

2019

City of Jacksonville Beach –

General Employees' Retirement System

Financial Statements,

Required Supplementary Information,
and Independent Auditor's Report

September 30, 2019

CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2019
AND INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
The City of Jacksonville Beach, Florida
General Employees' Retirement System
Honorable Mayor and Members of the City Council
Jacksonville Beach, Florida

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the City of Jacksonville Beach, Florida, General Employees' Retirement System (the GERS) as of September 30, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the GERS'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 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. 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 GERS'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 GERS'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.

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To the Trustees of
The City of Jacksonville Beach, Florida
General Employees' Retirement System
Honorable Mayor and Members of the City Council
Jacksonville Beach, Florida

INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the GERS as of September 30, 2019, and the changes in its financial status for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this 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.



March 24, 2020
Tallahassee, Florida

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Jacksonville Beach, Florida (the City) General Employees' Retirement System (the Plan) provides an overview of the financial activities and funding conditions for the fiscal year ended September 30, 2019.

Financial Highlights

- The Plan's total net position held in trust for the payment of benefits and to meet the Plan's future obligations to its members and their beneficiaries was \$57,101,628. The Plan's net position increased by \$1,454,712, a 2.61% increase for the year.
- Employer contributions to the Plan increased \$201,416 over the previous year. The actual employer contributions were \$2,100,105 for 2019, and \$1,898,689 for 2018. The increase is attributable to an increase in the actuarially calculated contribution requirement.
- Employee contributions to the Plan increased by \$7,236 over the previous year. The actual employee contributions were \$1,036,998 for 2019, and \$1,029,762 for 2018. The increase in employee contributions is attributable to an increase in covered payroll dollars.
- The net investment income decreased by \$1,699,258 compared to 2018. The actual results were \$3,062,326 for 2019, and \$4,761,584 for 2018. Investment income decreased due to a decrease in performance compared to the previous year.
- Benefit payments and refund of contributions decreased by \$66,304 compared to 2018. The benefit payments and refund of contributions were \$4,648,241 for 2019, and \$4,714,545 for 2018. The decrease is attributable to fewer employees receiving benefits compared to the previous year.

Pension Plan provisions for the General Employees' Retirement System were modified significantly in Fiscal Year 2014 to improve the Plan's financial sustainability. The modifications included increasing the employee's contribution rate, changing the vesting periods, modifying pensionable pay exclusions, and modifying the Deferred Retirement Option Program (DROP). Details of the changes can be found in the Notes to the Financial Statements beginning on page 12. The funding objective of the General Employees' Retirement System is to meet its long-term pension benefit obligations through employer and employee contributions and investment returns. The Plan fiduciary net position as a percentage of total pension liability was 77.95% as of September 30, 2019.

Financial Analysis

The following discussion and analysis are intended to serve as an introduction to the City of Jacksonville Beach, Florida, General Employees' Retirement System financial statements, which are comprised of the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, Notes to Financial Statements, and certain required supplementary information.

