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, 2014

KBLD, LLC
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City of Jacksonville Florida Police and Fire Pension Fund
Financial Report
For The Fiscal Year Ended September 30, 2014

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KBLD LLC
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January 16, 2015

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Jacksonville Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund, as of September 30, 2014, and the respective changes in the fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2E to the financial statements, in 2014 the Fund adopted new accounting guidance, GASB Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages 3-6 and pages 23-27, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

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KBLD, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

We are pleased to provide this overview and analysis of the financial activities of the Jacksonville Police and Fire Pension Fund (Fund) during the fiscal year ended September 30, 2014. 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, 2014, was $1,473,097,052. The fiduciary net position, which is held in trust for pension benefits, is available to meet the Fund's ongoing obligations to plan participants and their beneficiaries.

- The $1,473,097,052 value of fiduciary net position represents an increase of $180,166,841 or 13.9%. The increase was largely a result of the investment returns available in the financial markets, which when combined with pension contributions, more than adequately supported the level of benefit payments and DROP payments during the fiscal year.

- The Fund's ongoing funding objective is to meet long-term benefit obligations through contributions, Investment income, and the receipt of various revenue sources. As of September 30, 2014, the funded ratio for the Fund was approximately 46.13% which compares to the September 30, 2013 funded ratio of 42.69%. In general, the current funded ratio indicates that for every dollar of benefits due, the Fund has approximately $0.46 of assets to cover it.

- The Fund's rate of return on investments of positive 11.6% on a market value basis and 10.7% on a money-weighted basis over the fiscal year ended September 30, 2014, was primarily attributable to the strong recovery in the domestic financial markets and MLP/energy markets. The magnitude of the strong recovery in domestic equity markets over the one year period ended September 30, 2014, is evidenced from the 19.7% return for the S&P 500. The magnitude of the growth in MLP/energy investments over the one year period ended September 30, 2014, is evidenced from the 36.5% return. This return far exceeds the MLP/energy benchmark of 29.6%. The return of 11.6% for the Fund was slightly below the Fund Policy Benchmark return of 12.1% and placed the Fund's investment in the 20th percentile when compared to other public pension funds as measured by the Fund's investment performance consultant. This means that the Fund's 11.6% return exceeded the returns of 80% of the other comparable public pension funds. The Fund's annualized rate of return was 15.2% over the last three years, 10.9 % over the last five years, and 7.3% over the past ten years.

- Revenues (additions to the fiduciary net position) other than investment income for the 2014 fiscal year were $173,250,434, which comprises member and employer contributions of $162,103,835, and other additions of $11,146,599. This compares to revenues in the amount of $144,248,417 in the prior fiscal year. This 20% increase was largely attributable to an increase in the employer pension contributions during the fiscal year ended September 30, 2014, based on the updated actuarial study.

- Net investment income (part of additions to fiduciary net position) for the 2014 fiscal year was $146,950,776 compared to net investment income in the amount of $169,202,439 that was recorded in the prior fiscal year. This was a decrease of $22,251,663, which was a result of the strong recovery in the financial markets in the prior fiscal year.

- Expenses (deductions in fiduciary net position) not related to investment activities for the 2014 fiscal year decreased from $153,157,376 to $140,416,391 or approximately 8.3%. The decrease is largely attributable to not accruing the liability for the buildup of DROP monies due to the clarification contained in GASB Statement No. 67. This amounted to approximately $22 million less than the previous year, but was partially offset in increases attributable to new retirees' benefit payments and the 3% contractual cost of living adjustment (COLA) that was effective in January, 2014.

OVERVIEW OF FINANCIAL STATEMENTS

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

1) The statement of fiduciary net position is a snapshot of account balances at the end of the fiscal year. It indicates the assets available for future payments to retirees and beneficiaries and any current liabilities that are owed at this time.

2) The statement of changes in fiduciary net position provides a view of current year additions to and deductions from the resources of the Fund during the fiscal year.

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

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

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

3) Notes to the financial statements provide additional Information that is essential to a full understanding of the data provided in the financial statements (see notes to financial statements on pages 9 - 22 of this report).

4) In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Fund's progress in funding its obligations to provide pension benefits to members (see required supplementary information on pages 23 - 27 of this report). Management's discussion and analysis described herein is additionally classified as required supplementary information for reporting and auditing purposes even though it is not presented in the required supplementary information section of this report.

Condensed Statement of Fiduciary Net Position

	September 30, 2014	September 30, 2013	Increase (Decrease) 2014/2013
Current assets	$ 23,579,268	$ 45,170,077	$ (21,590,809)
Investments	1,453,353,623	1,253,145,341	200,208,282
Securities lending collateral	125,067,205	-	125,067,205
Capital assets	29,182	40,954	(11,772)
Total assets	1,602,029,278	1,298,356,372	303,672,906
Current liabilities	3,790,963	5,293,384	(1,502,421)
Securities lending obligations	125,067,205	-	125,067,205
Long-term liabilities	74,058	132,777	(58,719)
Total liabilities	128,932,226	5,426,161 *	123,506,065
Total fiduciary net position	$ 1,473,097,052	$ 1,292,930,211	$ 180,166,841

*Restated for removing DROP liability from the statements due to clarifying language in GASB Statement No. 67.

