



PRESENTED AT POLICE AND FIRE
REGIONAL TRUSTEES MEETING
ON JAN 18 2005 AS ITEM # 2005-01-9
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Police and Fire Pension Fund

*Financial Statements and
Supplemental Schedules
Year Ended September 30, 2004 and
Independent Auditors' Reports*

POLICE AND FIRE PENSION FUND

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POLICE AND FIRE PENSION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR END SEPTEMBER 30, 2004 (UNAUDITED)

We are pleased to provide this overview and analysis of the financial activities of the Jacksonville Police and Fire Pension Fund (the "Fund") during the fiscal year ended September 30, 2004. This section presents management's discussion and analysis of key financial performance indicators in a narrative format.

Financial Highlights

- The net assets of the Fund as of the close of the reporting period were \$739,373,182. All of these net assets, which are held in trust for pension benefits, are available to meet the Fund's ongoing obligations to plan participants and their beneficiaries.
- The \$739,373,182 value of net assets represents an increase of \$35,304,562, or 5.0%. The increase was primarily a result of the substantial appreciation in the market value of equity securities. The rate of increase in net assets would have been higher had it not been for the negative cash flow fundamentally associated with the Fund's mature status and in the growth in liabilities to DROP participants.
- 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, 2004, the funded ratio for the Fund was approximately 59.55%, which compares to the September 30, 2003 funded ratio of 63.89%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately \$.60 of assets to cover it.
- The Fund's rate of return on investments of 9.5% on a market value basis over the fiscal year ended September 30, 2004 was primarily attributable to a substantial appreciation in the market value of equity securities on a global basis. The magnitude of the appreciation in world equity markets over the one year period ended September 30, 2004 is evidenced from the 14.8% return for the Wilshire 5000, the 13.9% return for the S&P 500, and the 22.5% return for the EAFE (international equity). The return of 9.5% placed the Fund's investment performance in the 42nd percentile when compared to other public pension funds as measured by the Fund's investment performance consultant. This means that the Fund's 9.5% return exceeded the returns generated by 58% of other public pension funds. The Fund's annualized rate of return over the last three years of 6.1% produced a ranking in the 17th percentile.
- Revenues (additions to Plan Net Assets) other than investment income for the 2004 fiscal year were \$41,622,924, which includes member and employer contributions of \$32,008,335 and other additions of \$9,614,589. This compares to revenues in the amount of \$27,258,358 in the prior fiscal year. A large element of this increase was attributable to a \$12,363,378 or 127.0% increase in the level of employer pension contributions. This was largely related to a materially decreased reliance upon assessments against reserve accounts embedded within the Fund which heretofore was used as a source for meeting a portion of the City's contribution requirements.
- Revenues (additions to Plan Net Assets) derived from investment income for the 2004 fiscal year were \$73,279,514. This compares to investment income in the amount of \$108,459,458 that was recorded in the prior fiscal year as a result of the recovery in world equity markets that followed an earlier period of declining market values.
- Expenses (deductions in Plan Net Assets) not related to investment activities for the 2004 fiscal year increased from \$71,275,374 to \$79,597,876 or approximately 11.7%. All of this increase was attributable

to an increase in the level of benefits paid directly to plan participants. The magnitude of this increase was primarily linked to the large number of DROP participants who separated from service during the 2004 fiscal year and commenced the receipt of pension distributions.

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 Assets, 2) Statement of Changes in Plan Net Assets, 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 Assets** 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 Assets**, on the other hand, provides a view of current year additions to and deductions from the resources of the Fund during the fiscal year.

Both statements are 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 Assets and The Statement of Changes in Plan Net Assets 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 (fixed assets) are depreciated over their useful lives.

These two statements report the Fund's net assets 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 assets 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 9–13 of this report).
- 4) **Required Supplementary Information.** 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 15–17 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.

Financial Analysis

The Fund provides retirement benefits to police officers and firefighters employed by the consolidated City of Jacksonville. 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 assets held in trust for benefits at September 30, 2004 were \$739,373,182, an increase of \$35,304,562 or 5.0% from

\$704,068,620 at September 30, 2003. The increase was primarily a result of the substantial appreciation in the market value of equity securities in world equity markets.

