the Plan summary for more detailed and comprehensive information.

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.

Membership

As of October 1, 2010 and 2009, membership in the Plan consisted of:

	2010			2009		
	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.	67	50	5	55	39	6
Current employees:						
Vested	98	73	-	107	77	-
Nonvested	47	18	-	38	23	-
	145	91	-	145	100	-

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 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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 1 - Description of the Plan - continued

Police

Normal retirement shall be the earlier of attainment of (1) age 55, (2) completion of 30 years of credited service regardless of age, or (3) age 52 with 25 years of credited service or (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. 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.

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

Firefighters

Normal retirement shall be the earlier of attainment of (1) age 55, (2) completion of 25 years at 85% of AFC or 28 years 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 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 credit 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.

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. The benefit shall cease upon retiree reaching age 65 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
September 30, 2011 and 2010**

Note 1 - Description of the Plan - continued

Pension Benefits - continued

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.

Cost-of-Living Adjustment

The retirement benefits of a police officer who retires on or after September 30, 2000 will increase by 3% each year commencing with the September 30th following three years of retirement. The retirement benefits of a firefighter who retires on or after September 30, 2001 will increase by 3% each year commencing with the September 30th following six years of retirement. Members who participate in the DROP are eligible for the cost-of-living adjustments described above.

Early retirement, delayed retirement, supplemental, death and disability benefits are also provided.

Funding Requirements

Pursuant to Florida Statutes, Chapters 175 and 185, contributions from the State of Florida consist of an excise tax imposed by the City upon certain casualty insurance companies on the gross amount of receipts of premiums from policy holders on all premiums collected on casualty insurance policies covering property within the 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.

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, and domestic and international equity securities.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

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 reported at fair value. Quoted market prices, when available, have been used to value investments. The fair value of quoted investments is based on the closing sales price or bid price as reported by recognized security exchanges. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. 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, 2011 and 2010. In general, corporate debt and convertible securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital expenditures. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, discounted cash flow analysis, recent sales prices of comparable investments, and other pertinent information.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statement of changes in plan net assets along with gains and losses realized on sales of investments. Purchases and sales of 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 plan net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 2 - Summary of Significant Accounting Policies - continued

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.

Subsequent Events

Management has evaluated subsequent events through January 26, 2012, the date which the financial statements were available for issue.

Note 3 - Funded Status and Funding Progress

The funded status of the Plan as of October 1, 2010, the most recent actuarial valuation date, is as follows:

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
10/01/10	\$117,655,929	\$135,684,606	\$18,028,677	86.7%	\$12,664,561	142.4%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of Pay, Closed
Remaining amortization period	30 years
Asset valuation method	5 year smoothed
Actuarial assumptions:	
Investment rate of return*	8.50%
Projected salary increases*	6.50%
Cost-of-Living adjustments	3.00%
*Includes inflation at:	4.00%

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 4 - Contributions

Actual Contributions

The actual City (employer) contribution for active employees and the State contribution for the years ended September 30, 2011 and 2010 amounted to \$3,179,306 and \$2,425,659, respectively, and the actual amount of covered payroll was approximately \$13,761,000 and \$16,221,000, respectively.

City and State contributions consisted of the following:

	2011	
	Amount	Percent of Actual Covered Annual Payroll
City	\$ 2,049,874	14.9%
State	1,129,432	8.2
Total City and State	\$ 3,179,306	23.1%
	2010	
	Amount	Percent of Actual Covered Annual Payroll
City	\$ 1,277,513	7.9%
State	1,148,146	7.1
Total City and State	\$ 2,425,659	15.0%

Employee contributions were \$1,265,826 and \$1,402,892, including buybacks and employee purchases for additional pensionable compensation of \$30,818 and \$178,668 in the years ended September 30, 2011 and 2010 respectively.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 4 - Contributions - continued

Actuarially Determined Contributions

The contributions required from the City of Palm Bay and the State of Florida for the fiscal years ended September 30, 2011 and 2010, were actuarially determined using valuation dates of October 1, 2009 (updated) and October 1, 2008, respectively. The actuarially computed annual covered payroll used in the October 1, 2009 (updated) valuation was \$14,110,472 and the actuarially computed annual covered payroll used in the October 1, 2008 valuation was \$14,990,500.

Funding requirements for valuations prior to October 1, 2008 disclosed a specific dollar amount. At the request of Division of Retirement, the City is now required to fund the actuarially determined percentage of the actual realized payroll in the year. This change is designed to avoid actuarial shortfalls due to increasing liabilities. The amounts cover the following:

	2011	
	Amount	Percent of Actuarial Covered Annual Payroll
Normal cost	\$ 1,831,331	13.0%
Payment to amortize unfunded actuarial accrued liability	<u>1,159,978</u>	<u>8.2</u>
Total	\$ 2,991,309	21.2%

	2010	
	Amount	Percent of Actuarial Covered Annual Payroll
Normal cost	\$ 1,570,415	10.48%
Payment to amortize unfunded actuarial accrued liability	<u>665,162</u>	<u>4.44</u>
Total	\$ 2,235,577	14.92%

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 5 - Deposit and Investment Risk Disclosures