Condensed Statement of Changes in Fiduciary Net Position

	September 30, 2014	September 30, 2013	Increase (Decrease) 2014/2013
Plan member contributions	$ 11,583,565	$ 10,753,501	$ 830,064
Employer contributions	150,520,270	121,822,333	28,697,937
Other additions	11,146,599	11,672,583	(525,984)
Net investment income	146,950,776	169,202,439	(22,251,663)
Net securities lending activities	382,022	-	382,022
Total additions to fiduciary net position	320,583,232	313,450,856	7,132,376
Benefit payments	138,179,183	150,591,266	(12,412,083)
Grant - expenses	12,960	60,125	(47,165)
Administrative expenses	2,224,248	2,505,985	(281,737)
Total deductions to fiduciary net postion	140,416,391	153,157,376	(12,740,985)
Change in fiduciary net position	180,166,841	160,293,480	19,873,361
Fiduciary net position available for benefits - beginning of year	1,292,930,211	1,132,636,731	160,293,480
Fiduciary net position available for benefits - end of year	$ 1,473,097,052	$ 1,292,930,211	$ 180,166,841

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, 2014 were $1,473,097,052, an increase of $180,166,841 or 13.9% from $1,292,930,211 at September 30, 2013. The increase was largely a result of the strong investment returns available in the financial markets and increased City contributions, which when combined with pension contributions, more than adequately supported the level of benefit payments and DROP payments during the fiscal year.

For the 2014 fiscal year, employer and member contributions were $162,103,835 representing an increase of 22.3% over the $132,575,834 recorded during the 2013 fiscal year. The increase in the level of pension contributions experienced during fiscal year 2014 resulted from the amount of contribution by the City based on the new actuary study. The Fund recognized a net investment gain of $146,950,776 for the 2014 fiscal year, compared with a net investment gain of $169,202,439 for the 2013 fiscal year. The investment gain in 2014 reflected the strong recovery in the domestic financial markets following the strong gains in market values that were experienced in 2013. The magnitude of the comparison in domestic equity markets for the 2014 and 2013 fiscal years is evidenced from the returns from the S&P 500 of 19.7% and 19.3%, 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 2014 fiscal year, these other revenue sources produced revenues in the amount of $11,146,599 for the Fund, a $525,984 or 4.5% decrease of as compared to the $11,672,583 recorded during the 2013 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 2014 fiscal year, retirement and survivor benefits (including DROP) were $137,810,836. Administrative expenses during the 2014 fiscal year were $2,224,248 versus $2,505,985 in the prior fiscal year.

The Fund's investments, excluding accrued interest and dividends receivable, were $1,470,641,414 at September 30, 2014, which was $178,360,470 or 13.8% more than the $1,292,280,944 in total Fund investments at September 30, 2013. This increase was primarily a result of the strong investment returns available in the financial markets, which when combined with increasing employer pension contributions, were found sufficient to adequately support the level of benefit payments required during the fiscal year.

At September 30, 2014, the Fund held $997,850,868 in U.S. equity, international equity securities and MLP’s Energy, an increase of $117,082,698 or 13.3% from the $880,768,170 held at September 30, 2013. The Fund's money managers administering U.S. equity, international equity securities and MLP’s Energy earned returns of approximately positive 13.8%, positive 6.2% and positive 36.5, respectively, for the 2014 fiscal year compared to the Fund's benchmark return of positive 17.8%, positive 5.2 and positive 29.6%, respectively, on such securities.

At September 30, 2014, the Fund held $312,387,446 in U.S. fixed income securities, an increase of $77,411,704 or positive 32.9% from the $234,975,742 held at September 30, 2013. The Fund's money managers administering U.S. fixed income securities returned approximately positive 3.1% for the 2014 fiscal year, compared to the Fund's benchmark return of positive 4.0% on such securities.

At September 30, 2014, the Fund held $150,734,253 in a commingled U.S. real estate investment trust, an increase of $16,160,391 or 12.0% from the $134,573,862 held at September 30, 2013. The money manager administering real estate products for the Fund earned a return of positive 12.2% for the 2014 fiscal year, compared to Fund's benchmark return of 12.4% on such Investments.