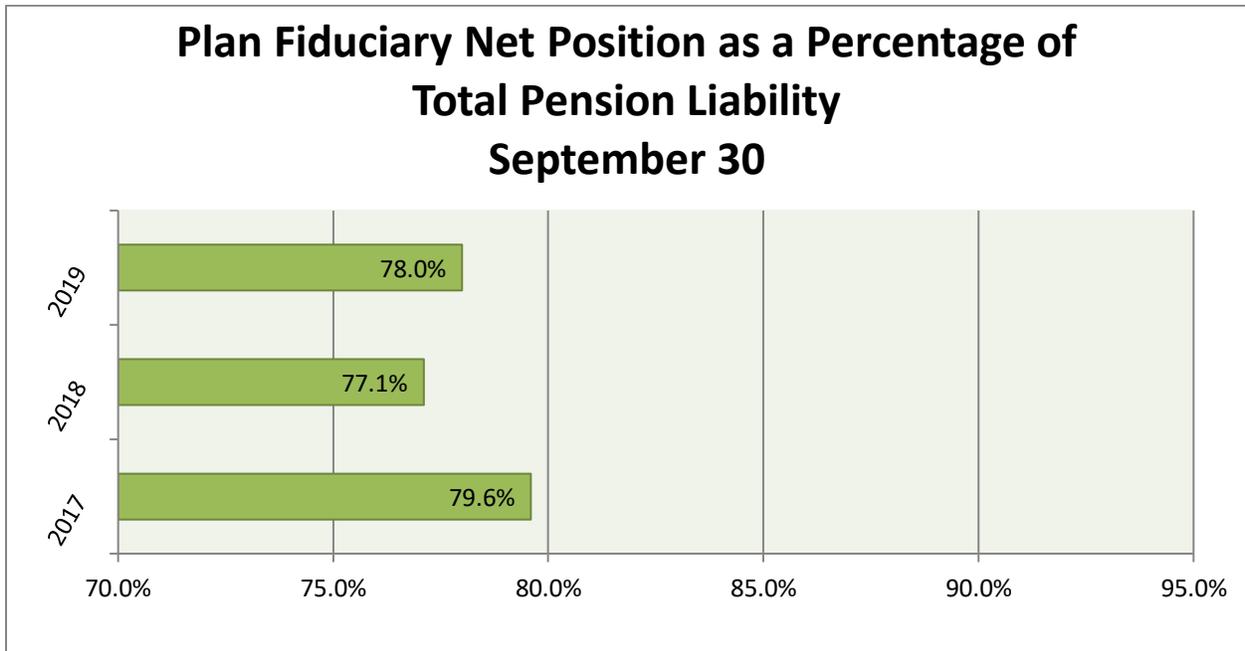
The financial statements reflect the activities of the General Employees' pension plan and are reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. These statements are presented on a full accrual basis and reflect all trust activities as incurred.

MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

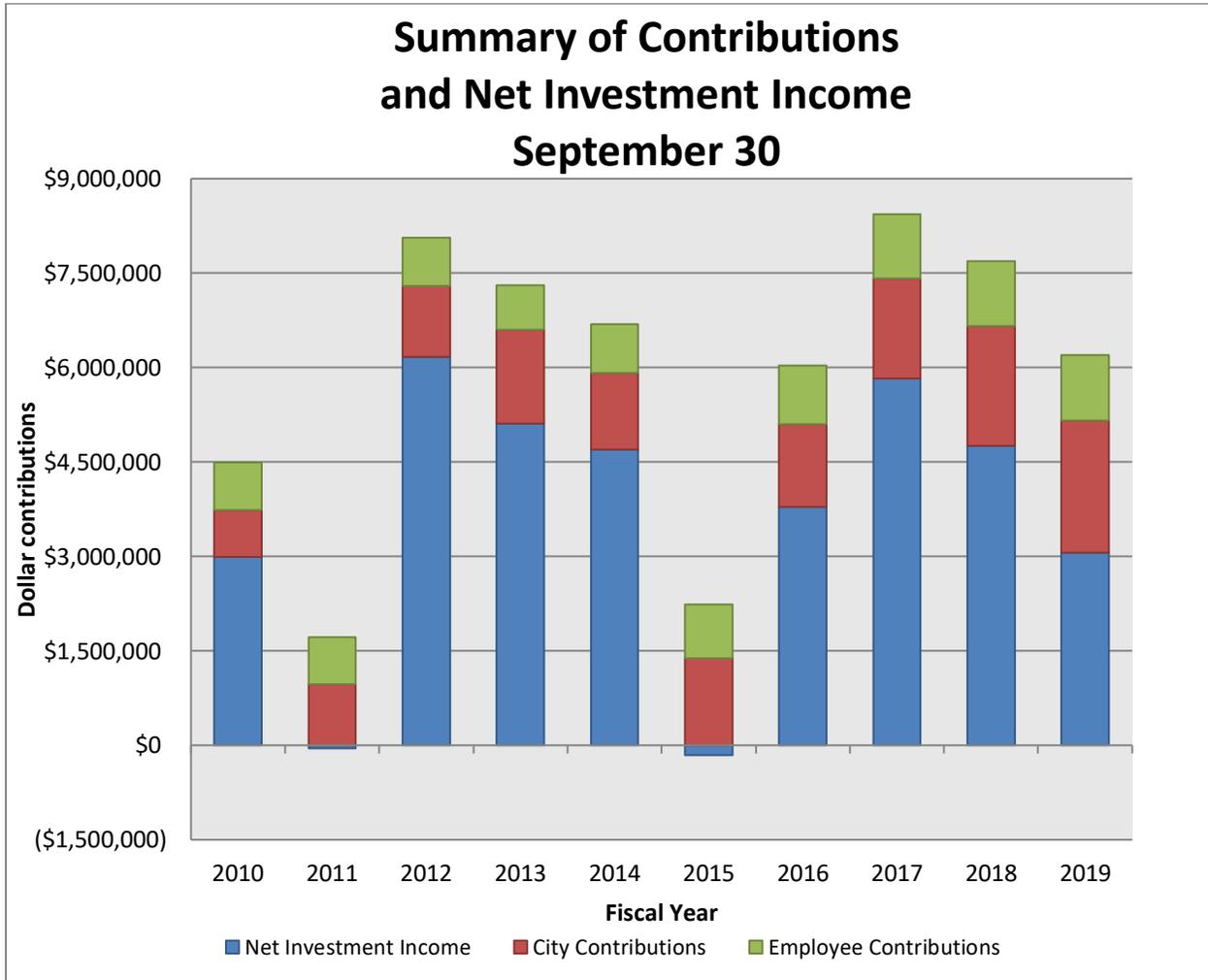
In 2014, the City implemented Governmental Accounting Standards Board Statement No. 67 & 68 (GASB 67 & 68) as required for the General Employees' Retirement System. This statement requires additional disclosures in the Plan's financial statements. The statement also requires the net pension liability to be measured as of the Plan's most recent fiscal year-end using methods prescribed by GASB that differ significantly from previous methods. The required disclosures for the General Employees' Retirement System can be found in the Notes to the financial statements beginning on page 12 and the Required Supplementary Information beginning on page 22.

