

**CITY OF JACKSONVILLE, FLORIDA
POLICE AND FIRE PENSION FUND**

**A Pension Trust Fund of the City of
Jacksonville Financial Report**

For the Fiscal Year Ended September 30, 2016

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**City of Jacksonville, Florida
Police and Fire Pension Fund Financial Report
For The Fiscal Year Ended September 30, 2016**

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February 17, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the Police and Fire Pension Fund
Jacksonville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Jacksonville, Florida Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-6 and pages 24-28, respectively, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2017, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KBLD, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

We are pleased to provide this overview and analysis of the financial activities of the Jacksonville Police and Fire Pension Fund (Fund) during the fiscal year ended September 30, 2016. This section presents management's discussion and analysis of key financial performance indicators in a narrative format.

FINANCIAL HIGHLIGHTS

- The fiduciary net position of the Fund as of the fiscal year ended September 30, 2016, was \$1,613,043,824. The fiduciary net position, which is held in trust for pension benefits, is available to meet the Fund's ongoing obligations to plan participants and their beneficiaries.
- The net position represents an increase of \$175,267,193 or 10.87%. The increase was largely a result of favorable investment returns available in the financial markets.
- The Fund's ongoing funding objective is to meet long-term benefit obligations through contributions, investment income, and the receipt of various revenue sources. As of September 30, 2016, the funded ratio for the Fund was approximately 45.24% which compares to the September 30, 2015 funded ratio of 42.68%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately \$.4524 of assets to cover it.
- Revenues (additions to the fiduciary net position) other than investment income for the 2016 fiscal year were \$181,961,280, which comprises member and employer contributions of \$165,325,232, and other additions of \$16,636,048. This compares to revenues other than investment income in the amount of \$178,551,888 in the prior fiscal year. This 2% increase was largely attributable to a supplemental payment of \$5,000,000 from the City to pay down the unfunded liability.
- Net investment income (part of additions to fiduciary net position) for the 2016 fiscal year was \$153,879,649 compared to net investment loss in the amount of \$63,531,291 that was recorded in the prior fiscal year.
- Expenses (deductions in fiduciary net position) not related to investment activities for the 2016 fiscal year increased from \$150,987,677 to \$163,245,229 or approximately 8%.

OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the Fund's financial statement, which are comprised of these components: 1) statement of fiduciary net position, 2) statement of changes in fiduciary net position, 3) notes to the financial statements, and 4) required supplementary information. The information available in each of these sections is briefly summarized as follows:

- 1) The statement of fiduciary net position is a snapshot of account balances at the end of the fiscal year. It indicates the assets available for future payments to retirees and beneficiaries and any current liabilities that are owed at this time.
- 2) The statement of changes in fiduciary net position provides a view of current year additions to and deductions from the resources of the Fund during the fiscal year.

Both statements are presented in compliance with Governmental Accounting Standards Board (GASB) pronouncements. These pronouncements require certain disclosures and reporting standards. The Fund complies with all material requirements of these pronouncements.

The statement of fiduciary net position and the statement of changes in fiduciary net position report information about the Fund's financial activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All realized and unrealized gains and losses are shown on investments, and all property and equipment (i.e. fixed assets) are depreciated over their useful lives.

These two statements report the Fund's fiduciary net position held in trust for pension benefits (the difference between assets and liabilities) as one way to measure the Fund's financial position. Over time, increases and decreases in the Fund's fiduciary net position are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring the Fund's overall financial health (See the Fund's financial statements on pages 7 - 8 of this report).

- 3) Notes to the financial statements provide additional Information that is essential to a full understanding of the data provided in the financial statements (see notes to financial statements on pages 9 - 23 of this report).

In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Fund's progress in funding its obligations to provide pension benefits to members (see required supplementary information on pages 24 - 28 of this report). Management's discussion and analysis described herein is additionally classified as required supplementary information for reporting and auditing purposes even though it is not presented in the required supplementary information section of this report.

Condensed Statement of Fiduciary Net Position

	September 30,		Increase (Decrease)
	2016	2015	2016/2015
Current assets	\$ 49,793,025	\$ 38,817,069	\$ 10,975,956
Investments	1,575,485,127	1,403,418,715	172,066,412
Securities lending collateral	92,760,152	141,105,101	(48,344,949)
Capital assets	6,751	17,683	(10,932)
Total assets	1,718,045,055	1,583,358,568	134,686,487
Deferred outflows of resources	112,110	273,082	(160,972)
Current liabilities	11,665,471	4,259,802	7,405,669
Securities lending obligations	92,760,152	141,105,101	(48,344,949)
Long-term liabilities	687,718	490,116	197,602
Total liabilities	105,113,341	145,855,019 *	(40,741,678)
Total fiduciary net position	\$ 1,613,043,824	\$ 1,437,776,631	\$ 175,267,193

Condensed Statement of Changes in Fiduciary Net Position

	September 30,		Increase (Decrease)
	2016	2015	2016/2015
Plan member contributions	\$ 12,830,861	\$ 12,061,321	\$ 769,540
Employer contributions	152,494,371	154,664,522	(2,170,151)
Other additions	16,636,048	11,826,045	4,810,003
Net investment income	153,879,649	(63,531,291)	217,410,940
Net securities lending activities	433,493	646,659	(213,166)
Total additions to fiduciary net position	336,274,422	115,667,256	220,607,166
Benefit payments	159,726,009	148,633,308	11,092,701
Administrative expenses	3,519,220	2,354,369	1,164,851
Total deductions to fiduciary net position	163,245,229	150,987,677	12,257,552
Change in fiduciary net position	173,029,193	(35,320,421)	208,349,614
Fiduciary net position available for benefits - beginning of year, previously reported	1,437,776,631	1,473,097,052	(35,320,421)
Prior period adjustment	2,238,000	-	2,238,000
Fiduciary net position available for benefits - beginning of year, restated	1,440,014,631	1,473,097,052	(33,082,421)
Fiduciary net position available for benefits - end of year	\$ 1,613,043,824	\$ 1,437,776,631	\$ 175,267,193

FINANCIAL ANALYSIS

The Fund provides retirement benefits to police officers and firefighters employed by the Consolidated City of Jacksonville (City). The pension benefits, which are provided by the Fund, are funded by member and employer contributions, by earnings on investments, and by various revenue sources. The Fund's fiduciary net position held in trust for benefits at September 30, 2016 was \$1,613,043,824, an increase of \$175,267,193 or 11% from \$1,437,776,631 at September 30, 2015. The increase was largely a result of favorable investment returns available in the financial markets.

