

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, 2017



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September 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the Police and Fire Pension Fund
City of 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 (the "Fund"), which comprise the statement of fiduciary net position as of September 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Fund 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.

Auditors' Responsibility

Our responsibility is to express an opinion 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 of 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 auditors' 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 auditors consider internal control relevant to the Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund as of September 30, 2017, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed In Note 1 to the financial statements, the accompanying financial statements present only the City of Jacksonville, Florida Police and Fire Pension Fund and do not purport to, and do not, present fairly the net position restricted for pension benefits of the City of Jacksonville, Florida, as of September 30, 2017, or the City's changes in net position restricted for pension benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in 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 *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2018 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Fund's internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Carri Riggs & Ingram, L.L.C.

Jacksonville, Florida

May 24, 2018

Management's Discussion and Analysis (Unaudited)

We are pleased to provide this overview and analysis of the financial activities of the City of Jacksonville, Florida Police and Fire Pension Fund (Fund) during the fiscal year ended September 30, 2017. 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, 2017, was \$1,892,797,131. The fiduciary net position, which is held in trust for pension benefits, is available to meet the Fund's ongoing obligations to Fund participants and their beneficiaries.
- The net position represents an increase of \$279,753,307 or 17.34%. 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 revenues sources. As of September 30, 2017, the funded ratio for the Fund was approximately 47.60% which compares to the September 30, 2016 funded ratio of 45.24%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately \$.4760 of assets to cover it.
- Revenues (additions to the fiduciary net position) other than investment income for the 2017 fiscal year were \$210,269,881, which comprises member and employer contributions of \$188,096,681, and other additions of \$21,685,462. This compares to revenues other than investment income in the amount of \$181,961,280 in the prior fiscal year. This 16% increase was largely attributable to a supplemental payment of \$10,000,000 from the City to pay down the unfunded liability.
- Net investment income (part of additions to fiduciary net position) for the 2017 fiscal year was \$242,934,192 compared to net investment income in the amount of \$153,879,649 that was recorded in the prior fiscal year.
- Expenses (deductions in fiduciary net position) not related to investment activities for the 2017 fiscal year increased from \$163,245,229 to \$173,450,766 or approximately 6.25%.

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:

Management's Discussion and Analysis (Unaudited)

- 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 as an 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 page 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 page 9 – 25 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 26 – 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.

**City of Jacksonville, Florida
Police and Fire Pension Fund**

Management's Discussion and Analysis (Unaudited)

Condensed Statement of Fiduciary Net Position

	September 30,		Increase (Decrease)
	2017	2016	2017/2016
Current assets	\$ 29,243,384	\$ 49,793,025	\$ (20,549,641)
Investments	1,869,866,404	1,575,485,127	294,381,277
Securities lending collateral	98,411,738	92,760,152	5,651,586
Capital assets	12,481	6,751	5,730
Total assets	<u>1,997,534,007</u>	<u>1,718,045,055</u>	<u>279,488,952</u>
Deferred outflows of resources	112,110	112,110	-
Current liabilities	5,750,885	11,665,471	(5,914,586)
Securities lending obligations	98,411,738	92,760,152	5,651,586
Long-term liabilities	686,363	687,718	(1,355)
Total liabilities	<u>104,848,986</u>	<u>105,113,341</u>	<u>(264,355)</u>
Total fiduciary net position	<u>\$ 1,892,797,131</u>	<u>\$ 1,613,043,824</u>	<u>\$ 279,753,307</u>

Condensed Statement of Changes in Fiduciary Net Position

	September 30,		Increase (Decrease)
	2017	2016	2017/2016
Plan member contributions	\$ 13,570,483	\$ 12,830,861	\$ 739,622
Employer contributions	174,526,198	152,494,371	22,031,827
Other additions	21,685,462	16,636,048	5,049,414
Net investment income	242,934,192	153,879,649	89,054,543
Net securities lending activities	487,738	433,493	54,245
Total additions to fiduciary net position	<u>453,204,073</u>	<u>336,274,422</u>	<u>116,929,651</u>
Benefit payments	171,277,149	159,726,009	11,551,140
Administrative expenses	2,173,617	3,519,220	(1,345,603)
Total deductions to fiduciary net position	<u>173,450,766</u>	<u>163,245,229</u>	<u>10,205,537</u>
Change in fiduciary net position	279,753,307	173,029,193	106,724,114
Fiduciary net position available for benefits - beginning of year	1,613,043,824	1,440,014,631	173,029,193
Fiduciary net position available for benefits - end of year	<u>\$ 1,892,797,131</u>	<u>\$ 1,613,043,824</u>	<u>\$ 279,753,307</u>

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, 2017 was \$1,892,797,131, representing an increase of \$279,753,307 or 17% from \$1,613,043,824 at September 30, 2016. The increase was largely a result of favorable investment returns available in the financial markets.