There are several ways to measure the Plan's financial status. One means is to determine the Plan's net position available to pay benefits. This is the difference between total assets and total liabilities. Another way is to refer to the Plan's Net Pension Liability, which takes into account the total pension liability and the Plan fiduciary net position. The chart below displays the Plan fiduciary net position as a percentage of total pension liability for the past three years.



MANAGEMENT'S DISCUSSION AND ANALYSIS

The funding objective of the Retirement System is to establish and receive contributions (expressed as a percent of active member payroll), which should remain level from year-to-year and not have to be increased for future generations of citizens in the absence of benefit improvements. The Retirement System is supported by member contributions, City contributions, and investment income from the Retirement System assets as displayed on the chart below.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Actuarial differences between actual and assumed investment return are phased-in over a closed four-year period. Therefore, during periods when investment performance exceeds the assumed rate, asset values will tend to be less than market value. Conversely, during periods when investment performance is less than the assumed rate, valuation assets will tend to be greater than market value. As of October 1, 2018, the date of the last actuarial valuation, the Plan had a market value of \$55,646,916 and a funding value of \$54,189,183 as shown in the chart below.

Market/Funding Value of Assets

Plan Year Ended 9-30	Market Value	Funding Value
2009	\$ 37,248,523	\$ 41,537,752
2010	39,014,957	41,770,590
2011	37,834,361	40,808,666
2012	42,759,671	42,287,997
2013	47,023,784	45,066,035
2014	49,635,814	47,137,601
2015	47,301,861	49,152,702
2016	49,137,471	50,816,076
2017	52,771,855	52,342,244
2018	55,646,916	54,189,183