For the 2016 fiscal year, employer and member contributions were \$165,325,232 representing a decrease of 1% over the \$166,725,843 recorded during the 2015 fiscal year. The decrease in the level of pension contributions during fiscal year 2016 resulted from the amount of contribution by the City based on the actuary study. The Fund recognized net investment income of \$153,879,649 for the 2016 fiscal year, compared with a net investment loss of \$63,531,291 for the 2015 fiscal year. Other additional revenues recorded by the Fund are represented by: thirty percent of fines and court costs from charges of violations held in Duval County court and parking fines \$832,536, Florida Chapter 175 and 185 premium taxes \$10,680,624, supplemental payment from City to reduce unfunded liability \$5,000,000, and miscellaneous revenues \$122,888. Miscellaneous revenues consisted of commissions recapture \$79,585, sales of surplus, lost, abandoned and unclaimed property held by the Office of Sheriff \$30,796, investment security settlements \$9,440, and de minimis revenue \$3,067. For the 2016 fiscal year, these other additions of revenue sources produced revenues in the amount of \$16,636,048 for the Fund, a \$4,810,004 or 41% increase of as compared to the \$11,826,045 recorded during the 2015 fiscal year.

Deductions from the Fund's fiduciary net position held in trust for benefits included mainly retirement and survivor benefits, DROP payments, refunds of contributions and administrative expenses. For the 2016 fiscal year, retirement and survivor benefits (including DROP) were \$159,726,009. Administrative expenses during the 2016 fiscal year were \$3,519,220 versus \$2,354,369 in the prior fiscal year.

At September 30, 2016, the Fund held \$1,053,394,238 in U.S. equity, international equity securities and MLP's Energy, an increase of \$137,035,698 or 14.95% from the \$916,358,540 held at September 30, 2015. The Fund's money managers administering U.S. equity, international equity securities and MLP's Energy earned returns of approximately 13.47%, 12.05% and 14.53%, respectively, for the 2016 fiscal year compared to the Fund's benchmark return of 14.96%, 9.80% and 10.12%, respectively, on such securities.

At September 30, 2016, the Fund held \$326,147,367 in U.S. fixed income securities, an increase of \$13,960,018 or 4.47% from the \$312,187,349 held at September 30, 2015. The Fund's money managers administering U.S. fixed income securities returned approximately 5.69% for the 2016 fiscal year, compared to the Fund's benchmark return of positive 5.19% on such securities.

At September 30, 2016, the Fund held \$189,585,522 in a commingled U.S. real estate investment trust, an increase of \$16,638,142 or 9.6% from the \$172,947,380 held at September 30, 2015. The money manager administering real estate products for the Fund earned a return of 9.83% for the 2016 fiscal year, compared to Fund's benchmark return of 10.09% on such Investments.

At September 30, 2016, the Fund held \$28,252,353 in short-term investments, which represent an increase of \$3,643,673 or 14.8% compared to the \$24,608,680 value of short-term Investments held at September 30, 2015. Short-term Investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

The Financial report is designed to provide citizens, taxpayers, fund participants and other interested parties with an overview of the Fund's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Fund's Executive Director-Administrator, One West Adams Street, Suite 100, Jacksonville, Florida 32202-3616.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Fiduciary Net Position
September 30, 2016**

ASSETS

Cash and short-term investments	\$ 3,263,098
Due from the City	5,651,397
Other receivables	10,761,896
Interest and dividends receivable	1,782,528
Recoverable taxes	78
Prepaid assets	81,675
Short-term investments	28,252,353
Long-term investments	
Fixed income securities	326,147,367
Domestic and international equities	1,053,394,238
Real estate	195,943,522
Property, plant, furniture and equipment, net	6,751
Securities lending collateral	92,760,152
Total assets	<u>1,718,045,055</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension, net	<u>112,110</u>
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LIABILITIES

Due to the City	7,000,000
Accounts payable	1,533,688
Accrued pension pay and wages payable	3,045,699
Compensated absences - current	21,278
Compensated absences - long-term	45,174
Net pension liability	582,196
Other post employment benefits	60,348
Other liabilities	64,806
Securities lending obligations	92,760,152
Total liabilities	<u>105,113,341</u>
Fiduciary net position available for pension benefits	<u>\$ 1,613,043,824</u>

The accompanying notes are an integral part of these statements.

City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2016

ADDITIONS

Contributions:	
Plan member	\$ 11,633,724
Plan member buybacks and pension transfers	1,197,137
Employer	149,499,492
Employer pension transfers	<u>2,994,879</u>
Total contributions	<u>165,325,232</u>
Other additions:	
Court fines and other penalties	832,536
State insurance contributions	10,680,624
Supplemental payment	5,000,000
Miscellaneous	<u>122,888</u>
Total other additions	<u>16,636,048</u>
Investment income:	
Rental and parking revenue	704,536
Net appreciation in fair value of investments	131,355,243
Interest and dividends	29,406,337
Investment expenses	(7,297,110)
Rental expenses	<u>(289,357)</u>
Net investment income	<u>153,879,649</u>
Securities lending activities:	
Lending revenue	577,398
Lending expense	<u>(143,905)</u>
Total securities lending activities	<u>433,493</u>
Total additions to fiduciary net position	<u>336,274,422</u>

DEDUCTIONS

Pension benefits remitted	129,091,476
DROP benefits remitted	30,249,696
Refunds of contributions	384,837
Administrative expenses:	
Personnel services	757,311
Professional services - non investment	1,242,822
Building rent - office space	258,000
Central services	265,713
Supplies	9,582
Depreciation	10,932
Judgements and settlements	570,200
Other services and charges	<u>404,660</u>
Total administrative expenses	<u>3,519,220</u>
Total deductions to fiduciary net position	<u>163,245,229</u>
Change in fiduciary net position	<u>173,029,193</u>
Fiduciary net position available for benefits - beginning of year, previously reported	1,437,776,631
Prior period adjustment	<u>2,238,000</u>
Fiduciary net position available for benefits - beginning of year, restated	<u>1,440,014,631</u>
Fiduciary net position available for benefits - end of year	<u>\$ 1,613,043,824</u>

The accompanying notes are an integral part of these statements.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

1. Description of Plan

The City of Jacksonville, Florida (City) Police and Fire Pension Fund (Fund) is a single-employer contributory defined benefit pension plan covering all full-time civil service members of the City Police and Fire Departments. Qualified membership is further limited to only police officers and firefighters. The Fund is administered solely by a five-member board of trustees.