Management's Discussion and Analysis (Unaudited)

For the 2017 fiscal year, employer and member contributions were \$188,096,681 representing an increase of 14% over the \$165,325,232 recorded during the 2016 fiscal year. The increase in the level of pension contributions during the fiscal year 2017 resulted from the amount of contributions by the City based on the actuarial study. The Fund recognized net investment income of \$242,934,192 for the 2017 fiscal year, compared with net investment income of \$153,879,649 for the 2016 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 \$759,291; Florida Chapter 175 and 185 premium taxes \$10,874,768; supplemental payment from City to reduce unfunded liability \$10,000,000, and miscellaneous revenues \$51,403. Miscellaneous revenues consisted of commissions recapture \$24,652, sales of surplus, lost, abandoned and unclaimed property held by the Office of Sheriff \$7,610, and investment security settlements \$19,141. For the 2107 fiscal year, these other additions of revenue sources produced revenues in the amount of \$21,685,462 for the Fund, representing a \$5,049,414 or 30% increase as compared to the \$16,636.048 recorded during the 2016 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 2017 fiscal year, retirement and survivor benefits (including DROP) were \$171,277,149. Administrative expenses during the 2017 fiscal year were \$2,173,617 versus \$3,519,220 in the prior fiscal year.

At September 30, 2017, the Fund held \$1,175,935,866 in U.S. equity, international equity securities and MLP's Energy, an increase of \$122,541,628 or 11.6% from \$1,053,394,238 held at September 30, 2016. The Fund's money manager's administering U.S. fixed income securities returned approximately 2.29% for the 2017 fiscal year, compared to the Fund's benchmark return of positive .48% on securities.

At September 30, 2017, the Fund held \$311,480,475 in a commingled U.S. real estate investment trust, an increase of \$115,536,952 or 59% compared to the \$195,943,523 real estate investments held at September 30, 2016.

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, 2017

Assets	
Cash and short-term investments	\$ 9,191,583
Due from the City	7,112,996
Other receivable	10,956,119
Interest and dividends receivable	1,901,011
Prepaid assets	81,675
Short-term investments	12,809,251
Long-term investments	
Fixed incomes securities	369,640,812
Domestic and international equities	1,175,935,866
Real estate	311,480,475
Furniture and equipment, net	12,481
Securities lending collateral	98,411,738
Total assets	1,997,534,007
Deferred Outflows of Resources	
Deferred outflows related to pension, net	112,110
Liabilities	
Accounts payable	1,711,351
Accrued pension pay and wages payable	3,967,939
Compensated absences - current	12,336
Compensated absences - long-term	24,310
Net pension liability	582,196
Other post employment-benefits	79,857
Other liabilities	59,259
Securities lending obligations	98,411,738
Total liabilities	104,848,986
Fiduciary net position available for pension benefits	\$ 1,892,797,131

See accompanying notes.

City of Jacksonville, Florida
Police and Fire Pension Fund

Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2017

Additions		
Contributions:		
Plan member	\$	12,036,456
Plan member buybacks and pension transfers		1,534,027
Employer		167,788,151
Employer pension transfers		6,738,047
Total contributions		188,096,681
Other contributions:		
Court fines and other penalties		759,291
State insurance contributions		10,874,768
Supplemental payment		10,000,000
Miscellaneous		51,403
Total other additions		21,685,462
Investment income:		
Rental and parking revenue		771,181
Net appreciation in fair value of investments		220,736,757
Interest and dividends		29,428,418
Investments and expenses		(7,826,889)
Rental expenses		(175,275)
Net investment income		242,934,192
Securities lending activities:		
Lending revenue		650,252
Lending expense		(162,514)
Total securities lending activities		487,738
Total additions to fiduciary net position		453,204,073
Deductions		
Benefit-related expenses:		
Pension benefits remitted		139,255,840
DROP benefits remitted		31,209,926
Refunds of contributions		811,383
Total benefit-related expenses		171,277,149
Administrative expense:		
Personnel services		989,195
Professional services - non investment		463,277
Building rent - office space		258,000
Central services		412,731
Supplies		8,936
Depreciation		6,751
Judgements and settlements		-
Other services and changes		34,727
Total administrative expenses		2,173,617
Total deductions to fiduciary net position		173,450,766
Change in fiduciary net position		279,753,307
Fiduciary net position available for benefits - beginning of year		1,613,043,824
Fiduciary net position available for benefits - end of year	\$	1,892,797,131