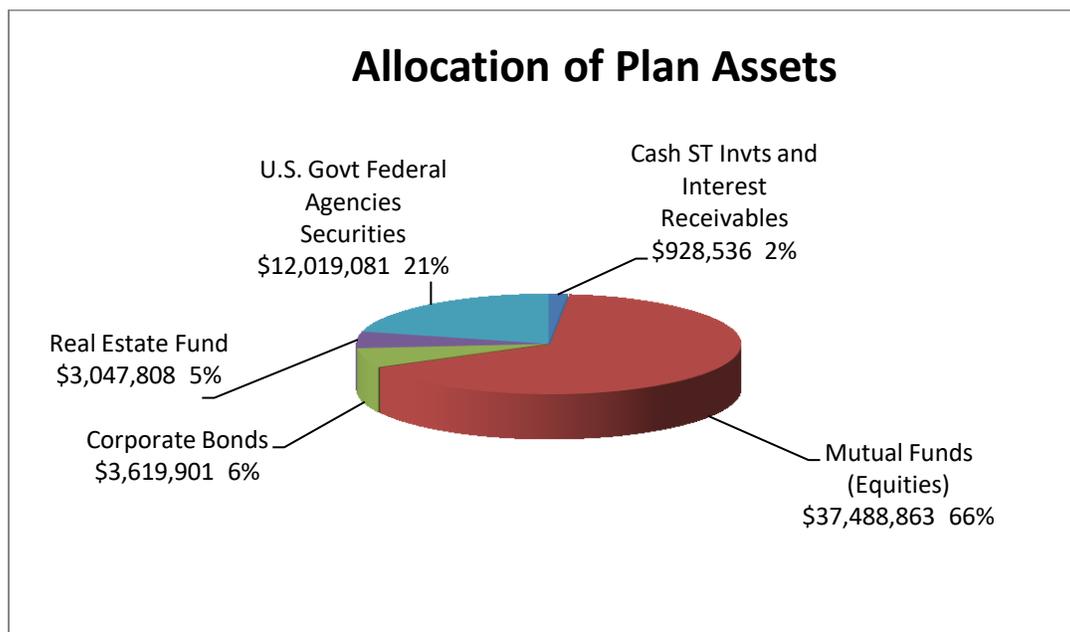
The Statement of Fiduciary Net Position is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

Fiduciary Net Position Restricted for Pension Benefits as of September 30

	2019	2018	Increase/ (Decrease)
Cash and Short-term Investments	\$ 851,883	\$ 1,121,251	\$ (269,368)
Interest Receivable	76,653	89,570	(12,917)
Investments	56,175,653	54,437,578	1,738,075
Total Assets	57,104,189	55,648,399	1,455,790
Accounts Payable	1,819	850	969
Other Accrued Liabilities	742	633	109
Total Liabilities	2,561	1,483	1,078
Net Position Restricted for Pension Benefits	\$ 57,101,628	\$ 55,646,916	\$ 1,454,712

The total net position of the General Employees' Retirement System as of September 30, 2019, was \$57,101,628. The allocation of the Plan's total assets as of September 30, 2019, is shown on the pie chart on the following page.

MANAGEMENT'S DISCUSSION AND ANALYSIS



Revenues essential to funding the Plan are obtained from member contributions, City contributions, and investment income from the retirement system assets. For the Plan year ended September 30, 2019, plan participants were required to pay 7.95% of their annual pensionable salary to the pension plan. The City makes periodic contributions totaling 100% of the annual actuarially determined amount to the Plan.

The Statement of Changes in Fiduciary Net Position provides a view of current year additions to and deductions from the Plan's net position. The sum of net investment earnings and contributions were higher than deductions resulting in an overall 2.61% increase in plan net position for the year. Earnings or losses on investments are reported net of investment expenses. The following table shows a comparative summary of the changes in net position and reflects the Plan's activities for the fiscal years ended September 30:

Changes in Fiduciary Net Position for the Year Ended September 30

	<u>2019</u>	<u>2018</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Additions:				
Contributions	\$ 3,137,103	\$ 2,928,451	\$ 208,652	7.12%
Net Investment Income (Loss)	<u>3,062,326</u>	<u>4,761,584</u>	<u>(1,699,258)</u>	-35.69%
Total Additions, Net	<u>6,199,429</u>	<u>7,690,035</u>	<u>(1,490,606)</u>	-19.38%
Deductions:				
Benefits and Refunds	4,648,241	4,714,545	(66,304)	-1.41%
Administrative Expenses	<u>96,476</u>	<u>100,429</u>	<u>(3,953)</u>	-3.94%
Total Deductions	<u>4,744,717</u>	<u>4,814,974</u>	<u>(70,257)</u>	-1.46%
Change in Net Position	1,454,712	2,875,061	(1,420,349)	-49.40%
Beginning of Year Net Position	<u>55,646,916</u>	<u>52,771,855</u>	<u>2,875,061</u>	5.45%
End of Year Net Position	<u>\$ 57,101,628</u>	<u>\$ 55,646,916</u>	<u>\$ 1,454,712</u>	2.61%

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Plan's investment earnings result from market gains and losses on investments during the year as well as dividend and interest earnings.