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	2,411
Deferred Retirement Option Program (DROP) participants	475
Terminated employees entitled to benefits but not yet receiving them	77
Active plan members	2,294
Total participants	5,257

Group I members

For members with five or more years of service as of the effective date of Ordinance 2015-304-E, those members shall be entitled to a time service retirement benefit equal to a maximum of 80 percent of the average salary (1) received by the member for the 52 pay periods immediately preceding the time of retirement, upon the completion of 30 years of credited service. For each year prior to the thirtieth year of service that a member retires, the 80 percent retirement benefit shall be reduced by two percent, of the average salary (1) received by the member for the 52 pay periods immediately preceding the time of retirement, with the minimum normal retirement benefit being 60 percent after completion of 20 years of credited service.

For members with fewer than five years of service as of the effective date of Ordinance 2015-304-E, those members shall be entitled to a time service retirement benefit equal to a maximum of 80 percent of the average salary (1) received by the member for the 104 pay periods immediately preceding the time of retirement, upon the completion of 30 years of credited service. For each year prior to the thirtieth year of service that a member retires, the 80 percent retirement benefit shall be reduced by two percent, of the average salary (1) received by the member for the 104 pay periods immediately preceding the time of retirement, with the minimum normal retirement benefit being 60 percent after completion of 20 years of credited service. However, in no event shall the average salary be less than it would have been using the 52 pay periods ending on the effective date of Ordinance 2015-304-E.

Group II members hired on or after June 19, 2015

Upon reaching 30 years of credited service, Group II members shall be entitled to a time service retirement with a benefit equal to 2.5 percent of average salary multiplied by the number of years of credited service, but not exceeding a maximum of 75 percent of average salary. The term average salary as used in the foregoing sentence means the average salaries (2) received by the Group II member during the 130 bi-weekly pay periods immediately preceding the date of retirement. The annual retirement benefit shall not exceed \$99,999.99, which amount shall be adjusted January 1 of each year beginning with the first January after the effective date of Ordinance 2015-304-E, by the most recent cost of living adjustment applicable to recipients of Social Security retirement benefits, as determined by the U.S. Social Security Administration each calendar year, but not exceeding 1.5 percent.

Employees in both categories may alternatively select a 100% payout of member contributions to the Fund without interest upon withdrawal from the Fund. Early retirement, disability, death and other benefits are also provided.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

Other benefits based on eligibility

Share Plan

Members of the Fund also participate in a supplemental Share Plan which is funded by insurance premium taxes received pursuant to Florida Statute 175.351(1)(b) and 185.35(1)(b). Florida Statutes Chapter 175.351(1)(b) defines the Fire Share Plan and Florida Statutes Chapter 185.35 defines the Police Share Plan and the methodology for funding each plan. The Share Plan is in addition to any other benefits and nothing herein shall in any way affect any other benefits that now exist. The Board of Trustees provides for all assets of the Share Plan to be held in trust solely for the use of paying the benefits provided and expenses of the Share Plan. Membership of the Share Plan consists of all firefighters and police officers in active service on or after June 9, 2015, excluding retired members and people who have entered the DROP. Each year the premium tax monies are allocated to the share accounts maintained for each firefighter and police officer, and the accounts earn interest over time. Upon retirement members receive his or her share account balance.

Terminal Leave Conversion Program (TLCP)

The Fund has a program for retirees to participate in the TLCP upon retirement, which was previously closed to new participants. There are two remaining retirees that elected to participate, whereby the member's credited Terminal Leave and Retirement Leave account balance was transferred into the Fund. The account balance is then used to pay for biweekly health-care premiums. The member's TLCP balance in the Fund continues to accrue interest until the member's individual account balance is drawn to zero.

Deferred Retirement Option Plan (DROP)

Eligible members of the Fund may elect to participate in the DROP. Upon election to participate the member's credited service and final average salary are frozen for purposes of determining pension benefits. The member continues employment with the City for a defined period of time not to exceed 60 months. The deferred monthly retirement benefits under the DROP accrue in the Fund plus interest on behalf of the member. Upon retirement, the member receives his or her DROP distribution or lump sum and bi-weekly pension benefit.

The State of Florida requires funding of pension contributions to be made based upon an actuarial valuation. The most recent full actuarial valuation report available for distribution is dated October 1, 2016. The City Council has the authority to amend its contribution to the Fund but not less than the minimum state requirement.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The Fund's financial statements have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and collection is reasonably assured, and expenses are recognized when occurred, if measurable. Contributions from the Fund's members and the City are recognized as additions in the period in which the contributions are due. State contributions are recognized when received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

B. Cumulative Effect of Change in Accounting Principle

The Fund recorded an increase to the beginning net position balance as a result of adopting Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Recognition and measurement changes were applied prospectively since the Fund presents current and not comparative financial statements. The net position has been restated as follows:

Net position, September 30, 2015, as previously reported	\$ 1,437,776,631
Prior period adjustment:	
Capital assets - investment value	2,238,000
Net position, October 1, 2015, as restated	\$ 1,440,014,631

C. Basis of Presentation

The accompanying financial statements are presented in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans* and the Codification of Governmental Accounting and Financial Reporting Standards which covers the reporting requirements for defined benefit pensions established by a governmental employer.

D. Methods Used to Value Investments and Cash Equivalents

Highly liquid investments with short maturities, typically less than three months but no more than one year when purchased, are considered to be cash equivalents. Such amounts are recorded at cost which approximates market value.

Equities securities traded on a national or international exchange are reported at current quoted fair values.

Bonds are other fixed assets are primarily reported at fair values obtained from independent pricing services.

Mortgages are valued on the basis of future principal and interest payments are discounted at prevailing interest rates for similar instruments.

Direct investments in real estate are valued based on independent appraisals made every year or according to fund agreement.