See accompanying notes.

City of Jacksonville, Florida
Police and Fire Pension Fund

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF FUND

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's police and fire departments hired prior to October 1, 2017. Qualified membership is further limited to only include 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	2,982
Inactive, nonretired members	73
Active plan members	<u>2,362</u>
Total participants	<u><u>5,417</u></u>

The Fund was created by Ch. 18615, Special Acts of Florida, 1937. The Fund is also governed by certain provisions of Chapter 175, Florida Statutes, Chapter 185, Florida Statutes, Part VII, Chapter 112, Florida Statutes and the Internal Revenue Code.

Changes during the fiscal year ended September 30, 2017:

Ordinance Nos. 2017-259 and 2017-257, dated April 19, 2017, made the following revisions in benefits:

- Effective October 1, 2017, the Jacksonville Police and Fire Pension Fund is closed to new entrants.
- For all members of the Fund, the member contribution rate is changed to 10% of pay effective October 1, 2017.
- All members (including members hired after June 19, 2015 and previously in Group II) of the Fund are eligible for the benefits which were in place prior to the adoption of Ordinance No. 2015-304-E.
- Benefits that were specifically applicable to Group II are eliminated, and language differentiating separate groups was removed. In particular, all members are eligible for the following benefit provisions:
 - The accrued benefit is equal to 3% of average salary for each of the first 20 years of service plus 2% of average salary for each of the next 10 years of service.
 - The normal retirement date is when a member attains 20 years of service.
 - The average salary is computed as the average of the final 2 years (52 pay periods).
 - Cost of living adjustments are 3% annually, beginning with the first January following the commencement of benefits.
 - All members are eligible to participate in the DROP with interest accrued at an annual rate of return of 8.4%.

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF FUND (CONTINUED)

Ordinance 2017-259 also amended the Fund's funding policy as follows:

- Beginning with the Fiscal Year 2017-2018, a liquidity ratio, defined as the market value of assets divided by the annual benefit payments, is instated, where in any year if the liquidity ratio falls below 5.0, the City shall, subject to annual appropriation, make a contribution or payment in an amount sufficient to restore the Fund's liquidity ratio to at least 5.0.
- Beginning with the Fiscal Year 2017-2018, the City shall, subject to annual appropriation, make an annual contribution of at least \$110 million, less any amount paid to restore the liquidity ratio to the minimum level of 5.0.
- Effective October 1, 2017, all Chapter 175 and 185 Florida Insurance Premium Tax Rebate Dollars shall be administered by the Board for the legal use of the firefighter and police officer members, as determined by the legally recognized collective bargaining unit.

The changes discussed above are effective on October 1, 2017. The following descriptions were in effect as of September 30, 2017:

Group I members

Members with five or more years of service as of the effective date of Ordinance 2015-304-E 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.

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF FUND (CONTINUED)

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 members during the 130 bi-weekly pay period 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 of 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.

Other benefits based on eligibility:

Share Plan

Members of the Fund also participate in a supplemental Share Plan which is funded by insurance premium taxers 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. 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 their share of the account balance.

Terminal Leave Conversion Program

The Fund has a program for retirees to participate in the Terminal Leave Conversion Program (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 bi-weekly healthcare premiums. The member's TLCP balance in the Fund continues to accrue interest until the member's individual account balance is drawn to zero.

Notes to Financial Statements

NOTE 1 – DESCRIPTION OF FUND (CONTINUED)

Deferred Retirement Option Plan

Eligible members of the Fund may elect to participate in the Deferred Retirement Option Plan (DROP). Upon election to participate the member's credited service and final average salary are frozen for purposes of determining pension benefits. Participating members continue 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.