For the 2004 fiscal year, employer and member contributions were \$32,008,335 representing an increase of 74.6% over the \$18,331,477 recorded during the 2003 fiscal year. Previous actuarial valuations established an employer funding requirement in an amount equivalent to 18.55% of the payroll base of active participants. The full amount of this funding requirement for fiscal year 2004 was made available from employer pension contributions. By comparison, the funding requirement for fiscal year 2003 was provided from a combination of an employer pension contribution rate of 9.25% and assessments against reserve accounts embedded within the Fund for the remaining funding requirement of 9.30%. Thus, the discontinued reliance upon reserve account assessments required a material increase in the level of employer pension contributions for fiscal year 2004. The Fund recognized a net investment gain of \$73,279,514 for the 2004 fiscal year, compared with a net investment gain of \$108,459,498 for the 2003 fiscal year. The investment gain in 2004 reflected the continued rebound in world equity prices from the severe declines that were experienced in 2002. The magnitude of the continued rebound in world equity markets for the 2004 and 2003 fiscal years is evidenced from the returns from the Wilshire 5000 of 14.8% and 26.3%, respectively, and the returns from the EAFE (international equities) of 22.5% and 26.5%, 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 2004 fiscal year, these other revenue sources produced revenues in the amount of \$9,614,589 for the Fund, an increase of 7.7% over the \$8,926,881 recorded during the 2003 fiscal year. The magnitude of this increase was largely attributable to an expanding value of property insured under casualty insurance policies and increasing rates for coverage which collectively produced material increases in revenue from Chapters 175 and 185 proceeds.

Deductions from the Fund's net assets held in trust for benefits included mainly retirement and survivor benefits, refunds of contributions, and administrative expenses. For the 2004 fiscal year, retirement and survivor benefits (including DROP expenditures and accruals) were \$77,840,910, an increase of 11.8% over the \$69,640,000 recorded during the 2003 fiscal year. The magnitude of this increase primarily results from the large number of DROP participants who separated from service during the 2004 fiscal year and commenced the receipt of pension distributions. Administrative expenses during the 2004 fiscal year were \$1,340,815 versus \$1,402,522 in the prior year.

The Fund's investments, excluding accrued interest and dividends receivable, were \$851,907,513 at September 30, 2004, which were \$47,866,895 or 6.0% more than the \$804,040,618 in total Fund investments at September 30, 2003. This increase was primarily a result of the substantial appreciation in world equity markets and an increase in the level of employer pension contributions.

At September 30, 2004, the Fund held \$505,309,537 in U.S. equity and international equity securities, an increase of \$48,468,696 or 10.6% from the \$456,840,841 held at September 30, 2003. The Fund's money managers administering U.S. equity and international equity securities earned returns of approximately 13.8% and 16.6%, respectively, for the 2004 fiscal year, compared to the Fund's benchmark returns of 14.8% and 22.5%, respectively, on such securities.

At September 30, 2004, the Fund held \$303,700,338 in U.S. fixed income securities, a decrease of \$6,167,041 or 2.0% from the \$309,867,379 held at September 30, 2003. The Fund's money managers administering U.S. fixed income securities returned approximately 3.1% for the 2004 fiscal year, compared to the Fund's benchmark return of 3.3% on such securities. The decrease in fixed income allocations experienced in the 2004 fiscal year was attributable to rebalancing efforts undertaken during the year which drew down the Fund's allocations to fixed income securities.

At September 30, 2004, the Fund held \$35,454,238 in short-term investments, which represent a moderate increase in the \$29,522,398 value of short-term investments held at September 30, 2003. Short-term investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

The Fund earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the Fund as a part of the securities lending transaction. The Fund invests cash collateral received from the brokers in order to earn interest. For the 2004 fiscal year, securities lending revenues were \$321,101, a decrease from the \$404,284 recorded during the 2003 fiscal year. The decrease in securities lending revenue for the 2004 fiscal year mainly represents a decrease in demand by brokers to borrow the Fund's securities.



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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the accompanying financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2004, listed in the foregoing Table of Contents. These financial statements are the responsibility of the Fund's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Fund as of September 30, 2004, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 5, 2005, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 audit.

