

**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, 2013**

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**City Of Jacksonville Florida Police And Fire Pension Fund  
Financial Report  
For The Fiscal Year Ended September 30, 2013**

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February 21, 2014

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the City of Jacksonville Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2013, 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 plan net position of the Fund, as of September 30, 2013, and the respective changes in the plan 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 22-25, 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.

A handwritten signature in cursive script, appearing to read "KBLD LLC".

KBLD, LLC

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

We are pleased to provide this overview and analysis of the financial activities of the Police and Fire Pension Fund (Fund) during the fiscal year ended September 30, 2013. This section presents management's discussion and analysis of key financial performance indicators in a narrative format.

### **FINANCIAL HIGHLIGHTS**

- The net position of the Fund as of the fiscal year ended September 30, 2013, was \$1,045,531,488. The 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 \$1,045,531,488 value of net position represents an increase of \$160,293,480 or 18.1%. The increase was largely a result of the investment returns available in the financial markets, which when combined with pension contributions, more than adequately supported the level of benefit payments and DROP accruals during the fiscal year.
- 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, 2013, the funded ratio for the Fund was approximately 42.69% which compares to the September 30, 2012 funded ratio of 39.05%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately \$0.43 of assets to cover it.
- The Fund's rate of return on investments of positive 14.9% on a market value basis over the fiscal year ended September 30, 2013, was primarily attributable to the strong recovery in the domestic financial markets and the international financial markets. The magnitude of the strong recovery in domestic equity markets over the one year period ended September 30, 2013, is evidenced from the 19.3% return for the S&P 500. The magnitude in the recovery in international equity investments over the one year period ended September 30, 2013, is evidenced from the 18.7% return for the international Equity Index. The return of 14.9% for the Fund was slightly below the Fund Policy Benchmark return of 15.2% and placed the Fund's investment in the 19th percentile when compared to other public pension funds as measured by the Fund's investment performance consultant. This means that the Fund's 14.9% return exceeded the returns of 81% of the other public pension funds. The Fund's annualized rate of return was 11.3% over the last three years, 8.3% over the last five years, and 7.1% over the past ten years.
- Revenues (additions to the fund net position) other than investment income for the 2013 fiscal year were \$144,248,417, which comprises member and employer contributions of \$132,575,834 and other additions of \$11,672,583. This compares to revenues in the amount of \$94,354,959 in the prior fiscal year. This 52.9% increase was largely attributable to an increase in the employer pension contributions during the fiscal year ended September 30, 2013, based on the updated actuarial study and the Jacksonville City Council approving a minimum of \$121,369,612 as their annual required contribution.
- Net investment income (part of additions to fund net position) for the 2013 fiscal year was \$169,202,439 compared to net investment income in the amount of \$181,653,432 that was recorded in the prior fiscal year. This was a decrease of \$12,450,993 which was a result of the strong recovery in the financial markets in the prior fiscal year.
- Expenses (deductions in fund net position) not related to investment activities for the 2013 fiscal year increased from \$142,218,213 to \$153,157,376 or approximately 7.7%. The increase is attributable to new retirees' benefit payments and the 3% contractual cost of living adjustment (COLA) that was effective in January, 2013.

## OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the Fund's financial statements, which are comprised of these components: 1) statement of plan net position, 2) statements of changes in plan 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 plan 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 plan 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 plan net position and the statement of changes in plan 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 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 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 - 21 of this report).
- 4) 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 22 - 25 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 Plan Net Position

	<u>September 30,</u>		<u>Increase (Decrease)</u>
	<u>2013</u>	<u>2012</u>	<u>2013/2012</u>
Current assets	\$ 45,170,077	\$ 12,233,004	\$ 32,937,073
Investments	1,253,145,341	1,104,084,879	149,060,462
Capital assets	40,954	52,987	(12,033)
Total assets	<u>1,298,356,372</u>	<u>1,116,370,870</u>	<u>181,985,502</u>
Total liabilities	<u>252,824,884</u>	<u>231,132,862</u>	<u>21,692,022</u>
Total net position	<u>\$ 1,045,531,488</u>	<u>\$ 885,238,008</u>	<u>\$ 160,293,480</u>

## Condensed Statement of Changes in Plan Net Position

	September 30,		Increase (Decrease)
	2013	2012	2013/2012
Plan member contributions	\$ 10,753,501	\$ 11,610,870	\$ (857,369)
Employer contributions	121,822,333	72,642,853	49,179,480
Other additions	11,672,583	10,101,236	1,571,347
Net investment income	169,202,439	181,653,432	(12,450,993)
Total additions	<u>313,450,856</u>	<u>276,008,391</u>	<u>37,442,465</u>
Benefit payments	150,591,266	139,866,613	10,724,653
Grant - expenses	60,125	-	60,125
Administrative expenses	2,505,985	2,351,600	154,385
Total deductions	<u>153,157,376</u>	<u>142,218,213</u>	<u>10,939,163</u>
Net increase (decrease)	<u>\$ 160,293,480</u>	<u>\$ 133,790,178</u>	<u>\$ 26,503,302</u>

### FINANCIAL ANALYSIS

The Fund provides retirement benefits to police officers and firefighters employed by the Consolidated City of Jacksonville (the 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 net position held in trust for benefits at September 30, 2013 were \$1,045,531,488, an increase of \$160,293,480 or 18.1% from \$885,238,008 at September 30, 2012. The increase was largely a result of the strong investment returns available in the financial markets and increased City contributions, which when combined with pension contributions, more than adequately supported the level of benefit payments and DROP accruals during the fiscal year. As a supplement to the core mission of providing retirement benefits to members, the Fund additionally maintains a separate trust fund to manage a program that allows retirees to transfer the value of retirement leave account balances for use in paying health Insurance premiums in retirement. To date, 118 members of the Fund have participated in this Terminal Leave Conversion Program (TLCP). During fiscal year 2013 the TLCP received \$159,405 in participant-directed remittances and accommodated the payment of \$117,267 in City health insurance premiums on behalf of participants. As of September 30, 2013, the cash balance held for the benefit of program participants was \$271,841.