Contribution Requirements

The State of Florida requires funding of pension contributions be made based upon an actuarial valuation. The most recent full actuarial valuation report available for distribution is dated October 1, 2017. The City Council has the authority to amend its contribution to the Fund but not below the minimum state requirement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Contribution 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 term of the Fund.

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.

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 after 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.

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bonds and other fixed income investments are primarily reported at fair values obtained from independent pricing services. Mortgages are valued on the basis of future principal plus interest payments and 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.

Investment Policy

The pension Fund'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 each 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:

Asset Class	Target Allocation	Guidelines
Domestic equity	39.0%	34-44%
International equity	20.0%	15-25%
Fixed income	20.5%	14-24.5%
Real estate	15.0%	10-20%
MLPs	5.5%	0-10%
Private real assets	0.0%	0-5%
Cash	0.0%	0-5%
Total	100.0%	100%

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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/Inflows 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 (the "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.

Recently issued accounting standards

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 government employers. This Statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in paragraph 3 of Statement 67. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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.

Notes to Financial Statements

NOTE 3 - RESERVE ACCOUNTS

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

- 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 finds 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, 2017 the balance of the various accounts are: UALPA \$71,970,336, CBSA \$5,810,972, EBA \$5,410,141 and SUPA \$32,497,250.

The SERP reserve account was established on September 20, 2000 by the Board of Trustees to account for employee and employer contributions and payments for the defined contribution plan for senior staff. At September 30, 2017 the balance was \$4.4 million.

The Share Plan was established on June 9, 2015 (Ordinance 2015-304-E) by the City and Fund to provide supplemental benefits to eligible active members.

Ordinance 2017-259, dated April 19, 2017, amended the Fund so that effective October 1, 2017, the accumulated balances existing on September 30, 2017, together with interest thereon, in the UALPA and the Supplemental Payment Account (SPA), will be allocated as follows:

- 20% shall be administered by the Board for the legal use of police officer members, Jacksonville Police and Fire Pension Fund 3 as determined by the legally recognized collective bargaining unit;
- 20% shall be administered by the Board for the legal use of firefighter members, as determined by the legally recognized collective bargaining unit; and,
- 60% shall be administered by the Board for the sole purpose of being applied to the City's Actuarially Determined Employer Contribution (ADEC) for the year(s) selected by the City, at the discretion of the City.

Ordinance 2017-259 also amended the Fund so that effective October 1, 2017, 100% of the accumulated balances existing on September 30, 2017, in the City Budget Stabilization Account (CBSA) and the Enhanced Benefit Account (EBA), together with interest thereon, shall be administered by the Board for the sole purpose of being applied to the City's ADEC for the year(s) selected by the City, at the discretion of the City.

Notes to Financial Statements

NOTE 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 a maximum period of five (5) additional years while accumulating a savings account consisting of retirement benefits that would have been received had the employee actually retired.

For members with 20 or more years of creditable service, as of 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 201-304-E, such interest shall accrue based on the money-weighted rate of return or internal rate of return as presented in the Fund'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 rate of return 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, 2017 was 10.0%.

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 with the Fund and subsequently withdrawing equal bi-weekly amounts over a period of time selected by the retiree, up to the maximum time limit set by the IRS regulations. The DROP balance as of September 30, 2017 was \$310,283,837.

NOTE 5 – 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 in 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 total pension liability of the SERP was determined as \$4,684,398 at September 30, 2016 based on an actuarial study completed for that fiscal year. At that same date, the SERP's fiduciary net position was \$4,102,201. During the prior fiscal year, the Board became a defendant in a litigation process related to the SERP (see Note 12). Based on this process, there is an expectation that the ultimate pension liability for the SERP be determined by the court. Accordingly, no actuarial study has been performed for the fiscal year ended September 30, 2017 and no adjustments have been made in the books of the Fund. A total of \$582,197 are recorded in the books of the Fund and represent the City's best estimate of the fiduciary net pension liability for the SERP as of the prior fiscal year.

Notes to Financial Statements

NOTE 5 – PENSION PLANS FOR FUND EMPLOYEES (CONTINUED)

The Fund also participates in the City of Jacksonville Retirement System (the “JRS”). The JRS is a cost-sharing, multiple-employer, contributory defined benefit pension plan with a defined contribution alternative. The JRS administered by a nine-member Board of Trustees that makes recommendations to the City Council. The Fund participates in the General Employee Pension Plan (the “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 (the “CAFR”).