Real estate partnerships are reported at values provided by general partners. These values are based on discounted cash flows, comparative sales, capitalization rates applied to net operating income, or if none of the preceding fit a property's attributes and strategy, at cost.

For various alternative investments (private equity, absolute return strategies, opportunistic funds, and real assets) where no readily ascertainable fair value exists, management in consultation with its investment advisors will value these investments in good faith based upon reported net asset values, cash flow analysis, purchases and sales of similar investments, new financings, economic conditions, other practices used within the industry, or other information provided by underlying investment advisors. Because of the inherent uncertainty in privately held securities, the fair value may differ from the values that would have been used if a ready market for such securities existed, and the difference can be material.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

E. Investment Policy

The pension plan's policy for the allocation of invested assets is established by a majority vote of the Board. The Board pursues an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The selection of asset classes is limited by statute and each asset class is further diversified by style, and the use of both active and passive management. The policy discourages the use of cash equivalents, except for liquidity purposes, and refrains from dramatically shifting asset class allocations over short time spans. The following is the Board's asset allocation policy:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Guidelines</u>
Domestic equity	39.0%	30-40%
International equity	20.0%	15-25%
Fixed income	20.5%	14-24.5%
Real estate	15.0%	10-20%
MLPs/Energy	5.5%	0-10%
Cash	0.0%	0-5%
Total	<u>100.0%</u>	<u>100.0%</u>

F. Furniture and Equipment

Furniture and equipment are carried at historical cost and are depreciated using the straight-line method of depreciation over their respective useful lives.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Senior Staff Voluntary Retirement Plan (SERP) has one item that meets this criterion, net difference between projected and actual earning on pension plan investments. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The SERP has one item that meets this criterion, the difference between projected and actual earning on pension investments. These deferred inflows and deferred outflows are aggregated and reported as net deferred outflows of resources.

H. Recently issued accounting standards

GASB Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement of financial reporting purposes. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The Fund implemented this standard beginning with financial statements as of and for the fiscal year ended September 30, 2016.

City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - narrows the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, to exclude pensions provided to defined benefit pension plan meeting specific criteria; establishes new guidance for these employers, including separate requirements for recognition and measurement of pension expense or expenditures and liabilities, note disclosures and required supplementary information (RSI).

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* - establishes new criteria to continue amortized cost accounting for certain external investment pools in light of recent SEC changes to money market fund criteria.

GASB Statement No. 80, *Blending Requirements for Certain Component Units* - an amendment of GASB Statement No. 14 - establishes an additional blending requirement for the financial statement presentation of component units.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* - establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts - or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements - in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government and at least one other beneficiary.

GASB Statement No. 82, *Pension Issues* - an amendment of GASB Statements No. 67, No. 68, and No. 73 - establishes accounting and financial reporting requirements for pensions provided to the employees of state or local governmental employers. This Statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in paragraph 3 of Statement 67.

I. Use of Estimates

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

J. Risk and Uncertainties

Contributions to the Fund and the actuarial information included in the 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 reasonably possible that changes in these assumptions may occur in the near term and could be material to the financial statements.

3. Reserve Accounts

An agreement between the Fund and the City established June 9, 2015 (Ordinance 2015-304-E) the Unfunded Actuarial Liability Reserve Account (UALPA) which consists of funds from the City Budget Stabilization Account (CBSA) and Enhanced Benefit Account (EBA) and the Supplemental Account (SUPA).

City of Jacksonville, Florida
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- UALPA was established to make payments towards unfunded accrued liability conditioned by City making contributions to the Fund in excess of any annual statutorily required payments.
- The CBSA was established to account for contributions in excess of current funding requirements.
- The EBA was established to account for State Chapter 175 and 185 funds to pay down the unfunded liability as a voluntary contribution and/or fund Share Plan and/or pay annual discretionary bonus payment to retiree.
- The SUPA is established to provide additional payments to the unfunded liability.

As of September 30, 2016 the balance for the various accounts are: UALPA \$71,733,907, CBSA \$5,085,300, EBA \$5,278,118 and SUPA \$10,000,000.

The SERP reserve account was established September 20, 2000 by the Board of Trustees to account for employee and employer contributions and payments for defined contribution plan for senior staff. At September 30, 2016 the balance was \$4,102,201.

The Share Plan was established June 9, 2015 (Ordinance 2015-304-E) by the City and Fund to provide supplemental benefits to eligible active members. At September 30, 2016 the balance was \$3,445,831.

4. Deferred Retirement Option Program (DROP)

The DROP is a form of retirement that allows an employee with at least 20 years of service to continue working for a maximum period of five (5) additional years while accumulating a savings account consisting of the retirement benefits that would have been received had the employee actually retired.

For Members with 20 or more years of creditable service, as of the effective date of Ordinance 2015-304-E, such interest shall produce an annual rate of return of 8.40%. The individual's retirement amount is calculated based on parameters when the employee enters the DROP.

For Members with less than 20 years of service as of the effective date of Ordinance 2015-304-E, such interest shall accrue based on the money-weighted rate of return or internal rate of return as presented in the plan's most recent audited financial statements; provided however, that the minimum interest shall be 2.0% and the maximum interest shall be 14.4%. The money weighted return of expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. The money weighted rate of return for the fiscal year ended September 30, 2016 was 10.00%.

At the end of the DROP period, the retiree has the option to withdraw all or part of their DROP balance or leave the balance in the interest earning account within the Fund and then subsequently withdrawing equal bi-weekly amounts over a period of time selected by the retiree, up to the maximum time limit set by IRS regulations. The DROP balance as of September 30, 2016 is \$310,283,837.

5. Deposits and Investments

For the year ended September 30, 2016, the annual money weighted rate of return on pension plan investments was 10.00%. This expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
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The Fund participates in a pooled cash account with other funds at the City. At September 30, 2016, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was \$3,263,097.

Deposits and investments of the Fund which have been transferred to the pension custodians are held separately from those of other City funds and are required to be administered by nationally recognized investment counseling firms. At September 30, 2016, the carrying amount of these deposits and investments was \$1,428,972,660. Monies which are placed on deposit with financial institutions in the form of demand deposit accounts, time deposit accounts, and certificates of deposit are defined as public deposits.