For the 2013 fiscal year, employer and member contributions were \$132,575,834 representing an increase of 57.4% over the \$84,253,723 recorded during the 2012 fiscal year. The increase in the level of pension contributions experienced during fiscal year 2013 resulted from the amount of contribution by the City based on the new actuary study and the City Council approving a minimum contribution of \$121,369,612 as its annual required contributions. The Fund recognized a net investment gain of \$169,202,439 for the 2013 fiscal year, compared with a net investment gain of \$181,653,432 for the 2012 fiscal year. The investment gain in 2013 reflected the strong recovery in the domestic financial markets following the strong gains in market values that were experienced in 2012. The magnitude of the comparison in domestic equity markets for the 2013 and 2012 fiscal years is evidenced from the returns from the S&P 500 of 19.3% and 30.2%, respectively. Other revenues recorded by the Fund are largely represented by Court Fines and Penalties and Chapter Revenues authorized under Chapters 175 and 185 of the Florida Statutes. For the 2013 fiscal year, these other revenue sources produced revenues in the amount of \$11,672,583 for the Fund, a \$1,571,347 increase of 15.6% over the \$10,101,236 recorded during the 2012 fiscal year.

Deductions from the Fund's net position held in trust for benefits included mainly retirement and survivor benefits, DROP accruals, refunds of contributions and administrative expenses, for the 2013 fiscal year, retirement and survivor benefits (including DROP) were \$150,591,266, an increase of 7.7% over the \$139,866,613 recorded during the 2012 fiscal year. Administrative expenses during the 2013 fiscal year were \$2,505,985 versus \$2,351,600 in the prior fiscal year. A large element of this increase was attributable to increased levels of expenditures for charges for legal and actuary services for the pension lawsuit and proposed pension reforms.

The Fund's investments, excluding accrued interest and dividends receivable, were \$1,292,182,106 at September 30, 2013, which was \$181,339,347 or 16.3% more than the \$1,110,842,759 in total Fund investments at September 30, 2012. This increase was primarily a result of the strong investment returns available in the financial markets, which when combined with increasing employer pension contributions, were found sufficient to adequately support the level of benefit payments required during the fiscal year.

At September 30, 2013, the Fund held \$880,768,170 in U.S. equity, international equity securities and MLP's Energy, an increase of \$165,626,389 or 23.2% from the \$715,141,781 held at September 30, 2012. The Fund's money managers administering U.S. equity, international equity securities and MLP's Energy earned returns of approximately positive 22.6%, positive 18.7% and positive 23.9, respectively, for the 2013 fiscal year compared to the Fund's benchmark return of positive 21.6%, positive 17.0 and positive 18.5%, respectively, on such securities.

At September 30, 2013, the Fund held \$234,975,742 in U.S. fixed income securities, a decrease of \$44,792,864 or negative 16.0% from the \$279,768,606 held at September 30, 2012. The Fund's money managers administering U.S. fixed income securities returned approximately negative 1.4% for the 2013 fiscal year, compared to the Fund's benchmark return of negative 1.7% on such securities.

At September 30, 2013, the Fund held \$134,573,862 in a commingled U.S. real estate investment trust, an increase of \$45,419,370 or 50.9% from the \$89,154,492 held at September 30, 2012. The money manager administering real estate products for the Fund earned a return of positive 14.8% for the 2013 fiscal year, compared to Fund's benchmark return of 12.8% on such Investments.

At September 30, 2013, the Fund held \$39,036,765 in short-term investments, which represent an increase of \$32,278,885 or positive 477.6% compared to the \$6,757,880 value of short-term Investments held at September 30, 2012. More short-term investments are being held by the U.S. Fixed Income money managers. 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 Plan Net Position  
September 30, 2013**

**ASSETS**

Cash and cash equivalents	\$ 98,838
Short-term investments	39,036,765
Investments	1,253,145,341
Interest and dividends receivable	1,799,332
Recoverable taxes	159,372
Due from the City	3,912,817
Other receivables	97,374
Prepaid assets	65,579
Furniture and equipment	327,817
Accumulated depreciation	<u>(286,863)</u>
Total assets	<u>1,298,356,372</u>

**LIABILITIES**

Due to participants	247,706,350
Accounts payable and accrued expenses	2,791,167
Due to the City	2,182,425
Accrued compensated absences and other liabilities	<u>144,942</u>
Total liabilities	<u>252,824,884</u>

**NET POSITION HELD IN TRUST FOR PENSION BENEFITS**

\$ 1,045,531,488

The accompanying notes are an integral part of these statements.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Statement of Changes in Plan Net Position  
For the Year Ended September 30, 2013**

Additions:

Contributions:

Plan member	\$ 10,753,501
Employer	121,822,333
Total contributions	<u>132,575,834</u>

Other additions:

Court fines and other penalties	757,984
State insurance contributions	9,667,185
Settlements - Jake Godbold building sale	554,512
Grant revenue	60,125
Other	632,777
Total other additions	<u>11,672,583</u>

Investment income (loss):

Net appreciation in fair value of investments	147,797,426
Interest and dividends	26,416,362
Rental revenue	1,705,948
Other investment revenue	123,115
Investment expenses	(6,519,120)
Rental expenses	(321,292)
Net investment income (loss)	<u>169,202,439</u>

Total additions to plan net position

313,450,856

Deductions from net position:

Pension benefits remitted	103,305,804
DROP benefits remitted	46,949,151
Refunds of contributions	336,311
Grant - expenses	60,125

Administrative expenses:

Personnel services	1,255,911
Professional services - non investment	722,679
Building rent - office space	246,024
Central services	44,647
Supplies	9,284
Depreciation	12,033
Other services and charges	215,407

Total administrative expenses

2,505,985

Total deductions

153,157,376

Net increase

160,293,480

Net position available for benefits - beginning of year

885,238,008

Net position available for benefits - end of year

\$ 1,045,531,488

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, 2013**

**1. Description of Plan**

The 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	2,123
Deferred Retirement Option Program (DROP) participants	542
Terminated employees entitled to benefits but not yet receiving them	60
Active plan members	2,150
Total participants	4,875

The Fund, as amended effective April 1, 2001, provides, in general, a 3% annual rate of accrual for retirement benefits after 20 years of credited membership, regardless of age, with a minimum benefit of 60% of the average salary received for the 52 pay periods immediately preceding retirement. An additional 2% for each completed year over 20 up to a maximum of 80% may be earned. There is no mandatory retirement age. Effective April 1, 2000, the Fund provides for a cost of living increase to pensioners and their beneficiaries of 3% per annum.

Pension benefits vest after a minimum of five years of membership. Benefits are computed based on average salary for the 52 pay periods immediately preceding vesting multiplied by 3% times the number of credited years of service. Employees in this category may alternatively select a 100% payout of member contributions to the Fund without interest upon withdrawal from the Fund.

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 termination of employment, the member receives the DROP benefits as defined in the plan document and begins to receive normal retirement benefits directly.

Eligible members of the Fund may elect to participate in the Terminal Leave Conversion Program (TLCP) upon retirement. Upon election to participate, the member's credited Terminal Leave and Retirement Leave account balance is transferred into the Fund. The 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.

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, 2012. The Jacksonville City Council has the authority to amend its contribution to the Fund to not less than the minimum state requirement.

Upon termination of the Fund's pension plan for any reason, the asset value as of the date of termination shall be apportioned as follows:

1. Apportionment shall first be made in respect of each retired police officer and firefighter receiving a retirement income hereunder on such date, each person receiving a retirement income on such date on account of a retired (but since deceased) police officer and firefighter and each police officer and firefighter who has, by such date, become eligible for normal retirement but has not yet retired.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

2. For any value remaining, apportionment shall next be made in respect of each police officer and firefighter in the service of the City on such date who has completed at least 10 years of credited service, and who has contributed to the Fund for at least 10 years.
3. If there remains an asset value after the previous apportionments, apportionment shall lastly be made in respect of each police officer and firefighter in the service of the City on such date who is not entitled to an apportionment under previous paragraphs in the amount equal to his or her total contributions to the Fund to date of termination.

## **2. Summary of Significant Accounting Policies**

### Reporting Entity

The financial statements presented are only for the Police and Fire Pension Fund (Fund) of the Consolidated City of Jacksonville, Florida (City) and are not intended to present the basic financial statements of the City.

The Fund is included as a blended component unit fiduciary fund in the City's Comprehensive Annual Financial Report (CAFR), which is a separately issued document. Anyone wishing further information about the City is referred to the CAFR in which the Police and Fire Pension Fund has been included.

### Fund Financial Statements

The accounting and financial reporting policies of the Fund included in this report conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

#### **A. Basis of Accounting**

These financial statements have been prepared on the accrual basis of accounting. Revenues are recorded at the time they are earned. Benefits paid directly to participants include amounts due to DROP participants, and refunds of contributions are recorded when paid. Refunds of DROP contributions, which are deferred for future pension benefit, are accrued biweekly for DROP remittances and monthly for interest credits. Administrative expenses are recorded when incurred and are financed by the Fund.

#### **B. Method Used to Value cash and Investments**

Investments, other than non-marketable securities and real estate, are valued at fair value determined by quoted prices in an active market. For nonmarketable securities, the fair value of such shares is determined by the investment manager, based upon the current market values of the underlying investments. Investments in real estate are valued at fair value as determined by appraisals. Short-term investments consist of money market accounts and other short-term invested cash. Such amounts are recorded at cost which approximates market value.

#### **C. 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.

#### **D. Use of Estimates**

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

**City Of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
**Notes to the Financial Statements**  
**September 30, 2013**

**E. Recently issued accounting standards**

In December 2010, the GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance. This statement improves financial reporting by contributing to the GASB's efforts to codify from all sources of generally accepted accounting principles for state and local governments so they derive from a single source. This standard has been implemented for the fiscal year 2012-13 financial statements.