Management's discussion and analysis on pages 1 through 4 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Police and Fire Pension Fund taken as a whole. The accompanying required supplemental schedules on pages 15 through 17 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Fund's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

January 5, 2005

POLICE AND FIRE PENSION FUND

STATEMENT OF PLAN NET ASSETS SEPTEMBER 30, 2004

ASSETS

CASH AND INVESTMENTS:

| | |
|----------------------------|--------------------|
| Equity in pooled cash | \$ 1,767,693 |
| Short-term investments | 33,686,548 |
| Investments | <u>816,453,272</u> |
| Total cash and investments | 851,907,513 |

INTEREST AND DIVIDENDS RECEIVABLE 3,657,461

DUE FROM CITY OF JACKSONVILLE 238,137

FURNITURE AND EQUIPMENT:

| | |
|-----------------------------|------------------|
| Furniture and equipment | 550,573 |
| Accumulated depreciation | <u>(399,897)</u> |
| Net furniture and equipment | <u>150,676</u> |

TOTAL ASSETS 855,953,787

LIABILITIES

DUE TO DROP PARTICIPANTS 115,666,300

ACCOUNTS PAYABLE AND ACCRUED EXPENSES 866,433

ACCRUED COMPENSATED ABSENCES 47,872

TOTAL LIABILITIES 116,580,605

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

(A schedule of funding progress is presented on page 15) \$ 739,373,182

See notes to financial statements.

POLICE AND FIRE PENSION FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS YEAR ENDED SEPTEMBER 30, 2004

ADDITIONS

CONTRIBUTIONS:

| | |
|---------------------|-------------------|
| Employee | \$ 9,910,679 |
| Employer | <u>22,097,656</u> |
| Total contributions | <u>32,008,335</u> |

OTHER ADDITIONS:

| | |
|-------------------------------|------------------|
| Court fines and penalties | 2,913,999 |
| State insurance contributions | 6,654,638 |
| Other | <u>45,952</u> |
| Total other additions | <u>9,614,589</u> |

INVESTMENT INCOME—Net

| | |
|---|-------------------|
| Net appreciation in fair value of investments | 53,230,683 |
| Interest and dividends | 22,995,699 |
| Rental revenue | <u>690,871</u> |
| | 76,917,253 |
| Investment expenses | (3,486,322) |
| Rental expenses | <u>(151,417)</u> |
| Total investment income—net | <u>73,279,514</u> |

TOTAL ADDITIONS

114,902,438

DEDUCTIONS

BENEFITS PAID DIRECTLY TO PARTICIPANTS

77,840,910

REFUNDS OF CONTRIBUTIONS

416,151

ADMINISTRATIVE EXPENSES:

| | |
|-------------------------------|------------------|
| Personnel services | 719,638 |
| Central services | 80,734 |
| Supplies | 7,324 |
| Depreciation | 81,379 |
| Other services and charges | <u>451,740</u> |
| Total administrative expenses | <u>1,340,815</u> |

TOTAL DEDUCTIONS

79,597,876

NET INCREASE

35,304,562

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:

| | |
|-------------------|-----------------------|
| Beginning of year | <u>704,068,620</u> |
| End of year | <u>\$ 739,373,182</u> |

See notes to financial statements.

POLICE AND FIRE PENSION FUND

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2004

1. THE REPORTING ENTITY

The Police and Fire Pension Fund (the "Fund") is a single-employer contributory defined benefit pension plan covering all full-time civil-service members of the City of Jacksonville's Police and Fire Departments. The Fund is administered solely by a five member board of trustees.

The Fund is included in the City of Jacksonville's Comprehensive Annual Financial Report.

2. PLAN DESCRIPTION

The Fund's membership consists of:

| | |
|--|--------------|
| Retirees and beneficiaries currently receiving benefits | 1,670 |
| DROP participants | 320 |
| Terminated employees entitled to benefits but not yet receiving them | 29 |
| Active plan members | <u>2,347</u> |
| Total | <u>4,366</u> |

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 Deferred Retirement Option Program ("DROP"). Upon election to participate, the members' credited service and final average salary is frozen for purposes of determining pension benefits. The member continues employment with the City of Jacksonville (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 and begins to receive normal retirement benefits directly.