NOTE 6 – DEPOSITS AND INVESTMENTS

For the year ended September 30, 2017, the annual money weighted rate of return on investments was 10.0%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2017, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was \$9,041,421.

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, 2017, the carrying amount of these deposits and investments was \$1,863,561,404. 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 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 government (if the obligations are rated investment grade 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 assignments 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 generating asset. During the fiscal year ended September 30, 2017, the office building and parking garage generated \$771,181 in rental revenue.

City of Jacksonville, Florida
Police and Fire Pension Fund

Notes to Financial Statements

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

The table below shows the Fund’s investments by type as of September 30, 2017:

Cash and cash equivalents:	
Short term investments	\$ 12,809,251
Fixed:	
Commercial mortgage backed	1,046,509
Corporate bonds	109,768,218
Government bonds	42,964,848
Government mortgage backed securities	18,328,177
Funds-other fixed income	197,533,060
	369,640,812
Equity:	
Common stock	376,040,202
Preferred stock	396,900
Common stock funds	653,956,991
Hedge equity	145,541,773
	1,175,935,866
Real estate	311,480,475
Total	\$ 1,869,866,404

Interest Rate Risk

Interest rate risk is the risk that changes in market 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 investment 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. 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 refinancing their loans or payment lives may change which will impact the life of the security. If the investments are backed by risky loans

Notes to Financial Statements

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

or sub-prime home loans for which the monthly interest payments fall, there is a potential for a decline in the value of 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, 2017:

Investment Type	Fair Value	Weighted Average Maturity (Years)
Commercial Mortgage-Backed	\$ 1,046,509	0.17
Corporate Bonds	109,768,218	5.20
Government Bonds	42,964,848	0.98
Government Mortgage Backed Securities	18,328,177	2.04
 Total Fair Value	 <u>\$ 172,107,752</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 repayment options.

Foreign Currency Risk

Foreign currency is the risk that changes in the exchange rates will adversely affect the fair value of investments as of September 30, 2017. 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 weighting and integrity of the deposit and investments instruments. The Fund places no limit on the amount it may invest in any one issuer.

**City of Jacksonville, Florida
Police and Fire Pension Fund**

Notes to Financial Statements

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

As of September 30, 2017, the following Organizations held 5% or more of the Fund’s fiduciary net position:

Equity	Market Value	Market Value as a Percentage
NT S&P 500	\$ 209,049,218	11.2%
Eagle	203,114,509	10.9%
Neuberger	176,884,415	9.5%
JPM	155,241,528	8.3%
Silchester	150,786,718	8.1%
Baile Gifford	145,717,368	7.8%
Arcadian	124,310,129	6.7%
Loomis	122,160,973	6.6%
Sawgrass	94,995,108	5.1%
Total	\$ 1,382,259,966	

As of September 30, 2017 the Fund’s debt security investments credit risk are in the following table:

Fair Value Moody's	
Aaa	\$ 45,792,085
Aa	9,920,674
A	10,504,441
Baa	58,498,518
Ba	19,743,449
B	7,992,025
Caa	579,703
Not Rated	51,178,775
Total	\$ 204,209,670

Notes to Financial Statements

NOTE 6 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial risk for investment is the risk that, in the event of failure of the counterparty transaction, the Fund will not be able to recover the value of 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.

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 consist of 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 an interest rate, which is due back to the broker/dealer upon return of the security. The cash is then invested in short-term. 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, 2017, the Fund maintained collateral on loaned securities of \$98,411,738 and earned net income of \$487,738.