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, to provide reporting guidance for deferred outflows and inflows of resources. This standard has been implemented for the fiscal year 2012-13 financial statements.

In March 2012, the GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This Statement, effective for fiscal years beginning after December 15, 2012, provides further guidance regarding Statement No. 63. It clarifies the appropriate use of financial statement elements, deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

In June 2012, GASB issued Statement No. 67 Financial Reporting for Pension Plans and No. 68 Accounting and Financial Reporting for Pensions. The new pension accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB Statement No. 67 provisions for plans are effective for financial statements for periods beginning after June 15, 2013, and GASB Statement No. 68 for plan sponsors, are effective for fiscal years beginning after June 15, 2014. The Fund and management, working with professional consultants will evaluate and implement these new requirements.

**3. Reserve Accounts**

An agreement between the Fund and the City established certain reserve accounts consisting of an Enhanced Benefit Reserve Account and a City Budget Stabilization Account. Each reserve account is established to account for contributions in excess of current funding requirements and related earnings thereon for the purpose of leveling the impact of actuarial gain and losses on current funding requirements and to allow greater flexibility in funding options and the granting of enhanced benefits. The Enhanced Benefit Reserve Account total was \$27,647,091 and the City Budget Stabilization Account was \$33,268,816 at September 30, 2013.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

**4. Contributions Required and Contributions Made**

The Fund's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the individual entry age actuarial cost method. The Fund also uses the level percentage of payroll, closed method to amortize any unfunded liability and changes in plan provisions, actuarial assumptions, and gains and losses over a period of 5 - 30 years.

Fund members are required to contribute 7% of their annual covered salary (DROP participants contribute 2%). The City is required to contribute an actuarially determined percentage of the members' annual covered salary (81.91% for 2013). Due to the declining public safety payroll, the City Council decided to contribute the greater of \$121,369,612 or 81.91% of payroll. The remaining required contribution is primarily comprised of state insurance contributions, fines and forfeitures and transfers from the reserve accounts.

The Fund had an annual pension cost of \$114,918,719 for the fiscal year ended September 30, 2013, which was equal to the actual and required contributions. Three-year trend Information is as follows:

Plan Fiscal Years Ended September 30,	Annual Required Contribution (ARC)	Percentage of Contributed ARC	Net Pension Obligation (NPO)/ (Asset)*
2011	\$ 94,631,375	100%	\$ -
2012	90,277,776	100%	-
2013	114,918,719	100%	-

\*The net pension asset (negative NPO) is accumulated in the City Budget Stabilization Account (CSBA), which is drawn upon if actual contributions fall below the annual required contribution. The balance in the CSBA at fiscal year-end 2013 is \$33,268,816.

See Note 8 for actuarial methods and assumptions used.

**5. Deposits and Investments**

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2013, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was \$98,838.

The general investment objective of the Fund is to preserve the purchasing power of the Fund's assets and earn a reasonable rate of return (after inflation) over the long term while minimizing, to the extent reasonable, the short-term volatility of returns.

The 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, 2013, the carrying amount of these deposits and investments (including the pooled cash account but excluding income-producing properties) was \$1,287,125,265. 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.

**City Of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
**Notes to the Financial Statements**  
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All of the Fund's public deposits are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, *Florida Security for Public Deposits Act* (Act). Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, multiplied by the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial Institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and if necessary, assessments against other qualified public depositories of the same type as the depository in default.

The Fund follows GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Investments are presented at fair value, which is based on available or equivalent market values. The money market mutual fund is a 2a-7 fund registered with the SEC and, therefore is presented at actual pooled share price, which approximates fair value.

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 as well as 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 December 20, 2012 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, 2013, the office building and parking garage generated \$467,555 in rental revenue as compared to \$311,891 for the prior fiscal year. The increase from the prior fiscal year primarily relates to a return to normal operations and transactions relating to settlement of a lawsuit that were appropriately recorded in fiscal year 2012.

During the fiscal year ended September 30, 2013, the City exercised its option to purchase the Jake Godbold building from the Fund. The closing took place on September 27, 2013 and the net proceeds of \$14,812,005 from the sale were deposited with the Fund's investment custodian in short term investments until the monies are allocated to an investment manager in fiscal year 2014. The building was previously classified as a real estate investment by the Fund and generated \$1,238,393 in rental revenue during fiscal year 2013.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

At September 30, 2013, the recorded values of all cash and investments were as follows:

U.S. Government and agency obligations	\$ 86,991,186
Corporate bonds	50,365,045
Mortgage-backed securities	52,463,017
Asset-backed securities	6,291,874
Common stocks	578,348,207
Funds - common stock	301,500,056
Funds - other fixed income	37,674,717
Funds - real estate	134,573,862
Real estate (land and buildings)	4,785,000
Miscellaneous	152,377
	<u>1,253,145,341</u>
Short-term investments	39,036,765
Cash	98,838
	<u>98,838</u>
Total cash and investments	<u>\$ 1,292,280,944</u>

During fiscal year 2013, the Fund's Investments (including investments bought and sold as well as held during the year) appreciated/depreciated in value as follows:

U.S. Government and agency obligations	\$ (33,089,713)
Corporate bonds	(9,425,431)
Mortgage-backed securities	(40,560,491)
Asset-backed securities	(581,849)
Common stocks	85,864,642
Funds - common stock	80,569,267
Funds - other fixed income	37,674,717
Funds - real estate	45,419,370
Real estate (land and buildings)	(15,235,000)
Miscellaneous	(2,838,086)
	<u>(2,838,086)</u>
	<u>\$ 147,797,426</u>

### Risk

In accordance with GASB Statement No. 40, investments also require certain disclosures regarding policies and practices with respect to the risks associated with them Interest rate risk, foreign currency risk, credit risk, concentration of credit risk and custodial risk are discussed in the following paragraphs.