Additions to the Plan Net Position

The monies to pay benefits are accumulated from the contributions made from employers, employees, and income generated from the Plan's investments. Earnings or losses on investments are reported net of investment expenses.

	<u>2019</u>	<u>2018</u>	<u>Increase/ (Decrease)</u>
Additions:			
Employee Contributions	\$ 1,036,998	\$ 1,029,762	\$ 7,236
Employer Contributions	2,100,105	1,898,689	201,416
Net Investment Income (Loss)	<u>3,062,326</u>	<u>4,761,584</u>	<u>(1,699,258)</u>
Total Additions	<u>\$ 6,199,429</u>	<u>\$ 7,690,035</u>	<u>\$ (1,490,606)</u>

Deductions from the Plan Net Position

The Plan provides a lifetime pension benefit to its retired members, as well as survivor, and disability benefits. Annual expenses to the Plan include retirement benefits, refunds of employee contributions, and administrative expenses.

	<u>2019</u>	<u>2018</u>	<u>Increase/ (Decrease)</u>
Deductions:			
Benefits	\$ 4,346,876	\$ 4,555,656	\$ (208,780)
Refunds of Contributions	301,365	158,889	142,476
Administrative Expenses	<u>96,476</u>	<u>100,429</u>	<u>(3,953)</u>
Total Deductions	<u>\$ 4,744,717</u>	<u>\$ 4,814,974</u>	<u>\$ (70,257)</u>

The benefit payments are payments to retirees, or their beneficiaries (if the retiree is deceased). The refund of contribution amounts are refunds of employee contributions plus interest distributed to terminated employees who are not vested or who are vested but elect to not receive plan benefits. Administrative expenses include all expenses necessary to administer the retirement plan.

Notes to Financial Statements and Required Supplementary Information

Notes to financial statements provide additional information that is essential to a full understanding of the data provided. They begin on page 12 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GASB 67 requires several schedules of historical trend information to be presented as required supplementary information immediately after the notes to the financial statements. The required schedules are: (a) a schedule of changes in the net pension liability and related ratios multi-year that presents the beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, the net pension liability and the effects on those items; (b) a schedule of net pension liability multi-year; (c) a schedule of the City's contributions; and (d) a schedule of investment returns that provides information about the annual money-weighted rate of return on pension plan investments.

These schedules contain information pertaining to the City of Jacksonville Beach, Florida, General Employees' Retirement System's actuarial methods and assumptions, including data on the investment returns of the Plan. They can be found on pages 22-25.

Plan Membership

The table below reflects the Plan membership as of September 30 for active participants, retirees, beneficiaries, disabled members, and terminated vested members:

	September 30, 2019	September 30, 2018	Change
Vested	97	100	(3)
Non-Vested	140	140	0
Total Active Participants	237	240	(3)
Retirees Receiving Benefits	155	156	(1)
Beneficiaries Receiving Benefits	30	29	1
Disability Benefits	7	7	0
Total Receiving Benefits	192	192	0
Terminated Vested Members	11	10	1
Total Members Currently Receiving Benefits and Terminated Employees Entitled to Benefits, But Not Yet Receiving Them	203	202	1

Funding Status

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, defined benefit pension plans have been under-funded when the employer failed to make annual actuarially required contributions to the Plan. The City's defined benefit pension plan has been subject to the minimum funding standards since the adoption of the *Florida Protection of Public Employee Retirement Benefits Act* (Part VII of Chapter 112, Florida Statutes) in 1980. Accordingly, the City has funded the actuarially determined contribution for each year as required.

Requests for Information

The financial report is designed to provide users with an overview of the Plan's finances and the prudent exercise of the Board of Trustees's oversight. Questions concerning this report should be addressed to the City's Finance Officer, 11 North Third Street, Jacksonville Beach, Florida 32250.

FINANCIAL STATEMENTS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Assets

Cash and Short-Term Investments	\$	851,883
Interest Receivable		76,653
Investments:		
Mutual Funds (Equities)		37,488,863
Corporate Bonds		3,619,901
U.S. Government Obligations/Agencies		12,019,081
Real Estate Fund		3,047,808
Total Investments		<u>56,175,653</u>
Total Assets		<u>57,104,189</u>
Liabilities		
Accounts Payable		(1,819)
Other Accrued Liabilities		(742)
Total Liabilities		<u>(2,561)</u>
Net Position Restricted for Pensions	\$	<u><u>57,101,628</u></u>

See accompanying notes.