At September 30, 2014, the Fund held $17,198,015 in short-term investments, which represent a decrease of $21,838,750 or negative 55.9% compared to the $39,036,765 value of short-term Investments held at September 30, 2013. Short-term Investments generally represent liquid assets that are held by investment counseling firms and awaiting investment decisions.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Fiduciary Net Position
September 30, 2014

ASSETS	
Cash and cash equivalents	$ 89,776
Short-term investments	17,198,015
Investments	1,453,353,623
Interest and dividends receivable	1,591,014
Recoverable taxes	102,062
Due from the City	4,426,500
Other receivables, net	107,876
Prepaid assets	64,025
Furniture and equipment	311,510
Accumulated depreciation	(282,328)
Securities lending collateral	125,067,205
Total assets	1,602,029,278
LIABILITIES	
Accounts payable	1,967,458
Accrued pension pay and wages payable	1,514,432
Compensated absences - current	135,259
Compensated absences - long-term	31,869
OPEB GASB Statement No. 45	42,189
Other liabilities	173,814
Securities lending obligations	125,067,205
Total liabilities	128,932,226
Fiduciary net position available for pension benefits	$ 1,473,097,052

The accompanying notes are an integral part of these statements.

City of Jacksonville, Florida
Police and Fire Pension Fund
Statement of Changes in Fiduciary Net Position
For the Year Ended September 30, 2014

ADDITIONS	
Contributions:	
Plan member	$ 10,067,765
Plan member buybacks and pension transfers	1,515,800
Employer	148,277,368
Employer pension transfers	2,242,902
Total contributions	162,103,835
Other additions:	
Court fines and other penalties	881,291
State insurance contributions	10,110,493
Grant revenue	12,960
Other	141,855
Total other additions	11,146,599
Investment income (loss):	
Net appreciation in fair value of investments	129,030,950
Interest and dividends	25,189,000
Rental revenue	529,056
Other investment revenue	100,185
Investment expenses	(7,640,438)
Rental expenses	(257,977)
Net investment income (loss)	146,950,776
Securities lending activities	
Lending revenue	483,340
Lending expense	(101,318)
Total securities lending activities	382,022
Total additions to fiduciary net position	320,583,232
DEDUCTIONS	
Pension benefits remitted	111,424,048
DROP benefits remitted	26,386,788
Refunds of contributions	368,347
Grant - expenses	12,960
Administrative expenses:	
Personnel services	1,016,136
Professional services - non investment	779,227
Building rent - office space	253,392
Central services	113,216
Supplies	9,947
Depreciation	11,772
Other services and charges	40,558
Total administrative expenses	2,224,248
Total deductions to fiduciary net position	140,416,391
Change in fiduciary net position	180,166,841
Fiduciary net position available for benefits - beginning of year	1,292,930,211 *
Fiduciary net position available for benefits - end of year	$ 1,473,097,052

*Beginning of year balance was restated for removing previous years DROP liability per GASB Statement No. 67. (Note 4)

The accompanying notes are an integral part of these statements.

1. Description of Plan

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

The Fund's membership consists of:

Retirees and beneficiaries currently receiving benefits	2,292
Deferred Retirement Option Program (DROP) participants	511
Terminated employees entitled to benefits but not yet receiving them	62
Active plan members	2,173
Total participants	5,038

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

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

Eligible members of the Fund may elect to participate in the DROP. Upon election to participate the member's credited service and final average salary are frozen for purposes of determining pension benefits. The member continues employment with the City for a defined period of time not to exceed 60 months. The deferred monthly retirement benefits under the DROP accrue in the Fund plus interest on behalf of the member. Upon termination of employment, the member receives the DROP benefits as defined in the plan document and begins to receive normal retirement benefits directly.

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

The State of Florida requires funding of pension contributions to be made based upon an actuarial valuation. The most recent full actuarial valuation report available for distribution is dated October 1, 2014. 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 10 years of credited service, and who has contributed to the Fund for at least 10 years.

3. If there remains an asset value after the previous apportionments, apportionment shall lastly be made in respect of each police officer and firefighter in the service of the City on such date who Is not entitled to an apportionment under previous paragraphs in the amount equal to his or her total contributions to the Fund to date of termination.

2. Summary of Significant Accounting Policies

Reporting Entity

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

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

Fund Financial Statements

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

A. Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting with the exception of pension and DROP payouts, which are prepared on a modified accrual basis of accounting. Revenues are recorded at the time they are earned. Benefits paid directly to participants include amounts due to DROP participants, and refunds of contributions are recorded when paid. Refunds of DROP contributions, including monthly interest credits may be made as a lump sum at retirement or deferred and paid as a future pension benefit. Administrative expenses are recorded when incurred and are financed by the Fund.

B. Method Used to Value cash and Investments

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

C. Furniture and Equipment

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

D. Use of Estimates

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

E. Recently issued accounting standards

In June 2012, GASB issued Statement No. 67 *Financial Reporting for Pension Plans* and No. 68 *Accounting and Financial Reporting for Pensions*. The new pension accounting and financial reporting standards represent the most significant fundamental changes in reporting requirements for pension plans and plan sponsors in over a decade. The standards require plan sponsors to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The standards also enhance accountability and transparency through revised and new note disclosures and required supplementary information. For plans, the standards build upon the existing framework for financial reports, enhance the note disclosures and required supplementary information, and require the presentation of new information about annual money-weighted rates of return in the notes to the financial statements. GASB Statement No. 67 provisions were implemented in this fiscal 2014 financial statements. GASB Statement No. 68 for plan sponsors is effective for fiscal years beginning after June 15, 2014, which will be our fiscal year 2015. The Fund management, working with professional consultants will evaluate and implement this new requirement.