### Interest Rate Risk

This is the risk that changes in market interest rates would adversely affect the fair value of an investment. Other than a general limit on fixed income securities of 22.5% of Fund assets, the Fund does not have a formal investment policy that limits Investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the investments over time for the Fund to market interest rate fluctuations is provided in the following table.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

As of September 30, 2013, the Fund's debt security investments had the following maturities:

	Fair Value	Investment Maturities (in years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Government and agency obligations	\$ 86,991,186	\$ 1,014,836	\$ 49,267,197	\$ 26,323,789	\$ 10,385,364
Corporate Bonds	50,365,045	7,047,440	18,827,268	19,142,629	5,347,708
Mortgage-backed and other asset-backed securities	58,754,891	275,264	5,292,740	1,651,183	51,535,704
Funds-other fixed income	37,674,717	116,792	20,227,556	12,775,497	4,554,872
Municipal/Provincial bonds	150,705	-	-	-	150,705
Total investments	<u>\$ 233,936,544</u>	<u>\$ 8,454,332</u>	<u>\$ 93,614,761</u>	<u>\$ 59,893,098</u>	<u>\$ 71,974,353</u>

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.

The Fund holds certain investments in mortgage-backed and other asset-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 subprime home loans for which the monthly interest payments fall, there is a potential for a decline in the value of these investments.

#### Foreign Currency Risk

As of September 30, 2013, the Fund's exposure to foreign currency risk is as follows (all such investments are held in recoverable taxes):

Swiss Franc	\$	101,621
European Euro		40,973
Japanese Yen		15,235
Norwegian Krone		1,274
South Korean Won		387
British Pound		98
	<u>\$</u>	<u>159,588</u>

The Fund's investment policy permits it to invest up to 25% of total investments in foreign investments and currently has a target of 20%. The Fund's current position is approximately 19%.

#### Credit and Concentration Risk

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 Statement of Investment Policy currently in effect provides for a strategic assets allocation mix that is comprised of domestic equities (35%), fixed income securities (22.5%), international equities (20%), real estate (15%), and MLPs-Energy (7.5%). The Trustees additionally seek diversification within the investment portfolio through the utilization of various investment styles, particularly within the stock component of the portfolio. The composite credit ratings of applicable equity investments are not currently available.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

As of September 30, 2013, the Fund's debt security investments credit risk is as follows:

	<b>Fair Value</b>
U.S. Treasuries	\$ 25,325,812
U.S. Agencies	107,445,688
S&P AAA/Moody's Aaa	10,528,790
S&P AA+, Moody Aa1	2,315,683
S&P AA, Moody Aa2	1,599,798
S&P AA-, Moody Aa3	1,175,677
S&P A+, Moody A1	3,133,676
S&P A, Moody A2	8,234,520
S&P A-, Moody A3	10,684,566
S&P BBB+, Moody Baa1	8,663,172
S&P BBB, Moody Baa2	8,253,525
S&P BBB-, Moody Baa3	4,878,477
S&P BB+, Moody Ba1	2,891,007
S&P BB, Moody Ba2	6,611,949
S&P BB-, Moody Ba3	11,906,430
S&P B+, Moody B1	12,803,228
S&P B, Moody B2	4,924,192
S&P B-, Moody B3	1,475,322
S&P CCC+, Moody Caa1	346,607
S&P CCC, Moody Caa2	3,767
S&P CCC-, Moody Caa3	192,141
Not Rated	542,516
Total	\$ 233,936,543

**Custodial Credit Risk**

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, 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. The Fund's investments are either held in the name of the Fund or held in trust under the Fund's name.

**Use of Estimates**

The Fund uses various investment instruments which, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of the investment securities will occur in the near term such that changes could materially affect amounts reported in the financial statements.

**6. 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, 2013.

**City Of Jacksonville, Florida  
Police and Fire Pension Fund  
Notes to the Financial Statements  
September 30, 2013**

**7. 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.

**8. Actuarial Methods and Assumptions**

The information methods and assumptions used in valuations on which reported Information about the Annual Required Contribution, Annual Pension Cost, the funded status and the funding progress of the pension plan is based on the following:

Valuation Date (applied in fiscal year 2013)	10/1/2011
Actuarial cost method	Individual Entry Age
Amortization method	Level percent; closed
Remaining amortization period	5 - 30 years
Asset valuation method	5 year smoothing
Actuarial assumptions:	
Net investment rate of return*	7.75%
Projected salary increases*	5.00%
Amortization of Unfunded Actuarial Accrued Liability	Assumes payroll increases at 4.5% per annum throughout the entire amortization period.
Mortality Table in use	RP-2000, Combined Healthy Mortality Table, separate by sex, Projection Scale AA to valuation
Post-retirement benefit increases (COLA)	3.00%
Expense load	\$2.2 million
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.

\*Includes inflation percentage of 3.00%.