**City of Jacksonville, Florida
Police and Fire Pension Fund**

Notes to Financial Statements

NOTE 7 – FAIR VALUE MEASUREMENTS

The Fund categorizes its fair value measurements within the fair value hierarchy established by the generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets of 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, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed:				
Commercial mortgage-backed	1,046,509	-	1,046,509	-
Corporate Bonds	109,768,218	-	109,768,218	-
Government bonds	42,964,848	42,964,848	-	-
Government mortgage-backed securities	18,328,177	-	18,328,177	-
Funds - other fixed income	197,533,060	-	197,533,060	-
Total fixed	<u>369,640,812</u>	<u>42,964,848</u>	<u>326,675,964</u>	-
Equity:				
Common stock	376,040,202	376,040,202	-	-
Preferred stock	396,900	396,900	-	-
Common stock funds	653,956,991	-	653,956,991	-
Hedge equity	145,541,773	-	-	145,541,773
Real estate	311,480,475	-	-	311,480,475
Total equity	<u>1,487,416,341</u>	<u>376,437,102</u>	<u>653,956,991</u>	<u>457,022,248</u>
Total investments by fair value level	<u>\$ 1,857,057,153</u>	<u>\$ 419,401,950</u>	<u>\$ 980,632,955</u>	<u>\$ 457,022,248</u>

**City of Jacksonville, Florida
Police and Fire Pension Fund**

Notes to Financial Statements

NOTE 8 – 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
\$ 10,978,544	\$ (22,425)	\$ 10,956,119

NOTE 9 – NET PENSION LIABILITY OF THE CITY

The City's net pension liability represents the difference between the value in today's dollars (present value) of benefits already earned by employees (total pension liability) and resources accumulated and held in trust to pay those benefits (fiduciary net position).

Total pension liability	\$ 3,736,609,624
Total Plan fiduciary net position (net of reserve accounts- See Note 3)	1,765,159,006
City's net pension liability	\$ 1,971,450,618

Plan fiduciary net position as a percentage of the total pension liability	47.24%
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Actuarial Methods and Assumptions Used to Measure Net Pension Liability

The valuation date and measurement date are September 30, 2017. The actuarial methods and assumptions used in the October 1, 2017 valuation were based on the following:

Actuarial Cost Method:	Entry Age Normal
Inflation:	2.5%
Salary Increases:	10% in 2017 and 2018, 10.5% in 2019, and then 3.5% per year in 2020 and subsequent years, including inflation
Investment Rate of Return:	7.00%
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition.

The Fund 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 health mortality rates also contain a provision to reflect future mortality improvements.

Notes to Financial Statements

NOTE 9 – NET PENSION LIABILITY OF THE CITY (CONTINUED)

The total pension liability in the October 1, 2017 actuarial report was based on the RP-2000 Combined Healthy Participant Mortality Table (for preretirement mortality) and the RP-2000 Mortality Table for Annuitants (for postretirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates currently in use for Special Risk Class members of the Florida Retirement System (FRS), as mandated by Florida House Bill 1309.

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, 2017 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%
MLPs	1.4%
Private real assets	5.5%
Cash	0.0%

These are combined to produce the 7% expected 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 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 investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to Financial Statements

NOTE 9 – NET PENSION LIABILITY OF THE CITY (CONTINUED)

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 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	\$ 2,520,105,892	\$ 1,971,450,618	\$ 1,529,004,044

NOTE 10 – 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 has qualified and the related trust was tax exempt as of September 30, 2017.

NOTE 11 – CLAIMS AND LITIGATION

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 modification to the formula for calculating retirement benefits is a breach of contract. The Fund is working with legal counsel and is in the process of gathering evidence and 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, 2017.

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

NOTE 12 – MINIMUM REQUIRED CONTRIBUTION

In accordance with Ordinance 2017-504-E for fiscal year 2018 the City will contribute \$135,648,057 as determined by the Fund actuary on the April 19, 2017 Actuarial Impact Statement.

NOTE 13 – SUBSEQUENT EVENT

Management has evaluated subsequent events through May 24, 2018, 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
Last Six Fiscal Years