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) and real estate shall not exceed 25% and 15% of the 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; however, equity securities are held in a nominee name to facilitate trading.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

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:

	2011		2010	
	Target % of portfolio	Actual % of portfolio	Target% of portfolio	Actual % of portfolio
Authorized investments				
Domestic equities	40%	40%	45%	47%
Fixed income	25	24	30	31
International equities	15	11	15	13
Real estate	10	8	10	6
Convertible securities	10	7	0	0
Cash equivalents	0	10	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:

Investment Type	Fair Value	2011			
		Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 28,040,847	\$ -	\$ 16,795,730	\$ 8,189,821	\$ 3,055,296
Bond funds	18,015	-	-	18,015	-
Total fixed income	\$ 28,058,862	\$ -	\$ 16,795,730	\$ 8,207,836	\$ 3,055,296

Investment Type	Fair Value	2010			
		Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
Bond funds	\$ 37,196,177	\$ 6,658,116	\$ 13,093,054	\$ 11,791,188	\$ 5,653,819
Total fixed income	\$ 37,196,177	\$ 6,658,116	\$ 13,093,054	\$ 11,791,188	\$ 5,653,819

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 5 - Deposit and Investment Risk Disclosures - continued

Credit Risk

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

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

	2011		2010	
	Fair Value	Percentage of portfolio	Fair Value	Percentage of portfolio
U.S. Government guaranteed*	\$ 28,040,847	99.9%	\$ 18,114,538	48.7%
Quality rating of credit risk debt securities:				
AAA	1,042	-	-	-
AA	3,370	-	4,091,579	11.0%
A	7,231	0.1	7,067,274	19.0%
BBB	6,004	-	5,876,996	15.8%
BB	368	-	1,115,885	3.0%
B	-	-	929,905	2.5%
Total credit risk debt Securities	18,015	0.1%	19,081,639	51.3%
Total fixed income securities	\$ 28,058,862	100.0%	\$ 37,196,177	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 plan net assets at September 30, 2011 and 2010.

**City of Palm Bay Police and Firefighters
Retirement System
Notes to Financial Statements
September 30, 2011 and 2010**

Note 5 - Deposit and Investment Risk Disclosures - continued

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.

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.

Note 6 - Commitments

The Plan is currently leasing office space on a month-to-month basis with its landlord. Rent expense was \$15,952 and \$15,400 for the years ended September 30, 2011 and 2010, respectively.

Required Supplementary Information

City of Palm Bay Police and Firefighters

Retirement System

Required Supplementary Information

Schedule of Funding Progress and Schedule of Contributions by Employer and other Contributing Entity (Unaudited)

September 30, 2011

Schedule "1" - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
10/01/05	\$ 50,800,889	\$ 63,507,631	\$ 12,706,742	80.0%	\$ 11,759,525	108.1%
10/01/06	58,457,003	88,621,298	30,164,295	66.0	14,180,452	212.7
10/01/07	102,992,988	106,889,425	3,896,437	96.4	14,501,608	26.9
10/01/08	107,687,206	118,235,506	10,548,300	91.1	14,990,500	70.4
10/01/09	110,134,959	129,957,312	19,822,353	84.8	14,110,472	140.5
10/01/10	117,655,929	135,684,606	18,028,677	86.7	12,664,561	142.4

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

Year Ended September 30,	Annual Required Contribution	City and State Contribution	Percentage Contributed	Employee Contributions ⁽¹⁾
2006	\$ 2,663,480	\$ 2,734,779	100.0%	\$ 1,086,345
2007	3,255,908	3,375,165	100.0	1,217,744
2008	1,650,192	1,937,543	100.0	1,385,880
2009	2,005,027	2,209,789	100.0	1,531,941
2010	2,235,577	2,425,659	100.0	1,402,892
2011	2,991,309	3,179,806	100.0	1,265,826

⁽¹⁾ Additional information for disclosure purposes only.

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, 2011 and 2010

	2011	2010
Schedule "1" - Schedule of Investment Expenses		
Financial management and custodial:		
SunTrust Bank, Inc.	\$ 212,741	\$ 284,146
JP Morgan Investment Management, Inc.	80,694	77,220
SSI Investment Management, Inc.	14,324	-
Advent Capital Management, Inc.	14,119	-
Total financial management and custodial expenses	321,878	361,366
Investment consultant fees:		
Burgess Chambers and Associates, Inc.	45,000	45,000
Total investment expenses	\$ 366,878	\$ 406,366
Schedule "2" - Schedule of Administrative Expenses		
Professional services:		
Actuarial	\$ 33,402	\$ 49,166
Accounting	15,300	12,000
Administrator	48,000	48,000
Audit	16,000	16,892
Legal	24,750	20,573
Total professional services	137,452	146,631
Other:		
Pension staff salaries	68,129	42,889
Computer expense	11,762	23,777
Conferences	38,989	23,456
Supplies	22,969	26,955
Insurance	17,699	18,114
Rent	15,952	15,400
Utility expense	6,642	6,487
Dues and subscriptions	2,490	1,715
Postage	2,337	1,545
Total other	186,969	160,338
Total administrative expenses	\$ 324,421	\$ 306,969



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