**9. Funding Progress**

Year Ending	Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAALas Percent of Covered Payroll [(b-a)/c]
2011	October 1, 2011	\$ 1,039,894,242	\$ 2,427,197,826	\$ 1,387,303,584	42.84%	\$ 148,967,906	931.28%
2012	October 1, 2012	1,078,906,587	2,762,976,506	1,684,069,919	39.05%	133,611,459	1260.42%
2013	October 1, 2013	1,228,131,184	2,876,606,192	1,648,475,008	42.69%	130,972,174	1258.65%

See Note 8 for actuarial assumptions and methods used and the schedule of funding progress in the Required Supplementary Information section. The schedule of funding progress provides multi-year trend data to help determine whether plan assets are increasing or decreasing relative to the actuarial accrued liability for benefits over time.

**10. Modifications to the Plan**

Due to the fiscal situation caused by worldwide economic issues, meltdown of the Domestic stock market, credit crisis, record unemployment and historic decline in property values-and-tax receipts, the Trustees recognize the concept of meaningful modifications to the pension funding and benefit structure for new members. Any modifications to the current pension benefit structure shall be limited to new members of the Fund who become members after the effective date of amendments to the Ordinance Code implementing any modifications to the pension benefit structure and state approval as may be required. As of the report date, no formal action has been taken.

**City Of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
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**September 30, 2013**

## **11. Pension Plans for Fund Employees**

A defined benefit pension plan is a type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

A defined contribution plan is a type of retirement plan in which the employer, employee, or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits.

The Fund sponsors a single-employer contributory defined benefit plan called the Senior Staff Voluntary Retirement Plan (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. The SERP currently has one active participant, one retiree, and one surviving spouse. 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 five 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).

### **A. 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.
2. Employer contributions – The Fund is required to contribute such sums as are necessary, together with member contributions and earnings, to maintain the Plan on a sound actuarial basis. The contribution rate for fiscal year 2013 was 3.8%, although the Fund contributed in excess of the required \$28,098. For the fiscal years ended September 30, 2013, 2012, and 2011, the fund contributed \$248,016, \$117,460 and \$101,004, respectively, to the SERP for covered employees. For the fiscal years ended September 30, 2013, 2012, and 2011, the Fund's actual contribution amount exceeded the annual required contribution (ARC) amount by \$240,203, (\$380,794) and (\$7,419), respectively. Based on additional information provided by the Fund's actuary, the Fund contributed additional monies in FY2013 to make the net pension obligation equal zero at fiscal year-end.

**City Of Jacksonville, Florida  
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3. Employee contributions – The employees contribute seven percent of their salary. For the fiscal years ended September 30, 2013, 2012 and 2011, the employees contributed \$20,285, \$24,848 and \$33,865 respectively, to the SERP.
4. Funding progress –

Plan Fiscal Year Ended Sept. 30	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability Entry Age (AAL)	(Over) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percent of Covered Payroll [(b-a)/c]
2011	October 1, 2011	\$ 2,345,679	\$ 3,346,073	\$ 1,000,394	70.1%	\$ 238,702	419.1%
2012	October 1, 2012	3,423,706	3,542,346	118,640	96.7%	272,500	43.5%
2013	October 1, 2013	3,918,906	3,865,977	(52,929)	101.4%	291,744	(18.1%)

Since the aggregate method does not separately amortize unfunded actuarial liabilities, the actuarial accrued liability for the SERP is determined using the entry age actuarial cost method. See below for actuarial assumptions and methods used and the schedule of funding progress in the Required Supplementary Information section. The schedule of funding progress provides multi-year trend data to help determine whether plan assets are increasing or decreasing relative to the actuarial accrued liability for benefits over time.

5. Annual Pension Cost/Annual Required Contributions –

Plan Fiscal Year Ended September 30,	Employee Contributions	Employer Contributions	Total Contributions	Annual Required Contribution (ARC)	Percent of ARC Contributed	Net Pension Obligation (NPO)/ (Asset)
2011	\$ 33,885	\$ 101,004	\$ 134,889	\$ 142,308	95%	\$ (140,591) *
2012	24,848	117,460	142,308	523,102	27%	240,203
2013	20,285	248,016	268,301	28,098	955%	- **

\*The SERP had a net pension asset of \$148,010 at the end of FY2010.

\*\* The Fund made additional contributions to pay the net pension obligation.

6. Actuarial Methods and Assumptions –

Valuation Date (applied in fiscal year 2013)	10/1/2012
Actuarial cost method	Individual Entry Age
Amortization method	Aggregate Method*
Asset valuation method	Market Value
Actuarial assumptions:	
Net investment rate of return**	7.00%
Projected salary increases	None
Mortality table in use	RP-200
Post-retirement benefit increase (COLA)	3.00%
Percent married	100%
Retirement ages	The active employee is assumed to retire in five years
Age differences for spouses of employed	Females are 3 years younger than males

\*The actuarial cost method used by the Plan 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.