The Fund is authorized to invest in certificates of deposit, obligations of the U.S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements, the local government surplus fund's trust fund, obligations of the City, the State of Florida, fixed income obligations issued by foreign governments if the obligations are rated Investment grade by at least one nationally recognized rating service, commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service, bankers' acceptances, group annuity contracts, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, securities lending transactions, and real estate investments. For the comprehensive list of available investments, the Statement of Investment Policy approved by the Board of Pension Trustees on August 20, 2016 should be referenced.

The Fund purchased land, an office building with related improvements, and a parking garage in fiscal year 1999. Upon purchase of the parking garage, the Fund took assignment of the existing management agreement and receives rental revenue from parking tenants. This asset is reported at its fair value, as determined by appraisals, and has been classified as an investment, as it is an income-producing asset.

During the fiscal year ended September 30, 2016, the office building and parking garage generated \$704,536 in rental revenue.

The table below shows the Fund's investments by type as of September 30, 2016:

Cash and cash equivalents:	
Short term investments	<u>\$ 28,252,353</u>
Fixed:	
Commercial mortgage backed	2,723,354
Corporate bonds	79,501,458
Government bonds	15,651,951
Government mortgage backed securities	61,891,776
Funds-other fixed income	<u>166,378,828</u>
	<u>326,147,367</u>
Equity:	
Common stock	1,051,476,822
Preferred	<u>1,917,416</u>
	<u>1,053,394,238</u>
Real estate	<u>195,943,522</u>
Total	<u><u>\$ 1,603,737,480</u></u>

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
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Interest Rate Risk

Interest rate risk is the risk that changes in market interest values will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Fund diversifies its investments by security type and limits holdings in any one type of investment with any one issuer with various durations of maturities.

The Fund holds certain investments in government mortgage-backed securities. Generally these are securities whose cash flows are backed by the principal and interest payments of a set of loans and payments are typically made monthly over the lifetime of the underlying loans. These types of investments are subject to various risks which have the potential to result in a decline in the value of the investments. For example, credit risk can be affected by borrowers defaulting on their loans. In addition, a change in interest rates may result in mortgage borrowers refinancing their loans or payment lives may change which will impact the life of the security. If the investments are backed by risky loans or sub-prime home loans for which the monthly interest payments fall, there is a potential for a decline in the value of the these investments.

Information about the sensitivity of the fair value of the Fund's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Fund's investments by maturity at September 30, 2016:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Commercial Mortgage-Backed	\$ 2,723,354	32
Corporate Bonds	79,501,458	9
Government Bonds	15,651,951	12
Government Mortgage Backed Securities	61,891,776	21
Total Fair Value	<u>\$ 159,768,539</u>	
Portfolio Weighted Average Maturity		14.36

Bonds not due at a single maturity date have been included in the above table in the year of final contractual maturity. Actual maturities may differ from contractual maturities due to the exercise of prepayment options.

Foreign Currency Risk

Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of investment as of September 30, 2016, the Fund has no foreign currency risk as all investments are in the U.S. dollars.

Credit and Concentration Risk

Concentration of credit risk is the risk of loss attributed to the multitude of the Fund's investment in a single insurer. The Fund's investment policy was designed to mitigate both credit and concentration risk by providing specific guidance as to the weighting and integrity of the deposit and investment instruments. The Fund places no limit on the amount it may invest in any one issuer.

**City of Jacksonville, Florida
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As of September 30, 2016, the following Organizations held 5% or more of the Plan's fiduciary net position:

	<u>Market Value</u>	<u>Market Value as a Percentage</u>
Fixed:		
Northern Trust Company	\$ 125,230,036	15.54%
Equity:		
Northern Trust Company	248,448,696	7.83%
Baille Gifford	97,966,173	6.13%
Acadian	88,840,511	5.56%
Total equity	<u>435,255,380</u>	
Real estate:		
JP Morgan Strategic Property Fund	144,301,596	9.02%
Total	<u>\$ 704,787,012</u>	

As of September 30, 2016 the Fund's debt security investments credit risk are in the following table:

	<u>Fair Value Moody's</u>
Aaa	\$ 21,136,091
Aa	3,055,971
A	14,093,822
Baa	41,057,564
Ba	6,148,263
B	7,758,725
Not Rated	200,122,546
Total	<u>\$ 293,372,982</u>

Custodial Credit Risk

Custodial risk for investments is the risk that, in the event of failure of the counterparty a transaction, the Fund 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 Fund, and are held either by the counterparty or the counterparty's trust department or agent but not in the Fund's name. Consistent with the Fund's investment policy, the investments are held by the Fund's custodial bank and registered in the Fund's name. All of the Fund's deposits are insured and or collateralized by a financial institution separate from the Fund's depository financial institutions.

Securities Lending

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized, Northern Trust Company, acting as agent, to lend securities held in the portfolios with the intent of generating additional interest income. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

**City of Jacksonville, Florida
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Securities are loaned against collateral that may include cash, U.S. government securities, and irrevocable letters of credit. Securities are loaned against collateral valued at a minimum of 102% of the market value of the securities plus any accrued interest. If the broker/dealer fails to return the security upon request, the custodian, acting as agent, will utilize the collateral to replace the security borrowed. When non-cash collateral is provided the collateral must be obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities. The Fund cannot pledge or sell these obligations in the absence of a default by the borrower.

The transaction establishes a rebate interest rate, which is due back to the broker/dealer upon return of the security. The cash is then invested short-term and the Fund and the custodian share in the incremental return available above the rebated interest rate. The short-term fixed income instruments can be invested in high quality, dollar denominated fixed income instruments, with a policy dollar-weighted, average maturity limit of less than thirty days.

As of September 30, 2016, the Fund maintained collateral on loaned securities of \$92,760,152 and earned a net income of \$433,493.