	2017	2016	2015	2014	2013	2012
Total Pension Liability						
Service cost (BOY)	\$ 45,257,077	44,087,089	46,662,780	47,915,012	46,109,290	47,569,761
Interest on total pension liability	233,338,035	217,546,212	210,942,612	203,577,435	195,519,742	190,343,631
Benefit Changes	26,813,328	-	(28,684,960)	-	-	-
Difference between actual and expected experience	24,030,616	3,566,449	24,831,339	22,671,112	(4,675,994)	(12,512,641)
Changes of assumptions	232,927,458	97,813,304	24,514,349	-	5,332,605	227,333,255
Benefit payments, including refunds of member contributions	(171,277,149)	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)
Net change in total pension liability	391,094,365	203,287,047	129,637,644	135,984,376	113,629,686	335,778,880
Total pension liability - beginning	3,345,515,259	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)	3,736,609,624	3,345,515,259	3,142,228,212	3,012,590,568	2,876,606,192	2,762,976,506
Plan fiduciary net position						
Contributions including buybacks--employer	184,526,198	157,494,371	154,664,523	150,520,270	121,822,333	72,642,853
Contributions including buybacks--member	13,570,483	12,830,861	12,061,321	11,583,565	10,753,501	11,610,870
Net investment income, including securities lending	243,421,930	154,313,142	(62,884,634)	147,332,798	169,202,439	181,653,432
Benefit payments, including refunds of member contributions	(171,277,149)	(159,726,007)	(148,628,476)	(138,179,183)	(128,655,957)	(116,955,126)
Administrative expense	(2,173,617)	(3,519,224)	(2,228,452)	(2,224,248)	(2,505,985)	(2,351,598)
Chapter 175/185	10,874,768	10,680,624	10,577,853	10,110,493	9,667,185	9,275,728
Court fines	759,291	832,536	920,774	881,291	757,984	770,125
Other	51,404	122,886	327,418	141,855	1,187,289	55,383
Net change in plan fiduciary net position	279,753,308	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	-	-	-	-
Plan fiduciary net position - beginning	1,613,043,823	1,437,776,634	1,473,097,052	1,292,930,211	1,110,737,208	954,035,541
Plan fiduciary net position - ending(b)	1,892,797,131	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	(127,638,125)	(99,645,357)	(83,502,014)	(83,349,437)	(64,834,813)	(31,830,621)
Total fiduciary net position -- ending(b)	1,765,159,006	1,513,398,466	1,354,405,365	1,389,747,615	1,228,131,184	1,078,906,587
Plan net pension liability - ending(a)-(b)	\$ 1,971,450,618	\$ 1,832,116,793	\$ 1,787,822,847	\$ 1,622,842,953	\$ 1,648,475,008	\$ 1,684,069,919
Plan fiduciary net position as a percentage of total pension liability	47.24%	45.24%	43.10%	46.13%	42.69%	39.05%
Covered payroll	149,489,571	\$135,599,741	\$132,735,243	\$134,521,216	\$130,972,174	\$133,611,459
Pension liability as a percentage of total pension liability	1318.79%	1351.12%	1346.91%	1206.38%	1258.65%	1260.42%

Note: This schedule is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

City of Jacksonville, Florida
Police and Fire Pension Fund

Schedule of City Contributions
For the last ten fiscal years

FYE	Actuarially determined City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contribution as a percentage of covered payroll
2017	\$ 165,771,919	\$ 167,788,151 *	(2,016,232)	\$ 141,855,711	118.28%
2016	149,499,492	149,499,492 **	-	135,599,741	110.25%
2015	153,603,996	153,935,565	(331,569)	132,735,243	115.97%
2014	142,432,577	149,158,659	(6,726,082)	134,521,216	110.88%
2013	99,996,835	122,580,317	(22,583,482)	130,972,174	93.59%
2012	73,729,000	70,598,682	3,130,318	133,611,459	52.84%
2011	77,065,314	75,902,934	1,162,380	148,967,906	50.95%
2010	77,182,058	82,196,878	(5,014,820)	158,046,680	52.01%
2009	50,564,207	50,234,759	329,448	155,557,729	32.29%
2008	48,806,879	48,364,103	442,776	148,276,743	32.62%

Valuation Date: October 1, 2015

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	30 years (longest remaining period), 19 years (average single equivalent period)
Asset Valuation Method	Market Value
Inflation	2.5%
Salary Increases	3.5%, including inflation
Investment Rate of Return	7.0%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2014 Blue Collar, age set forward 2 years for males and 1 year for females, with MP-2014 Improvement Scale, generational, sex distinct

*Plus \$10,000,000 supplemental payment

**Plus \$5,000,000 supplemental payment

City of Jacksonville, Florida
Police and Fire Pension Fund

Schedule of Investment Returns
Annual Money-Weighted Rate of Return,
Net of Investment Expenses
Last Ten Fiscal Years

<u>For Year Ended</u>	<u>Percentage</u>
2017	14.27%
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%

Other Reporting

INDEPENDENT AUDITORS' 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*

The Board of Trustees of the Police and Fire Pension Fund
City of 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, Florida Police and Fire Pension Fund (the "Fund"), which comprise the statement of fiduciary net position as of September 30, 2017, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Jacksonville, Florida Police and Fire Pension 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 City of Jacksonville, Florida Police and Fire Pension Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Jacksonville, Florida Police and Fire Pension 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings that we consider to be a material weakness as item 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Jacksonville, Florida Police and Fire Pension 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*.