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

Additions

Contributions:

Employee	\$ 1,036,998
Employer	2,100,105

Total Contributions	3,137,103
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Investment Income:

Net Appreciation in Fair Value of Investments	605,813
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Interest	1,434,810
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Realized Gains	1,148,214
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Gross Investment Income	3,188,837
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(Investment Expense)	(126,511)
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Net Investment Income	3,062,326
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Total Additions	6,199,429
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Deductions

Benefits	4,346,876
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Refunds of Contributions	301,365
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Administrative Expense	96,476
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(Total Deductions)	(4,744,717)
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Net Increase	1,454,712
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Net Position, Beginning of Year	55,646,916
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Net Position, End of Year	\$ 57,101,628
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See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Note 1 - Description of Plan

Reporting Entity

The City of Jacksonville Beach, Florida General Employees' Retirement System (the GERS) was formed on April 1, 2000, as a result of amendments to the Florida Statutes. Chapter 175.061 governing firefighters' pensions and Chapter 185.05 governing police officers' pensions were amended to require separate pension plans for each of these groups of employees. On March 31, 2000, the predecessor pension plan (the Public Employees' Retirement System) ceased operations and its assets, liabilities, and fund balance were divided among three distinct pension plans:

- General Employees' Retirement System
- Police Officers' Retirement System
- Firefighters' Retirement System

Plan Description

Substantially, all full-time employees of the City of Jacksonville Beach, Florida, (the City) not covered by the Police Officers' Retirement System or the Firefighters' Retirement System are covered by the City's GERS.

The GERS is a single-employer, defined benefit pension plan and, as it relates to general employees, is the successor entity for the Plan that was established by the City on November 1, 1951, in accordance with a State of Florida legislative act which amended Chapter 27-643, Laws of Florida, 1951. Although the GERS presents separate financial statements, it is included (reported as a pension trust fund) in the City's financial reporting entity. The GERS is administered by a Board of Trustees comprised of two members of City Council, two members of the GERS elected by the membership, and a fifth member elected by the other four Board Members.

Membership

As of October 1, 2018 (date of the latest annual actuarial valuation), employee membership data related to the Pension Plan were:

Inactive Plan Members or their Beneficiaries Currently Receiving Benefits	192
Inactive Plan Members Entitled to Benefits, But Not Yet Receiving Them	10
Active Plan Members	<u>240</u>
Total	<u><u>442</u></u>

Benefits

The Pension Plan provides retirement benefits, deferred vested benefits, and death and disability benefits. The Plan assets are available to pay the general employees. The Plan was amended by Ordinance 2005-7906 to exclude from membership in the GERS, those part-time employees receiving a normal retirement pension from the City of Jacksonville Beach General Employees' Retirement System, and to permit continued payment of said pension benefits while employed.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Pension plan provisions for the GERS were modified significantly in fiscal year 2014. The modifications included increasing the employee's contribution rate, changing the vesting periods, modifying pensionable pay exclusions, and modifying the Deferred Retirement Option Program (DROP). The chart below provides a comparison of the pension plan provisions that occurred in fiscal year 2014. In addition, the paragraphs following the chart provide a detailed description of the changes.

SUMMARY COMPARISON OF PENSION PROVISIONS

CITY OF JACKSONVILLE BEACH GENERAL EMPLOYEES' PENSION PLAN				
Provision	Employees with Less Than 5 Years of Service on November 25, 2013	Employees with at Least 5 Years of Service but Less Than 10 Years of Service on November 25, 2013	Employees with 10 or More Years of Service on November 25, 2013	Employees with 30 Years of Service or Age 60 with 5 Years of Service on November 25, 2013
Benefit Formula	2.5% for all years of service (\$90,000 or 75% maximum)			2.5% for all years of service (75% maximum)
Normal Retirement Date	Age 55 with 30 years of service; or Age 62 with 10 years of service		Age 60 with 5 years of service; or 30 years of service regardless of age	
Pensionable Pay	Base pay + longevity pay; excluding overtime, shift differential, leave payouts, and all other compensation			Base pay, longevity, overtime, shift differential, and incentive pay

- **Normal Retirement**—Plan participants who retired prior to October 1, 1990, are entitled to pension payments for the remainder of their lives equal to 2% of their final average compensation times the number of years they were employed by the City and were a member of the Retirement System. The final average compensation is the highest five out of the last ten years of employment.