The following represents the balance relating to the securities lending transactions as of September 30, 2016:

<u>Security Type</u>	<u>Fair Value Securities Lent for Cash</u>	<u>Cash Collateral Received</u>	<u>Securities Lent for Non-Cash Collateral</u>	<u>Securities Received as Collateral</u>
US Corporate Fixed	\$ 10,755,732	\$ 10,985,515	\$ -	\$ -
US Equities	79,609,582	81,097,771	503,793	512,550
US Government Fixed	664,220	676,866	-	-
	<u>\$ 91,029,534</u>	<u>\$ 92,760,152</u>	<u>\$ 503,793</u>	<u>\$ 512,550</u>

6. Fair Value Measurements

The Fund categorizes its fair value measurements within the fair value hierarchy established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Fund has the following recurring fair value measurement as of September 30, 2016:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents:				
Short-term investments	\$ 28,252,353	\$ 28,252,353	\$ -	\$ -
Total cash and cash equivalents	<u>28,252,353</u>	<u>28,252,353</u>	<u>-</u>	<u>-</u>
Fixed:				
Commercial mortgage-backed	2,723,354	-	2,723,354	-
Corporate Bonds	79,501,458	-	79,501,458	-
Funds - other fixed income	166,378,828	-	166,378,828	-
Government bonds	15,651,951	-	15,651,951	-
Government mortgage-backed securities	61,891,776	-	61,891,776	-
Total fixed	<u>326,147,367</u>	<u>-</u>	<u>326,147,367</u>	<u>-</u>
Equity:				
Common stock	1,051,476,822	1,051,476,822	-	-
Preferred	1,917,416	1,917,416	-	-
Real estate	195,943,523	-	189,585,523	6,358,000
Total equity	<u>1,249,337,761</u>	<u>1,053,394,238</u>	<u>189,585,523</u>	<u>6,358,000</u>
Total investments by fair value level	<u>\$ 1,603,737,481</u>	<u>\$ 1,081,646,591</u>	<u>\$ 515,732,890</u>	<u>\$ 6,358,000</u>

**City of Jacksonville, Florida
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Notes to the Financial Statements
September 30, 2016**

7. Other Receivables

The other receivable balance below includes an amount for an allowance for doubtful accounts.

Other Accounts Receivable	Allowance for Doubtful Accounts	Shown on Statement of Fiduciary Net Position
\$ 10,784,322	\$ (22,426)	\$ 10,761,896

8. Net Pension Liability of the City

Total pension liability	\$ 3,345,515,259
Total Plan fiduciary net position	1,513,398,466
City's net pension liability	1,832,116,793
Plan fiduciary net position as a percentage of the total pension liability	45.24%

9. Actuarial Methods and Assumptions

The actuarial assumptions used in the October 1, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2011 – September 30, 2015.

Investment Yield	7.0% annually, including inflation
Salary increases	3.5%, including inflation
	Group I: 3% annually reduced to 2.5% for future service for actives with less than 20 years of service on June 19, 2015
Annual COLA	Group II: 1.5% annually
DROP Load	2% on active and DROP liabilities for interest greater than 7%
Payroll Increase	0.067% annually, actual 10 year average (2.5% COLA increase when allowed, adopted after the above experience study)

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The total pension liability in the October 1, 2016 actuarial report was based on the RP-2000, Generational Scale BB mortality rates. In the previous fiscal year, in the October 1, 2015 actuarial report was based on the RP-2014, combined Blue Collar, age set forward 2 years for males and 1 year for females, with MP-2014 Improvement Scale, generational, sex distinct mortality rates.

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

Asset Class	Long-Term Expected Real Rate of Return (gross less 2.5% inflation)
Domestic equity	5.4%
International equity	5.5%
Fixed income	1.3%
Real estate	4.5%
Cash	1.4%
MLPs/Energy	5.5%

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

These are combined to produce the 7% expected rate of return, or discount rate, by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (diversification and volatility also impact this).

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the 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.

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

The following presents the net pension liability of the City, calculated using the discount rate of 7%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount (7%)	1% Increase (8%)
City's net pension liability	\$ 2,270,273,985	\$ 1,832,116,793	\$ 1,479,775,059

11. Tax Status

The Fund obtained a determination letter on January 20, 1999, in which the Internal Revenue Service stated that the Fund, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Fund has been amended since receiving the determination letter. The Fund's administrator believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Fund's administrator believes the Fund was qualified and the related trust was tax exempt as of September 30, 2016.

12. Claims and Litigation

The Fund is involved in various claims and litigation arising in the ordinary course of operations, most of which, in the opinion of the Fund's Administrator, will not have a material effect on the Fund's financial position.

13. Pension Plans for Fund Employees

The Fund sponsors a single-employer contributory defined benefit plan called the SERP that provides retirement, death, and disability benefits. The SERP is administered by the Fund's five member Board of Trustees and was adopted on September 20, 2000 and lastly amended on November 9, 2009. The Fund's Board of Trustees is responsible for establishing or amending the pension plan. As of September 30, 2015 this plan closed. The SERP currently has two retirees and one surviving spouse, and is closed to new members. There are no separately issued financial statements for the SERP.

The Fund also participates in the City of Jacksonville Retirement System (JRS). The JRS is a cost-sharing, multiple-employer, contributory defined benefit pension plan with a defined contribution alternative. The JRS is administered by a nine-member Board of Trustees that makes recommendations to the City Council. The Fund participates in the General Employee Pension Plan (GEPP) of the JRS. The Fund has seven employees participating in the contributory defined benefit pension plan and one employee participating in the defined contribution alternative. The financial statements for the JRS are included in the City's Comprehensive Annual Financial Report (CAFR).

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

Senior Staff Voluntary Retirement Plan (SERP)

1. Plan Description – The SERP provides vesting of benefits after five years of credited service. Members are eligible for normal retirement at age 65 with five years of service. Retirement benefits shall be equal to three percent of average final compensation which is based on the average for the last 24 months of compensation immediately preceding retirement for each year of credited service. Benefits shall be paid on a bi-weekly basis. Early retirement is at the age of 60 with five years of credited service; however, the benefits are reduced at the rate of 0.5% per month for each month that the member's retirement date precedes the attainment of age 65. A member may elect a deferred retirement upon the completion of five years of credited service, but delayed implementation under the provisions of normal retirement and early retirement above. The plan also provides for a delayed retirement benefit payable at age 70.5, disability retirement, and death benefits. A cost of living increase of 3% per year is provided to pensioners and their beneficiaries. Contributions are determined by Board of Trustees. No contributions were made for the year ended September 30, 2016.