The State of Florida requires funding of pension contributions to be made based upon an actuarial valuation; the most recent actuarial valuation is dated October 1, 2003. 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.
- (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 ten years of credited service, and who has contributed to the Fund for at least ten 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 total contributions to the Fund to date of termination.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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, which include amounts due to DROP participants, and refunds of contributions are recorded when paid or, with respect to DROP benefits, when accrued. Administrative expenses are recorded when incurred.

New Accounting Pronouncements—In March 2003, GASB issued SGAS No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. SGAS No. 40, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed. SGAS No. 40 is required to be adopted for periods beginning after June 15, 2004. As required, the Fund will adopt the disclosure requirements of SGAS No. 40 for the fiscal year beginning October 1, 2004.

In June 2004, GASB issued SGAS No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting standards for Other Post Employment Benefit Plans and supersedes the interim guidance included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. SGAS No. 43 is required to be adopted for periods beginning after December 15, 2005. As required, the Fund will adopt the requirements of SGAS No. 43 on October 1, 2006.

In June 2004, GASB issued SGAS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses standards for the measurement, recognition, and display of employers' Other Postemployment Benefits expense and related liabilities (assets); note disclosures; and, if applicable, required supplementary information.

SGAS No. 45 is required to be adopted for periods beginning after December 15, 2006. The Fund does not believe SGAS No. 45 will have a material impact on their financial statements.

Method Used to Value Cash and Investments—Investments, other than real estate, are valued at fair market value determined by quoted prices in an active market. Investments in real estate are valued at fair market 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. The pooled cash account is recorded at cost and represents amounts pooled with other accounts at the City of Jacksonville.

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.

4. CASH AND INVESTMENTS

The Fund participates in a pooled cash account with other funds at the City of Jacksonville. At September 30, 2004, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was \$1,767,693.

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, 2004, the carrying amount of these deposits and investments (including the pooled cash account) was \$851,907,513. 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.

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*. 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 is authorized to invest in certificates of deposit, money market certificates, obligations of the U. S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements collateralized by U. S. government securities, the Local Government Surplus Funds Trust Fund, obligations of the City of Jacksonville, the State of Florida, and the Jacksonville Electric Authority, as well as commercial paper rated A-1 or P-1 by a nationally recognized rating service, bankers' acceptances, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, and real estate investment trusts. The Fund held no investments in obligations of the City of Jacksonville or related entities at September 30, 2004.

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. These assets have been classified as investments, as they are income-producing assets.

In accordance with Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the Fund's investments are classified in one of three categories as follows to give an indication of the level of credit risk assumed by the Fund at September 30, 2004. Category 1 includes investments that are insured or registered for which the securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Fund's name. Investments that represent 5 percent or more of the Fund's net assets are separately identified.

| | (In thousands) | | | Fair Value |
|---|-------------------|------------|------------|-------------------|
| | Category 1 | Category 2 | Category 3 | |
| U. S. government and agency obligations | \$ 127,848 | | | \$ 127,848 |
| Corporate bonds | 126,420 | | | 126,420 |
| Common stocks | 504,556 | | | 504,556 |
| Mortgage-backed securities | 39,837 | | | 39,837 |
| Asset-backed securities | 9,596 | | | 9,596 |
| Convertible equity | 753 | | | 753 |
| Real estate | 7,443 | | | 7,443 |
| | <u>\$ 816,453</u> | | | 816,453 |
| Short-term investments | | | | 33,687 |
| Equity in pooled cash | | | | <u>1,768</u> |
| Total cash and investments | | | | <u>\$ 851,908</u> |

During 2004, the Fund's investments (including investments bought and sold as well as held during the year) appreciated (depreciated) in value as follows:

| | (In thousands) |
|--|------------------|
| U.S. government and agency obligations | \$ (2,401) |
| Corporate bonds | (2,375) |
| Common stocks | 53,125 |
| Mortgage-backed securities | 4,195 |
| Asset-backed securities | 1,010 |
| Convertible equity | 79 |
| Real estate | <u>(402)</u> |
| | <u>\$ 53,231</u> |

5. 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 frozen entry age actuarial cost method. The Fund also uses the level percentage of payroll

method to amortize any unfunded liability and changes in plan provisions, actuarial assumptions, and gains and losses over a period of 30 years.