\*\*Includes inflation at 2.50%

**City Of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
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B. City of Jacksonville Retirement System (JRS)

1. Plan Description –

- a. The GEPP Contributory Defined Benefit (DB) Pension Plan provides vesting of benefits after five years of creditable service. Members are eligible for normal retirement on the next pay period following: the date upon which the member completes 30 years of credited service, regardless of age; or the date upon which the member attains age 55 with 20 years of credited service or the date upon which the member attains age 65 with five years of service. Retirement benefits shall be equal to 2.5% of average final compensation for each year of credited service. Benefits shall be paid on a bi-weekly basis. Early retirement shall be available to a member the first full pay period following the completion of 25 or more years of service, but less than 30 years of service, regardless of age with a benefit of 2.0% per year of credited service or the attainment of age 50 and a completion of 20 years of credited service with the benefit of 2.5% of credited service reduced at the rate of 0.5% per month for each month that the member's retirement date precedes the attainment of age 55. 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 disability retirement and death benefits.
- b. The GEPP Defined Contribution (DC) Pension Plan provides vesting of benefits at 25% upon the conclusion of two years of credited service and shall vest an additional 25% each year thereafter until fully vested upon the conclusion of five years of credited service.

2. Employer contributions –

- a. DB Plan – The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The funding for FY2013 was 20.51% of payroll. For the fiscal years ended September 30, 2013, 2012 and 2011, the Fund contributed \$66,866, \$53,557 and \$40,028, respectively, to the DB Plan for covered employees which was equal to the required contributions.
- b. DC Plan – The Plan's funding policy provides for a 7.7% bi-weekly contribution to the City's DC Trust Administrator on behalf of the employee. For the fiscal years ended September 30, 2013, 2012, and 2011, the Fund contributed \$7,637, \$5,002 and \$0 respectively, to the DC Plan for the covered employee.

3. Employee contributions –

- a. DB Plan – The employees contribute 7.7% of their salary. For the fiscal years ended September 30, 2013, 2012 and 2011, the employees contributed \$25,103, \$23,545 and \$22,976 respectively, to the GEPP DB Plan.
- b. DC Plan – One employee contributes 7.7% of his salary. For the fiscal years ended September 30, 2013, 2012 and 2011, the employee contributed \$7,637, \$5,002 and \$0 respectively, to the GEPP DC Plan.

**City Of Jacksonville, Florida**  
**Police and Fire Pension Fund**  
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4. Disability – For both the DB and DC plans, the employer and employee contribute 0.3% of wages for the disability provision.
5. Funding progress – Please see the City of Jacksonville's CAFR for Funding Progress of the GEPP DB Plan. The GEPP DC Plan is fully funded on a bi-weekly payroll basis.

## **12. Subsequent Events**

### Change in Market Value of Investments

As of December 31, 2013, the market value of investments including accruals of interest and dividends receivable was \$1,483,821,981. This balance includes a transfer of \$118,000,000 from the City. As well, the change in market value attributable to investment returns from September 30, 2013 is approximately 24% when annualized.

### Minimum Required Contribution

As of October 1, 2013, the City's contribution rate to the Plan was increased to 110.85% of active members' salaries. The City Council approved a minimum \$148,108,302 contribution to the Fund in fiscal year 2014.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Jacksonville. Florida Police and Fire Pension Fund  
Schedule of Funding Progress  
For the Year Ended September 30, 2013**

Year Ending	Actuarial Value of Assets (a)	Accumulated Reserve Accounts (b)	Actuarial Accrued Liability (AAL) (c)	Unfunded AAL (UAAL) (c-a)	Funded Ratio (a/c)	Annual Covered Payroll (d)	Ratio of UAAL to Annual Covered Payroll [(c-a)/d]
2008	\$ 894,903,336	\$ 12,723,482	\$ 1,692,974,683	\$ 798,071,347	52.86%	\$ 148,276,743	538.23%
2009	855,996,514	13,048,401	1,753,945,664	897,949,150	48.80%	155,557,729	577.24%
2010	1,060,406,308	2 22,116,760	2,024,453,414	964,047,106	52.38%	158,046,680	609.98%
2011	1,039,894,242	2 24,371,814	2,427,197,826	1,387,303,584	42.84%	148,967,906	931.28%
2012	1,078,906,587	1,2 28,406,915	2,762,976,506	1,684,069,919	39.05%	133,611,459	1260.42%
2013	1,228,131,184	60,915,907	2,876,606,192	1,648,475,008	42.69%	130,972,174	1258.65%

1 For Plan Years ending 9/30/06 and 9/30/07, the Actuarial Value of Assets was changed to equal Market Value.

2 Beginning with plan year 2010, the actuarial value of assets and AAL reflect accumulated DROP payments along with DROP and RLA interest since these assets of the Trust. Beginning with plan year ending 2011, the Senior Staff Voluntary Retirement Plan is recognized as part of the assets of the Trust.

Changes from the October 1, 2008 valuation to the October 1, 2011 valuation:

Mortality for healthy lives was changed from 1994 GAM, separate by sex, to RP-2000.

Combined Healthy mortality Table, separate from sex; Projection Scale AA to valuation date. Mortality for disabled lives was changed from 1994 GAM, separate by sex, with 10 year set forward to RP-2000 Disabled Retiree Table, separate by sex; Projection Scale AA to valuation date.

The salary scale was decreased from 5.5% to 5.0%.

The retirement decrements were increased and revised to use service based rates rather than age based.

The net investment yield assumption was reduced from 8.5% to 7.75% compounded annually, net of investment expenses.

The amortization of the unfunded actuarial accrued liability assumes a payroll increase of 4.5% per year, decreased from the prior 5.25% per year.

Disability decrements have been eliminated.

See Note 9 to the notes to the financial statements

The accompanying notes are an integral part of these schedules.