2. Net pension liability of the SERP -

Total pension liability	\$	4,684,398
Fiduciary net position		(4,102,201)
City's fiduciary net pension liability		582,197
Fiduciary net position as a percentage of the total pension liability		87.57%

3. Pension Expense and Deferred Inflows and Outflows of Resources Related to Pensions

For the year ended September 30, 2016, the SERP recognized pension expense of \$130,745. At September 30, 2016, the SERP reported \$112,110 of deferred outflows of resources related to pensions due to differences between projected and actual earnings on plan investments. The amount reported as deferred outflows related to pensions, net will be recognized in pension expense as follows:

Years Ending September 30,	Actual Investment Experience Net Deferred Outflows (Inflows) to be Recognized
2017	\$ 45,095
2018	45,095
2019	45,095
2020	(23,175)
Deferred outflows related to pension, net	\$ 112,110

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

4. Actuarial Methods and Assumptions –

Valuation Date	10/1/2016
Actuarial cost method	Individual Entry Age
Amortization method	Aggregate Method*
Asset valuation method	Market Value
Actuarial assumptions:	
Net investment rate of return**	7.00%, compounded annually
**Includes inflation at	2.50%
Projected salary increases	None
Mortality table in use	Pre and Post Retirement: All using RP-2000 Generational, Scale BB, with Female: 100% Annuitant White Collar Male: 10% Annuitant White Collar/90% Annuitant Blue Collar
Post-retirement benefit increase (COLA)	3.00%, compounded annually

* The actuarial cost method used by the SERP is the Aggregate Method which does not have an explicit amortization method of period. Instead, the total cost is paid for over the expected future working lifetime.

The total SERP pension liability in the October 1, 2016 actuarial report was based on the RP-2000, Generational Scale BB mortality rates.

In the previous fiscal year, the total SERP pension liability in the October 1, 2015 actuarial report was based on the RP-2014 Blue Collar Annuitant mortality rates.

5. Sensitivity of the SERP Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the SERP, calculated using the discount rate of 7%, as well as what the SERP's net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate:

	<u>1% Decrease (6%)</u>	<u>Current Discount (7%)</u>	<u>1% Increase (8%)</u>
SERP net pension liability	\$ 1,088,347	\$ 582,197	\$ 156,036

14. Supplemental Information

Minimum Required Contribution

In accordance with Ordinance 2016-504-E for fiscal year 2017 the City will contribute the greater of 119.60% of covered payroll or \$165,771,919 and contribute an additional \$10,000,000 to the Fund.

15. Contingency

The Board is a defendant in litigation as a result of proposed changes in benefits for the Senior Staff Voluntary Retirement Plan. The plaintiff contends that the proposed modifications to the formula for calculating retirement benefits is a breach of contract. The Fund is consulting with legal counsel and is in the process of reviewing the merits of the claim. No amounts related to this claim have been accrued in the accompanying financial statements or are able to be reasonably estimated as of September 30, 2016.

**City of Jacksonville, Florida
Police and Fire Pension Fund
Notes to the Financial Statements
September 30, 2016**

16. Subsequent Event

In February 2017, the police and fire unions are in discussions regarding renegotiation of employee benefits with the City. It is expected that an agreement will be finalized by the end of this fiscal year. At the time these financial statements were available to be issued, the following is management's understanding of certain of the terms of the proposed structure:

- the Fund will be closed to new participants hired as of October 1, 2017 who will be offered a defined contribution plan instead of a defined benefit plan;
- participants in the defined contribution plan will direct the investment of the contributions to their individual accounts; and
- responsibility for governance of the defined benefit plan, overseeing all aspects of the plan including investment decisions and contribution schedules, will still remain with the Fund.

Management has evaluated subsequent events through February 17, 2017, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Changes in Net Pension Liability and Related Ratios
for the Senior Staff Voluntary Retirement Plan
For the Year Ended September 30, 2016**

	2016	2015	2014	2013	2012	2011
Total pension liability						
Service cost (BOY)	\$ -	\$ (56,578)				
Interest on total pension liability	298,576	281,837				
Experience deviations including buybacks	89,627	-				
Changes of benefit terms	26,951	-				
Changes of assumptions	149,469	153,704				
Benefit payments, including refunds of member contributions	<u>(286,346)</u>	<u>(109,482)</u>				
Net change in total pension liability	278,277	269,481				
Total pension liability -- beginning	<u>4,406,121</u>	<u>4,136,640</u>				
Total pension liability -- ending(a)	<u>\$ 4,684,398</u>	<u>\$ 4,406,121</u>				
Plan fiduciary net position						
Contributions--member	\$ -	\$ 21,520				
Net investment income	386,253	(166,821)				
Benefit payments, including refunds of member contributions	<u>(286,346)</u>	<u>(109,482)</u>				
Net change in plan fiduciary net position	99,907	(254,783)				
Plan fiduciary net position -- beginning	<u>4,002,294</u>	<u>4,257,077</u>				
Plan fiduciary net position -- ending(b)	<u>4,102,201</u>	<u>4,002,294</u>				
Plan net pension liability--ending(a)-(b)	<u>\$ 582,197</u>	<u>\$ 403,827</u>				
Plan fiduciary net position as a percentage of the total pension liability	87.57%	90.83%				
Covered-employee payroll	\$0	\$0				
City's pension liability as a percentage of covered-employee payroll	N/A	N/A				

PRIOR
INFORMATION
NOT
AVAILABLE

**City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Contributions for the Senior Staff Voluntary Retirement Plan
For the Year Ended September 30, 2016**

FYE	Actuarially determined City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered employee payroll	Contribution as a percentage of covered employee payroll
2016	\$ -	\$ -	\$ -	\$ -	N/A
2015	-	-	-		N/A
2014	28,098	7,205	20,893	298,471	2.41%
2013	28,098	248,016	(219,918)	289,786	85.59%
2012	523,102	117,460	405,642	354,971	33.09%
2011	142,308	101,004	41,304	484,071	20.87%
2010	134,889	247,476	(112,587)	506,043	48.90%

Valuation date: Actuarially determined contribution rates are calculated as of October 1, each year prior to the end of the fiscal year in which contributions are reported.