In January 2013, GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB statement No. 69 was applicable for financial report periods beginning after December 15, 2013, which is our fiscal year 2015. The Fund management will evaluate and implement this new requirement.

In April 2013, GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment related to the nonexchange financial guarantee. The provisions of Statement No. 70 are effective for reporting periods beginning after June 15, 2013, which is our fiscal year 2014.

In November 2013, GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68, which is our fiscal year 2015. The Fund management will evaluate and implement this new requirement.

3. Reserve Accounts

An agreement between the Fund and the City established certain reserve accounts consisting of a City Budget Stabilization Account and an Enhanced Benefit Reserve Account. The City Budget Stabilization Account is established to account for contributions in excess of current funding requirements and related earnings thereon. The City Budget Stabilization Reserve Account total is $45,908,495 at September 30, 2014. The Enhanced Benefit Reserve Account is established to account for State Chapter 175/185 monies and related earnings thereon in excess of the 4% of valuation payroll committed to the Base Benefits Fund. The Board uses this to pay a retiree holiday bonus and for other future enhancements. The Enhanced Benefit Reserve Account total is $33,183,866 at September 30, 2014.

4. Deferred Retirement Option Program (DROP)

The DROP is a form of retirement that allows an employee with at least 20 years of service to continue working for a maximum period of five (5) additional years while accumulating a savings account consisting of the retirement benefits that would have been received had the employee actually retired. The individual's retirement amount is calculated based on parameters when the employee enters the DROP. Monthly interest of 8.4% APR is applied to these DROP savings account and the retirement amounts are increased by the annual COLAs. From a technical standpoint, a DROP program represents a method of providing for the deferred receipt of retirement benefits from a defined benefit plan and provides the employer with a predictable turnover picture. At the end of the DROP period, the retiree has the option to withdraw all or part of their DROP balance or leave the balance in the interest earning account within the Fund and then subsequently withdrawing equal bi-weekly amounts over a period of time selected by the retiree, up to the maximum time limit set by IRS regulations. The DROP balance as of September 30, 2014 is $269,054,863. With the implementation of the Government Accounting Standards Board (GASB) Statement No. 67, the previous year's DROP liability of $247,398,723 was removed and the beginning balance of the fiduciary net position was restated and increased by the previous year's DROP liability of $247,398,723 (see Note 2E).

5. Deposits and Investments

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

The following is the Board's asset allocation policy:

Asset Class	Target Allocation	Guidelines
Domestic equity	35.0%	30.0 - 40.0%
International equity	20.0%	15.0 - 25.0%
Fixed income	22.5%	17.5 - 27.5%
Real estate	15.0%	10.0 - 20.0%
MLPs/Energy	7.5%	2.5 - 9.5%
Cash	0.0%	0.0 - 20.0%
	100.0%	100.0%

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments was 10.73%. This reflects the changing amounts actually invested.

The Fund participates in a pooled cash account with other funds at the City. At September 30, 2014, the carrying amount of cash on hand and on deposit with banks, including interest-bearing accounts, was $89,776.

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

The deposits and investments of the Fund which have been transferred to the pension custodians are held separately from those of other City funds and are required to be administered by nationally recognized investment counseling firms.

At September 30, 2014, the carrying amount of these deposits and investments (including the pooled cash account) was $1,470,641,414. 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* (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, obligations of the U. S. Treasury, its agencies and instrumentalities, repurchase and reverse repurchase agreements, the local government surplus fund's trust fund, obligations of the City, the State of Florida, fixed income obligations issued by foreign governments if the obligations are rated Investment grade by at least as well as one nationally recognized rating service, commercial paper of prime quality of the highest letter and numerical rating as provided for by at least one nationally recognized rating service, bankers' acceptances, group annuity contracts, corporate bonds, including collateralized mortgage obligations, preferred stocks, common stocks, foreign securities, securities lending transactions, and real estate investments. For the comprehensive list of available investments, the Statement of Investment Policy approved by the Board of Pension Trustees on December 20, 2012 should be referenced.

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

During the fiscal year ended September 30, 2014, the office building and parking garage generated $529,056 in rental revenue.

At September 30, 2014, the Fund's recorded values of all cash and investments were as follows:

U.S. Government and agency obligations	$	40,922,431
Corporate bonds		63,273,619
Mortgage-backed securities		41,524,554
Asset-backed securities		-
Common stock		587,699,595
Preferred stock		1,696,200
Funds - common stock		400,132,294
Funds - other fixed income		163,443,535
Funds - real estate		150,734,253
Real estate (land and buildings)		3,925,000
Miscellaneous		2,142
		1,453,353,623
Short-term investments		17,198,015
Cash		89,776
Total cash and investments	$	1,470,641,414

During fiscal year 2014, the Fund's Investments (including investments bought and sold as well as held during the year) appreciated/depreciated in value as follows:

U.S. Government and agency obligations	$	(46,068,755)
Corporate bonds		12,908,574
Mortgage-backed securities		(10,938,463)
Asset-backed securities		(6,291,874)
Common stocks		9,351,388
Preferred stock		1,696,200
Funds - common stock		98,632,238
Funds - other fixed income		125,768,818
Funds - real estate		16,160,391
Real estate (land and buildings)		(860,000)
Miscellaneous		(150,235)
	$	200,208,282

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments.

Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

Interest Rate Risk

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

As of September 30, 2014, the Fund's debt security investments had the following maturities:

		Investment Maturities (in years)			
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Government and agency obligations	$ 126,236,042	$ 305,065	$ 61,013,158	$ 47,514,126	$ 17,403,693
Corporate Bonds	141,403,543	5,134,305	69,936,187	57,134,738	9,198,313
U.S. Government Mortgage Backed Securities	41,524,554	-	-	1,411,577	40,112,977
Total investments	$ 309,164,139	$ 5,439,370	$ 130,949,345	$ 106,060,441	$ 66,714,983

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

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

Foreign Currency Risk

As of September 30, 2014, the Fund's exposure to foreign currency risk is as follows (all such investments are held in foreign common stock):

Swiss Franc	$ 96,170
Japanese Yen	5,794
British Pound	98
	$ 102,062

Credit and Concentration Risk

The Fund's investment policy was designed to mitigate both credit and concentration risk by providing specific guidance as to the weighting and integrity of the deposit and investment Instruments. The Statement of Investment Policy currently in effect provides for a strategic assets allocation mix that is comprised of domestic equities (35%), fixed income securities (22.5%), international equities (20%), real estate (15%), and MLPs-Energy (7.5%). The Trustees additionally seek diversification within the investment portfolio through the utilization of various investment styles, particularly within the stock component of the portfolio. The composite credit ratings of applicable equity investments are not currently available.

As of September 30, 2014, the Fund's debt security investments credit risk is as follows:

	Fair Value
U.S. Treasuries	$ 94,994,199
U.S. Agencies	72,766,398
S&P AAA/Moody's Aaa	4,926,290
S&P AA+, Moody Aa1	2,195,125
S&P AA, Moody Aa2	5,151,469
S&P A+, Moody A1	1,043,165
S&P A, Moody A2	23,841,657
S&P A-, Moody A3	14,458,021
S&P BBB+, Moody Baa1	3,081,215
S&P BBB, Moody Baa2	32,143,273
S&P BBB-, Moody Baa3	7,353,509
S&P BB+, Moody Ba1	5,570,559
S&P BB, Moody Ba2	6,133,917
S&P BB-, Moody Ba3	12,596,155
S&P B+, Moody B1	12,338,898
S&P B, Moody B2	8,321,938
S&P B-, Moody B3	1,120,507
S&P CCC+, Moody Caa1	289,686
S&P CCC, Moody Caa2	88,837
S&P CCC-, Moody Caa3	73,387
Not Rated	675,934
Total	$ 309,164,139

Custodial Credit Risk

For an Investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investments are either held in the name of the Fund or held in trust under the Fund's name.

Securities Lending

The Fund participates in securities lending has a contract with its custodian, Northern Trust Company, that allows the custodian, acting as agent, to lend securities held in the portfolios with the intent of generating additional interest income. The transactions are designed to be invisible to our third party money managers and are reviewed by staff on an ongoing basis.

The market for securities lending was developed to provide temporary access to a large portfolio of securities for broker/dealers who might have a need to borrow specific instruments. 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.

The transaction establishes a rebate interest rate, which is due back to the broker/dealer upon return of the security. The cash is then invested short-term and the Fund and the custodian share in the incremental return available above the rebated interest rate. The short-term fixed income instruments can be invested in high quality, dollar denominated fixed income instruments, with a policy dollar-weighted, average maturity limit of less than thirty days. The Fund, as program participant, assumes the risk that (a) the overnight investment will not equal or exceed the rebate interest rate, (b) the overnight investment will experience a loss in fair value (i.e., principal) and (c) the collateral will not be sufficient if the borrower fails to return the security back to the lending bank. As noted above, cash collateral is invested in short-term income instruments. When non-cash collateral is provided the collateral must be obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities. The Fund cannot pledge or sell these obligations in the absence of a default by the borrower. The net asset value of the collateral may fluctuate and potentially subjects the Fund to credit risk if the above-mentioned 102% daily adjusted collateral were to fall below 100%. As of September 30, 2014, the Fund maintained a sufficient 102.89% collateral on loaned securities of $125,067,205.

The Fund periodically reviews the custodian's practices to ensure fair distribution of lending opportunities as well as risk evaluation of prospective broker/dealer borrowers. For the fiscal year ended September 30, 2014, the Fund received net income of $382,022. Through September 30, 2014, the Fund has not incurred a loss through its participation in securities lending.