Fund members are required to contribute 7% of their annual covered salary (DROP participants contribute 2%). The City of Jacksonville is required to contribute an actuarially determined percentage of the members' annual covered salary (9.25% for 2004). The remaining required contribution is primarily comprised of state insurance contributions, fines and forfeitures, and transfers from the reserve accounts.

6. RESERVE ACCOUNTS

An agreement between the Fund and the City of Jacksonville in 1992 established certain reserve accounts (consisting of a Member Reserve Account, Base Benefit Reserve Account, and Enhanced Benefit Reserve Account) to accumulate excess contributions. This agreement was restated effective April 1, 2001. Such restatement retired the Member Reserve Account and the Base Benefit Reserve Account and created a City Budget Stabilization Account in their place.

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. These reserve accounts totaled \$18,959,684 at September 30, 2004.

7. TAX STATUS

The Fund obtained a determination letter on January 20, 1999 in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan 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, Fund's administrator believes the Plan was qualified and the related trust was tax-exempt as of September 30, 2004.

8. SUBSEQUENT EVENT

Effective October 25, 2004, the City of Jacksonville (the "City") approved an ordinance which allows the City to convey three vacant buildings to the Fund in an exchange for a reduction in the unfunded accrued actuarial liability of the Fund in the amount of \$3,025,000, which is the amount that the City paid for the buildings

REQUIRED SUPPLEMENTAL SCHEDULES

POLICE AND FIRE PENSION FUND

SCHEDULE OF FUNDING PROGRESS

| Actuarial Value of Assets (a) | Accumulated Reserve Accounts (b) | Actuarial Accrued Liability (AAL) Frozen Entry Age (c) | Unfunded AAL (UAAL) (c-a) | Funded Ratio (a/c) | Covered Valuation Payroll (d) | Percentage of Covered Payroll [(c-a)/d] |
|-------------------------------|----------------------------------|--|---------------------------|--------------------|-------------------------------|---|
| 492,016,780 | 44,529,057 | 544,815,658 | 52,798,878 | 90.31 | 98,332,464 | 53.69 |
| 541,269,261 | 50,774,538 | 720,653,981 | 179,384,720 | 75.11 | 101,020,744 | 177.57 |

2004 727,955,101 18,959,684

* Rederived as of April 1, 2000.

** The values published in January 2002 were later revised with the release of the October 1, 2001 Actuarial Report.

*** These accounts were redefined by the Restated Agreement effective April 1, 2000. As of September 30, 2004, the value of the City Budget Stabilization Account was \$13,203,620, and the Enhanced Benefit Account was \$5,756,064. These amounts are included in the Actuarial Value of Assets as of September 30, 2004.

See note to supplemental schedules.

POLICE AND FIRE PENSION FUND

SCHEDULE OF CONTRIBUTIONS FROM ALL SOURCES

| Plan Year Ended September 30 | Annual Required Contribution * | Percentage Contributed | Net Pension Obligation * |
|---|---|-----------------------------------|-------------------------------------|
| 1995 | 15,552,123 | 100.00 | 0 |
| 1996 | 15,365,896 | 100.00 | 0 |
| 1997 | 28,909,883 | 100.00 | 0 |
| 1998 | 34,618,066 | 100.00 | 0 |
| 1999 | 30,002,143 | 100.00 | 0 |
| 2000 | 32,145,813 | 100.00 | 0 |
| 2001 | 26,874,610 | 100.00 | 0 |
| 2002 | 35,584,692 | 100.00 | 0 |
| 2003 | 36,310,748 | 100.00 | 0 |
| 2004 | 39,295,089 | 100.00 | 0 |

* Excess contributions from all sources are accumulated in the Combined Account, which is drawn upon if actual contributions fall below the annual required contribution.

See note to supplemental schedules.