Methods used to determine contribution rates:

Actuarial cost method:	Individual entry age
Amortization method:	Aggregate method
Asset valuation method:	Market Value
Inflation:	2.5%
Investment rate of return:	7.00%, including inflation, compounded annually
Cost of living adjustments:	3.00%, compounded annually
Mortality Table in use	Postretirement: RP-2014 Blue Collar Annuitant Postretirement: RP-2014 Disabled Annuitant All tables are set forward 2 years for males and 1 year for females, use MP-2014 Improvement Scale, 2D generational, separate by sex.
Age differences for spouses:	Females are assumed to be 3 years younger than males
Percent married	100%

**City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of City Contributions
Last 10 Fiscal Years and
For the Year Ended September 30, 2016**

FYE	Actuarially determined City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess) *	Covered employee payroll	Contribution as a percentage of covered employee payroll
2016	\$ 149,499,492	\$ 149,499,492	\$ -	\$ 135,599,741	110.25%
2015	153,603,996	153,935,565	(6,726,082)	132,735,243	110.88%
2014	142,432,577	149,158,659	(22,583,482)	134,521,216	93.59%
2013	99,996,835	122,580,317	3,130,318	130,972,174	52.84%
2012	73,729,000	70,598,682	1,162,380	133,611,459	50.95%
2011	77,065,314	75,902,934	(5,014,820)	148,967,906	52.01%
2010	77,182,058	82,196,878	329,448	158,046,680	32.29%
2009	50,564,207	50,234,759	442,776	155,557,729	32.62%
2008	48,806,879	48,364,103	(4,358,257)	148,276,743	30.91%
2007	39,849,713	44,207,970	2,105,596	143,006,154	26.82%

* Contribution deficiency (excess) is assigned to the City Budget Stabilization Account

Valuation date: Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods used to determine contribution rates:

Actuarial cost method:	Individual entry age
Amortization method:	Constant percentage of payroll increasing 3.25% annually, Closed
Remaining amortization period:	21 years
Asset valuation method:	Market Value
Inflation:	2.5%
Salary increases:	3.5%, including inflation
Investment rate of return:	7.0%, including inflation
Cost of living adjustments:	3.0%, compounded annually
Mortality Table in use	RP-2014, Blue Collar, age set forward 2 years for males and 1 year for females with MP-2014 Improvement Scale, generational, separate by sex.
Age differences for spouses:	Females are assumed to be 3 years younger than males
Percent married	Assume 75% of active employees are married, use tax reported status for inactive

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Investment Returns
Annual money-weighted rate of return, net of investment expenses
For the Year Ended September 30, 2016

For Year Ended	Percentage
2016	10.00%
2015	-3.95%
2014	10.73%
2013	14.29%
2012	18.25%
2011	0.64%
2010	8.45%
2009	1.70%
2008	-13.07%
2007	15.05%

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years and
For the Year Ended September 30, 2016

	2016	2015	2014	2013	2012	2011
Total pension liability						
Service Cost (BOY)	\$ 44,087,089	\$ 46,662,780	\$ 47,915,012	\$ 46,109,290	\$ 47,569,761	PRIOR
Interest on total pension liability	217,546,212	210,942,612	203,577,435	195,519,742	190,343,631	INFORMATION
Changes of benefit terms	-	(28,684,960)	-	-	-	NOT
Experience deviations including buybacks	3,566,449	24,831,339	22,671,112	(4,675,994)	(12,512,641)	AVAILABLE
Changes of assumptions	97,813,304	24,514,349	-	5,332,605	227,333,255	
Benefit payments, including refunds of member contributions	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)	
Net change in total pension liability	203,287,047	129,637,644	135,984,376	113,629,686	335,778,880	
Total pension liability -- beginning	3,142,228,212	3,012,590,568	2,876,606,192	2,762,976,506	2,427,197,626	
Total pension liability -- ending(a)	<u>\$ 3,345,515,259</u>	<u>\$ 3,142,228,212</u>	<u>\$ 3,012,590,568</u>	<u>\$ 2,876,606,192</u>	<u>\$ 2,762,976,506</u>	
Fiduciary net position						
Contributions--employer	\$ 154,499,492	\$ 153,014,791	\$ 148,277,368	\$ 121,822,333	\$ 69,828,557	
Contributions--member	11,633,724	10,469,643	10,067,765	9,682,998	11,204,317	
Buybacks and transfers--employer	2,994,879	1,649,732	2,242,902	-	2,814,296	
Buybacks and transfers--member	1,197,137	1,591,678	1,515,800	1,070,503	406,553	
Net investment income	153,879,649	(63,531,293)	146,950,776	169,202,439	181,653,432	
Securities Lending	433,493	646,659	382,022	-	-	
Benefit payments, including refunds of member contributions	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)	
Administrative expense	(3,519,224)	(2,228,452)	(2,224,248)	(2,505,985)	(2,351,598)	
Chapter 175/185	10,680,624	10,577,853	10,110,493	9,667,185	9,275,728	
Court Fines	832,536	920,774	881,291	757,984	770,125	
Other	122,886	327,418	141,855	1,187,289	55,383	
Net change in fiduciary net position	173,029,189	(35,189,673)	180,166,841	182,228,789	156,701,667	
Cumulative effect of change in accounting principle	2,238,000					
Fiduciary net position -- beginning	1,437,776,634	1,473,097,052	1,292,930,211	1,110,737,208	954,035,541	
Fiduciary net position -- ending	1,613,043,823	1,437,907,379	1,473,097,052	1,292,965,997	1,110,737,208	
less Reserve Accounts and Sr. Staff Assets	(99,645,357)	(83,502,014)	(83,349,437)	(64,834,813)	(31,830,621)	
Total fiduciary net position -- ending(b)	1,513,398,466	1,354,405,365	1,389,747,615	1,228,131,184	1,078,906,587	
City's fiduciary net pension liability--ending(a)-(b)	<u>\$ 1,832,116,793</u>	<u>\$ 1,787,822,847</u>	<u>\$ 1,622,842,953</u>	<u>\$ 1,648,475,008</u>	<u>\$ 1,684,069,919</u>	
Fiduciary net position as a percentage of the total pension liability	45.24%	43.10%	46.13%	42.69%	39.05%	
Covered-employee payroll	\$135,599,741	\$132,735,243	\$134,521,216	\$130,972,174	\$133,611,459	
City's fiduciary net pension liability as a percentage of covered-employee payroll	1351.12%	1346.91%	1206.38%	1258.65%	1260.42%	

February 17, 2017

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

To Board of Trustees of the Jacksonville Police and Fire Pension Fund
Jacksonville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Jacksonville Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated February 17, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KBLD, LLC