Use of Estimates

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

6. 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
$ 134,456	$ (26,580)	$ 107,876

7. Net Pension Liability of the City

Total pension liability	$ 3,012,590,568
Fiduciary net position	1,389,747,615
City's fiduciary net pension liability	1,622,842,953
Fiduciary net position as a percentage of the total pension liability	46.13%

8. Actuarial Methods and Assumptions

The actuarial assumptions used in the October 1, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2006 − September 30, 2011.

Inflation	2.5%
Salary increases	4.0%, including inflation
Investment (discount rate)	7.0%, including inflation
COLA	3.0%, compounded annually

Mortality rates were based on the RP-2000, combined Healthy Annuitant Mortality Table, separate by sex, Projection Scale AA to valuation.

The expected arithmetic real rate of return was determined for each major asset class. These are combined to produce the 7.0 percent expected rate of return, or discount rate, by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (diversification and volatility also impact this).

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

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

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, 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	$ 2,089,794,491	$ 1,622,842,953	$ 1,241,335,851

10. Tax Status

The Fund obtained a determination letter on January 20, 1999, in which the Internal Revenue Service slated that the Fund, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Fund has been amended since receiving the determination letter. The Fund's administrator believes that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Fund's administrator believes the Fund was qualified and the related trust was tax exempt as of September 30, 2014.

The Fund's Forms 945, Employer's Quarterly Federal Tax Return, for the years ending 2012, 2013 and 2014 are subject to examination by the IRS, generally for three years after they were filed.

11. Claims And Litigation

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

12. Pension Plans for Fund Employees

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

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

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

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

A. Senior Staff Voluntary Retirement Plan (SERP)

1. Plan Description – The SERP provides vesting of benefits after five years of credited service. Members are eligible for normal retirement at age 65 with five years of service. Retirement benefits shall be equal to three percent of average final compensation which is based on the average for the last 24 months of compensation immediately preceding retirement for each year of credited service. Benefits shall be paid on a bi-weekly basis. Early retirement is at the age of 60 with five years of credited service; however, the benefits are reduced at the rate of 0.5% per month for each month that the member's retirement date precedes the attainment of age 65. A member may elect a deferred retirement upon the completion of five years of credited service, but delayed implementation under the provisions of normal retirement and early retirement above. The plan also provides for a delayed retirement benefit payable at age 70.5, disability retirement, and death benefits. A cost of living increase of 3% per year is provided to pensioners and their beneficiaries.

2. Employer contributions – The Fund is required to contribute such sums as are necessary, together with member contributions and earnings, to maintain the SERP on a sound actuarial basis. The contribution rate for FY2014 was 2.4%, with the Fund contributing $7,205 of the required $28,098 Normal Cost. For the fiscal years ended September 30, 2014, 2013, and 2012, the Fund contributed $7,205, $248,016, and $117,460, respectively, to the SERP for covered employees. For the fiscal years ended September 30, 2014, 2013, and 2012, the Fund's actual contribution amount exceeded the annual required contribution (ARC) amount by $0, $240,203, and ($380,794), respectively. The Fund contributed additional monies in FY2013 to make the net pension obligation equal zero at fiscal year-end.

3. Employee contributions – The employees contribute seven percent of their salary. For the fiscal years ended September 30, 2014, 2013 and 2012, the employees contributed $20,893, $20,285, and $24,848 respectively, to the SERP.

4. Funding progress –

Plan Fiscal Year Ended Sept. 30	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability Entry Age (AAL)	(Over) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percent of Covered Payroll [(b-a)/c]
2012	October 1, 2012	$ 3,423,706	$ 3,542,346	$ 118,640	96.7%	$ 272,500	43.5%
2013	October 1, 2013	3,918,906	3,865,977	(52,929)	101.4%	291,744	-18.1%
2014	October 1, 2014 *	4,257,077	4,136,640	(120,437)	102.9%	300,498	-40.1%

* The October 1, 2014 actuary valuation study is in DRAFT form at time of issuance.

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

5. Annual Pension Cost/Annual Required Contributions –

Plan Fiscal Year Ended September 30,	Employee Contributions	Employer Contributions	Total Contributions	Annual Required Contribution (ARC)	Percent of ARC Contributed	Fiduciary Net Pension Obligation (NPO)/ (Asset)
2012	$ 24,848	$ 117,460	$ 142,308	$ 523,102	27%	$ 240,203
2013	20,285	248,016	268,301	28,098	955%	- *
2014	20,893	7,205	28,098	28,098	100%	-

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

6. Actuarial Methods and Assumptions –

Valuation Date (used for fiscal year 2014)	10/1/2012
Actuarial cost method	Individual Entry Age
Amortization method	Aggregate Method*
Asset valuation method	Market Value
Actuarial assumptions:	
Net investment rate of return**	7.00%
Projected salary increases	None
Mortality table in use	RP-2000
Post-retirement benefit increase (COLA)	3.00%
Percent married	100%
Retirement ages	The active employee is assumed to retire in two years
Age differences for spouses of employed	Females are 3 years younger than males

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

** Includes inflation at 2.50%

B. City of Jacksonville Retirement System (JRS)

1. Plan Description –

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

   b. The GEPP Defined Contribution Pension Plan (DC Plan) provides vesting of benefits at 25% upon the conclusion of two years of credited service and shall vest an additional 25% each year thereafter until fully vested upon the conclusion of five years of credited service.