POLICE AND FIRE PENSION FUND

NOTE TO SUPPLEMENTAL SCHEDULES YEAR ENDED SEPTEMBER 30, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

| | |
|----------------------------------|--|
| Valuation date | October 1, 2003 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent open |
| Remaining amortization period | 26.5 years |
| Asset valuation method | Five-year smoothing from April 1, 2000 |
| Actuarial assumptions: | |
| Net investment rate of return | 8.50% |
| Projected salary increases | 5.00% |
| Includes inflation percentage of | 3.50% |
| Cost-of-living adjustments | 3.00% |



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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*

Board of Trustees
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2004, and have issued our report thereon dated January 5, 2005. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the Fund, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 5, 2005

MANAGEMENT LETTER

Board of Trustees
Police and Fire Pension Fund
Jacksonville, Florida

We have audited the financial statements of the Police and Fire Pension Fund (the "Fund") as of and for the year ended September 30, 2004, and have issued our report thereon dated January 5, 2005.

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. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based upon an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, dated January 5, 2005, and it should be considered in conjunction with this management letter.

In planning and performing our audit of the financial statements of the Fund for the year ended September 30, 2004 (on which we have issued our report dated January 5, 2005), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Fund's internal control. Our consideration of the Fund's internal control would not necessarily disclose all matters in the Fund's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Fund's internal control and its operations that we consider to be material weaknesses as defined above.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(h) 1.) state that a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no such findings or recommendations reported in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554(1)(h) 2.) state that a management letter shall have a statement as to whether or not the Fund has complied with Section 218.415, Florida Statutes regarding the investment of public funds. In connection with our audit of the financial statements of the Fund, the results of our tests did not indicate that the Fund was not in compliance with Section 218.415, Florida

Statutes, regarding the investment of public funds. However, our audit was not directed toward obtaining knowledge regarding the Fund's compliance with this requirement.

The Rules of the Auditor General (Section 10.554(1)(h) 3.) state that a management letter shall include a statement as to whether or not recommendations made in the preceding annual financial audit report have been followed. There were no such recommendations made in the preceding annual financial audit report.

The Rules of the Auditor General (Section 10.554(1) (h) 4.) state that a management letter shall include a statement as to whether or not a unit of local government is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), Florida Statutes. Section 218.503(1) states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

- a) Failure within the same fiscal year in which due to pay short-term loans from banks or failure to make bond debt service payments when due.
- b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of lack of funds.
- c) Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees or (2) employer and employee contributions for a) federal social security or b) any pension, retirement, or benefit plan of an employee.
- d) Failure for any one pay period to pay, due to lack of funds: (1) wages and salaries owed to employees; or (2) retirement benefits owed to former employees.
- e) An unreserved or total fund balance or retained earnings deficit, or unrestricted or total net assets, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, for which sufficient resources of the local governmental entity, as reported on the balance sheet or statement of net assets on the general purpose or fund financial statements, are not available to cover the deficit.

Section 218.503(2) states that a local governmental entity shall notify the Governor and the Legislative Auditing Committee when one or more of the conditions specified in Section 218.503(1) have occurred or will occur if action is not taken to assist the local government entity.

Management of the Fund has determined that the Fund is not in a state of financial emergency under Section 218.503(1). In connection with our audit of the financial statements of the Fund, the results of our tests did not indicate that the Fund is in a state of financial emergency as a consequence of the conditions in Section 218.503(1). However, our audit does not provide a legal determination on the Fund's compliance with this requirement.

The Rules of the Auditor General (Section 10.554(1) (h) 6b.) state that a management letter shall include a statement as to whether or not the financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1) (a), Florida Statutes is in agreement with the annual financial audit report for the current audit period and, if not, explanations of any significant differences. The information will be filed on a combined basis with the City of Jacksonville.

The Rules of the Auditor General (Rule Section 10.554(1)(h) (6c1. and 2.) state that a management letter shall have a statement as to whether or not the Fund's auditor applied financial condition assessment

procedures pursuant to Rule Section 10.556(8), and if deteriorating financial conditions are noted through application of these procedures, a description of conditions causing the auditor to make this conclusion must be prepared in accordance with Rule 10.557(6) In connection with our audit of the financial statements of the Fund for the year ended September 30, 2004, we applied financial condition assessment procedures pursuant to Rule 10,556(8) and did not note deteriorating financial conditions. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part by management and review of financial information provided by same. However, our audit was not directed toward obtaining knowledge regarding the Fund's compliance with this requirement.

This management letter is intended solely for the information and use of the Board of Trustees, management of the Fund, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 5, 2005