**City of Jacksonville. Florida Police and Fire Pension Fund**  
**Schedule of Contributions from the Employer and Other Contributing Entities**  
**For the Year Ended September 30, 2013**

<u>Year Ending</u>	<u>Annual Required Contributions (ARC)</u>	<u>City Cash Contributions</u>	<u>Allotted from CBSA</u>	<u>Court Fines</u>	<u>Premium-Tax Refunds</u>	<u>Total Employer Contributions</u>	<u>Total Member Contributions</u>
2008	\$ 65,389,407	\$ 47,145,307	\$ 442,776	\$ 1,218,796	\$ 5,931,069	\$ 54,737,948	\$ 10,651,459
2009	67,993,368	49,246,033	329,448	988,726	6,222,309	56,786,516	11,206,852
2010	95,019,914	81,170,863	(5,014,820)	1,026,015	6,321,868	83,503,926	11,515,988
2011	94,631,375	75,038,616	1,162,380	864,318	5,958,716	83,024,030	11,607,345
2012	90,277,776	69,828,557	3,130,318	770,125	5,344,459	79,073,459	11,204,317
2013	114,918,719	121,822,333	(22,583,482)	757,984	5,238,886	105,235,721	9,682,998

In all years shown, 100% of the ARC has been contributed thus producing a Net Pension Obligation of \$0 for all years. The Net Pension Asset is accumulated in the City Budget Stabilization Account (CBSA), which is drawn upon if actual contributions fall below the ARC. The balance is the CSBA at fiscal year ended September 30, 2013 is \$33,268,816. City Cash Contributions shown above do not include employer buyback contributions.

Total Member Contributions shown above include DROP contributions, but do not include employee buyback contributions.

See Note 4 to the notes to the financial statements

The accompanying notes are an integral part of these schedules.

**City of Jacksonville. Florida Police and Fire Pension Fund**  
**Schedule of Funding Progress for the Senior Staff Voluntary Retirement Plan**  
**For the Year Ended September 30, 2013**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability Entry Age (AAL)	(Over) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percent of Covered Payroll [(b-a)/c]
July 1, 2008	*	*	*	*	*	*
October 1, 2009	** \$ 2,018,764	\$ 2,733,453	\$ 714,689	73.9%	\$ 265,612	269.1%
October 1, 2010	*	*	*	*	*	*
October 1, 2011	2,345,679	3,346,073	1,000,394	70.1%	238,702	419.1%
October 1, 2012	3,423,706	3,542,346	118,640	96.7%	272,500	43.5%
October 1, 2013	*** 3,918,906	3,865,977	(52,929)	101.4%	291,744	-18.1%

\* The Fund elected not to have an actuarial valuation performed.

\*\* The Fund elected to move the actuarial valuation date from a July 1 basis to an October 1 basis.

\*\*\* The October 1, 2013 Actuary Valuation Study is in DRAFT form at time of issuance.

Plan Assumptions (10-1-2012 valuation date actuarial study used for fiscal year ended 2013):

Earnings rate: 7.0% compounded annually.

Mortality Table in use; RP-2000 Combined Healthy Mortality Table, separate by sex; Projection Scale AA to valuation date.

Salary Scale: None.

Cost of living Adjustments (COLA): 3.0% compounded annually.

Percent Married: 100%

Retirement Ages: The active employee is assumed to retire in five years.

Age Differences for Spouses of Employed: Females are 3 years younger than males.

Changes since the October 1, 2011 valuation:

The net investment yield was reduced for 7.75% to 7.00% compounded annually.

The active employee is assumed to retire in five years.

See Note 11 to the notes to the financial statements

The accompanying notes are an integral part of these schedules.

**City of Jacksonville. Florida Police and Fire Pension Fund**  
**Schedule of Contributions from the Employer and Members for the Senior Staff Voluntary**  
**Retirement Plan**  
**For the Year Ended September 30, 2013**

<b>Plan Year Ending</b>	<b>Annual Required Contributions (ARC)*</b>	<b>Employee Contributions</b>	<b>Employer Contributions</b>	<b>Total Contributions</b>	<b>Percentage Contributions</b>	<b>Net Pension Obligation (NPO)/(Asset)</b>
2008	\$ 189,051	\$ 33,837	\$ 155,214	\$ 189,051	100%	\$ -
2009	218,904	35,553	183,351	218,904	100%	-
2010	134,889	35,423	247,476	282,899	210%	(148,010)
2011	142,308	33,885	101,004	134,889	95%	(140,591)
2012	523,102	24,848	117,460	142,308	27%	240,203
2013	28,098	20,285	248,016	268,301	955%	-

\* The schedule above was revised from prior year's reporting due to additional information provided by the Fund's actuary.

Certain adjustments are made to the ARC if the plan carries a NPO. The NPO (asset if a credit) is defined in GASB No. 27 as the cumulative difference at the date of adoption (or transition) between annual requirements and actual contributions plus the cumulative difference between the requirements and contributions after that date. For the fiscal year ended 2013, additional contributions were made to make the NPO equal \$0.

See Note 11 to the notes to the financial statements

The accompanying notes are an integral part of these schedules.



KBLD LLC  
Certified Public Accountants

Is your business a puzzle?  
Let us bring the pieces together

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February 21, 2014

**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, 2013, 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 21, 2014.

**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.

Handwritten signature in cursive script, appearing to read 'KBLD LLC'.

KBLD, LLC