2. Employer contributions –

   a. DB Plan – The DB Plan's funding policy provides for periodic employer contributions at actuarially determined rates that are sufficient to accumulate assets to pay benefits when due. The funding for fiscal year 2014 was 27.91% of payroll. For the fiscal years ended September 30, 2014, 2013 and 2012, the Fund contributed $87,966, $66,866, and $53,557, respectively, to the DB Plan for covered employees which was equal to the required contributions.

   b. DC Plan – The DC Plan's funding policy provides for a 7.7% bi-weekly contribution to the City's DC Plan Trust Administrator on behalf of the employee. For the fiscal years ended September 30, 2014, 2013, and 2012, the Fund contributed $7,799, $7,637, and $5,002 respectively, to the DC Plan for the covered employee.

3. Employee contributions –

   a. DB Plan – The employees contribute 7.7% of their salary. For the fiscal years ended September 30, 2014, 2013 and 2012, the employees contributed $24,326, $25,103, and $23,545 respectively, to the GEPP DB Plan.

   b. DC Plan – One employee contributes 7.7% of his salary. For the fiscal years ended September 30, 2014, 2013 and 2012, the employee contributed $7,799, $7,637, and $5,002 respectively, to the GEPP DC Plan.

4. Disability – For both the DB and DC plans, the employer and employee contribute 0.3% of wages for the disability provision.

5. Funding progress – Please see the City of Jacksonville's CAFR for Funding Progress of the GEPP DB Plan. The GEPP DC Plan is fully funded on a bi-weekly payroll basis.

13. Subsequent Events

<u>Change in Market Value of Investments</u>

As of December 3, 2014, the market value of investments including accruals of interest and dividends receivable was $1,622,262,489. This balance includes a transfer of $128,875,753 from the City.

<u>Minimum Required Contribution</u>

As of October 1, 2014, the City's contribution rate to the Fund was increased to 116.83% of active members' salaries. The City Council approved a $153,014,791 contribution to the Fund in fiscal year 2015.

<u>Lawsuit Settlement Agreement</u>

The Fund agreed to settle a lawsuit filed on February 1, 2014 known as *Curtis W. Lee v. Board of Trustees, Jacksonville Police & Fire Pension Fund*. The Fund’s Board of Trustees approved the settlement at their November 21, 2014 Board Meeting and a Fund check was issued on December 1, 2014 to Milam Howard Trust Account to reimburse Mr. Lee for his attorneys’ fees and costs in the amount of $43,312.01.

REQUIRED SUPPLEMENTARY INFORMATION

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Funding Progress for the Senior Staff Voluntary Retirement Plan
For the Year Ended September 30, 2014

Actuarial Valuation Date		Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability Entry Age (AAL) (b)	(Over) Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percent of Covered Payroll [(b-a)/c]
October 1, 2009		$ 2,018,764	$ 2,733,453	$ 714,689	73.9%	$ 265,612	269.1%
October 1, 2010	*	*	*	*	*	*	*
October 1, 2011		2,345,679	3,346,073	1,000,394	70.1%	238,702	419.1%
October 1, 2012		3,423,706	3,542,346	118,640	96.7%	272,500	43.5%
October 1, 2013		3,918,906	3,865,977	(52,929)	101.4%	291,744	-18.1%
October 1, 2014	**	4,257,077	4,136,640	(120,437)	102.9%	300,498	-40.1%

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

** The October 1, 2014 Actuary Valuation Study is in DRAFT form at time of issuance.

Plan Assumptions (10-1-2012 valuation date actuarial study used for fiscal year ended 2014):

- Earnings rate: 7.0% compounded annually.
- Mortality Table in use; RP-2000 Combined Healthy Mortality Table, separate by sex; Projection Scale AA to valuation date.
- Salary Scale: None.
- Cost of Living Adjustments (COLA): 3.0% compounded annually.
- Percent Married: 100%
- Retirement Ages: The active employee is assumed to retire in two years.
- Age Differences for Spouses of Employed: Females are 3 years younger than males.

Changes since the October 1, 2012 valuation:

- The active employee is assumed to retire in two years.

See Note 12 to the notes to the financial statements.

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Contributions from the Employer and Members for the Senior Staff Voluntary Retirement Plan
For the Year Ended September 30, 2014

Plan Year Ending	Annual Required Contributions (ARC)	Employee Contributions	Employer Contributions	Total Contributions	Percentage Contributions	Fiduciary Net Pension Obligation (NPO)/(Asset)
2009	$ 218,904	$ 35,553	$ 183,351	$ 218,904	100%	$ -
2010	134,889	35,423	247,476	282,899	210%	(148,010)
2011	142,308	33,885	101,004	134,889	95%	(140,591)
2012	523,102	24,848	117,460	142,308	27%	240,203
2013	28,098	20,285	248,016	268,301	955%	-
2014	28,098	20,893	7,205	28,098	100%	-

Certain adjustments are made to the ARC if the plan carries a NPO. The NPO (asset if a credit) is defined in GASB Statement No. *27* as the cumulative difference at the date of adoption (or transition) between annual requirements and actual contributions plus the cumulative difference between the requirements and contributions after that date.