The Fund's Response to Findings

The Fund's response to the findings identified in our audit is described in its accompanying letter of response. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

Jacksonville, Florida
May 24, 2018

Schedule of Findings

2017-001 Criteria: Management are required to provide accurate census data to the actuary for the actuary to compute the estimated total pension liability.

Condition: The initial census data file provided to the actuary did not include the new pay codes and was therefore incomplete.

Cause: The pay codes were changed during the year and the changes had not been communicated to the team that pulled the data or the team that used the data.

Effect: Inaccurate data being provided to the actuary causes the actuary to compute inaccurate estimates of the total pension liability and the required future contributions which could lead to the plan being incorrectly funded.

Recommendation: The data should be reviewed prior to being submitted to the actuary to ensure all the required elements and any new pay codes have been included.



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May 24, 2018

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Process improvement to address the identified material weakness by the Independent Auditor, Carr, Riggs, & Ingram, LLC (CRI)

Criteria: *It was brought to the attention of the City of Jacksonville's Informational Technology Department (ITD) by the auditors, CRI, the amount of the total pay for firefighters could not balance during the audit process of sampling members. The reason for the balancing issue was due to a realignment of parameters (reporting factors) for salaries to move from a monthly incentive pay to a bi-weekly incentive pay. In doing so, there was an additional parameter added to the reporting side of the salaries, in essence creating third parameter titled bi-weekly incentive pay. Therefore, the totals should have included regular pay, monthly incentive pay and bi-weekly incentive pay for the reporting period. PFPF's staff learned there was a meeting to discuss a parameter change during the middle of fiscal year 2017. PFPF's staff was not included in the meeting(s).*

Condition: *It was determined during the process of initiating a change in the reporting status, all parties involved should have included any additional members that would have been affected by the change of the reports content.*

Cause: *PFPF requested the creation of the annual report to provide to the actuary for their calculation of the total pension liability. This report normally consist of the regular pay and monthly incentive pay for police, firefighters and approved staff. The report did not include the newly added parameter bi-weekly incentive pay, therefore creating a deficiency in the amount of salaries reported to the actuary.*

Effect: *The non-inclusion to a meeting(s) which impacts PFPF's reporting caused the actuary to compute inaccurate estimates of the total pension liability and the required future contributions of the plan in their required actuary reporting.*

Process Improvement: *Fire Department, Police Department, PFPF, Accounting, Payroll, Treasury (here in "departments/divisions") and ITD should all be notified of any request*

to change the parameters of any reporting and the potential impact to all of its members. This process plan shall continue as follows:

- *Any meetings related to the change of parameters of reporting shall include the aforementioned departments/divisions. Any omissions thereafter shall be determined by the departments/divisions*
- *ITD after its normal internal review and project initiation process will share the tentative report/revised data with all relative departments/divisions*
- *Each departments/divisions is responsible for reviewing and testing the data*
- *There shall be a continuous interactive discussions with the departments/divisions regarding the data content and revisions*
- *Departments/divisions with ITD will hold a Q&A session regarding the outcome and/or any potential change(s)*
- *Final report(s) shall be approved (signed off) by each departments/divisions relative to their reporting requirements. ITD will not be held responsible for the reporting content after the approval process.*

Internal Process Improvement: *PFPF will implement the following controls to ensure the data is reviewed and all required elements and any new pay codes have been included prior to being submitted to the actuary:*

- *Prior to running the census data report, PFPF Staff will request the report parameters from ITD and a list of pensionable pay codes from the applicable Employee Services offices.*
- *PFPF Staff will ensure all pensionable pay codes are included in the report. If they are not on the report, then PFPF Staff will work with ITD and/or Employees Services to correct the report.*
- *PFPF Staff will run the report and compare the results to the prior year's report for reasonableness.*

Sincerely,



Kevin B. Grant
Finance Manager