See Note 12 to the notes to the financial statements.

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of City Contributions
Last 10 Fiscal Years and
For the Year Ended September 30, 2014

FYE	Actuarially required City contribution	Contribution in relation to the actuarially determined contribution	Contribution deficiency (excess) *	Covered employee payroll	Contribution as a percentage of covered employee payroll
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%
2007	39,849,713	44,207,970	(4,358,257)	143,006,154	30.91%
2006	38,230,061	36,124,465	2,105,596	134,694,392	26.82%
2005	35,929,120	27,175,819	8,753,301	130,392,284	20.84%

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

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

Methods used to determine contribution rates:

Actuarial cost method:	Individual entry age
Amortization method:	Constant percentage of payroll increasing 3.25% annually; Closed
Remaining amortization period:	21 years
Asset valuation method:	Market Value
Inflation:	2.5%
Salary increases:	4.0%, including inflation
Investment rate of return:	7.0%, including inflation
Cost of living adjustments:	3.0%, compounded annually
Mortality Table in use	RP-2000, Combined Healthy Mortality Table, separate by sex, Projection Scale AA to valuation
Age differences for spouses:	Females are assumed to be 3 years younger than males
Percent married	Assume 75% of active employees are married, use tax reported status for inactives

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Investment Returns
Annual money-weighted rate of return, net of investment expense
For the Year Ended September 30, 2014

FYE	%
2014	10.73%
2013	14.29%
2012	18.25%
2011	0.64%
2010	8.45%
2009	1.70%
2008	-13.07%
2007	15.05%
2006	8.18%
2005	10.77%

City of Jacksonville, Florida Police and Fire Pension Fund
Schedule of Changes in Net Pension Liability and Related Ratios
Last 10 Fiscal Years and
For the Year Ended September 30, 2014

	2014	2013	2012	2011	2010
Total pension liability					
Service Cost (BOY)	$ 47,915,012	$ 46,109,290	$ 47,569,761	PRIOR	
Interest on total pension liability	203,577,435	195,519,742	190,343,631	INFORMATION	
Changes of benefit terms	-	-	-	NOT AVAILABLE	
Experience deviations including buybacks	22,671,112	(4,675,994)	(12,512,641)		
Changes of assumptions	-	5,332,605	227,333,255		
Benefit payments, including refunds of member contributions	(138,179,183)	(128,655,957)	(116,955,126)		
Net change in total pension liability	135,984,376	113,629,686	335,778,880		
Total pension liability -- beginning	2,876,606,192	2,762,976,506	2,427,197,626		
Total pension liability -- ending(a)	$ 3,012,590,568	$ 2,876,606,192	$ 2,762,976,506		
Fiduciary net position					
Contributions--employer	$ 148,277,368	$ 121,822,333	$ 69,828,557		
Contributions--member	10,067,765	9,682,998	11,204,317		
Buybacks and transfers--employer	2,242,902	-	2,814,296		
Buybacks and transfers--member	1,515,800	1,070,503	406,553		
Net investment income	146,950,776	169,202,439	181,653,432		
Securities Lending	382,022				
Benefit payments, including refunds of member contributions	(138,179,183)	(128,655,957)	(116,955,126)		
Administrative expense	(2,224,248)	(2,505,985)	(2,351,598)		
Chapter 175/185	10,110,493	9,667,185	9,275,728		
Court Fines	881,291	757,984	770,125		
Other	141,855	1,187,289	55,383		
Net change in fiduciary net position	180,166,841	182,228,789	156,701,667		
Fiduciary net position -- beginning	1,292,930,211	1,110,737,208	954,035,541		
Fiduciary net position -- ending	1,473,097,052	1,292,965,997	1,110,737,208		
less Reserve Accounts and Sr. Staff Assets	(83,349,437)	(64,834,813)	(31,830,621)		
Total fiduciary net position -- ending(b)	1,389,747,615	1,228,131,184	1,078,906,587		
City's fiduciary net pension liability--ending(a)-(b)	$ 1,622,842,953	$ 1,648,475,008	$ 1,684,069,919		
Fiduciary net position as a percentage of the total pension liability	46.13%	42.69%	39.05%		
Covered-employee payroll	$134,521,216	$130,972,174	$133,611,459		
City's fiduciary net pension liability as a percentage of covered-employee payroll	1206.38%	1258.65%	1260.42%		

KBLD LLC
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January 16, 2015

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Jacksonville Police and Fire Pension Fund (Fund), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated January 16, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KBLD LLC

KBLD, LLC