Compensation includes base pay, longevity pay, overtime, and cost-of-living allowances. The maximum annual pension payment to these participants is 60% of their final five-year average compensation.

Plan participants who retired after September 30, 1990 but before November 25, 2013, are entitled to pension payments for the remainder of their lives equal to 2.5% of their final average compensation times the number of years they were employed by the City and were a member of the Retirement System. The maximum annual pension benefit to these employees is 75% of their final average compensation.

Plan participants who retire on or after November 25, 2013, are entitled to payments for the remainder of their lives equal to 2.5% of their final average compensation times the number of years they were employed by the City and were a member of the Retirement System up to a maximum of \$90,000 or 75%, whichever is less. Accrued benefits in excess of the maximum amount are retained by the Plan. Compensation includes base pay and longevity pay. Compensation excludes overtime, shift differentials, incentive pay, leave payouts, and all other compensation.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Eligibility requirements for normal retirement are as follows for participants with ten years of service on November 25, 2013: 30 years of service regardless of age, or age 60 with five or more years of service.

Eligibility requirements for normal retirement are as follows for participants with less than ten years of service on November 25, 2013: Age 55 with 30 or more years of service, or age 62 with ten or more years of service. There is no mandatory retirement age.

The normal form of benefit is a benefit payable for the life of the retired member. Optional benefit forms are available on an actuarial equivalent basis.

- **Early Retirement**—Early retirement is available to all plan participants after 20 years of service with a reduced benefit.
- **Non-Duty Disability Retirement**—Disability retirement is available to plan participants that have attained at least ten years of service. Until the Plan participant reaches normal retirement age, the minimum non-duty disability is 25% of the participant's final average compensation.
- **Duty Disability Retirement**—The ten-year service requirement is waived if the retirement is caused by a duty-related disability. The amount of a duty disability pension is the larger of the member's accrued pension and 50% of member's final average compensation. At regular retirement age, the participant may elect to continue to be covered by duty disability or have the benefit recomputed as a normal retirement with additional service credit granted from the date of retirement to the later of normal retirement age or five years after date of disability. The minimum benefit shall not be less than 42% of the participant's final average compensation.
- **Non-Duty Death Before Retirement**—Non-duty death benefits are available at 100% of the Plan participant's normal retirement benefit provided the Plan participant attained ten or more years of service.
- **Duty Death Before Retirement**—The ten-year service requirement is waived if the death is duty-related. The surviving spouse is entitled to receive 100% of the participant's normal retirement benefit. The minimum benefit to the spouse shall not be less than 35% of the participant's final average compensation.
- **Backwards Deferred Retirement Option Program (BackDROP)**—A participant of the retirement system who meets the normal retirement requirements on or after November 25, 2013, is eligible for BackDROP. The participant may elect a BackDROP period for the number of months employed beyond their normal retirement date, up to a maximum of thirty-six consecutive months. Benefits are computed as if the participant chose to terminate on any date within the thirty-six month period after the normal retirement date, using credited service and final average compensation at the normal retirement date. In addition to the monthly pension, there will be a lump-sum payment. The lump-sum payment will be computed as if the monthly benefits had started and were accumulated in an account and credited with 3% interest, compounded annually during the period between the date chosen for BackDROP retirement and the date of termination.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Contributions

For the year ended September 30, 2019, Plan participants were required to pay 7.95% of their annual compensation to the Pension Plan. The payments are deducted from the employees' wages or salary and remitted by the City to the GERS at the end of each pay period. If an employee leaves the employment of the City before he or she is vested (attaining five years of service prior to November 25, 2013, or attaining ten years of service on or after November 25, 2013), the accumulated contributions plus earned interest are refunded to the employee or the employee's designated beneficiary. If an employee leaves the employment of the City after becoming vested, but before attaining retirement age, the employee or the employee's designated beneficiary has the option of being refunded the accumulated contributions plus earned interest or keeping the funds in the Plan and receiving benefits under the Plan upon reaching normal retirement age.

The City makes periodic contributions totaling a minimum of 100% of the annual actuarially determined amount to the Pension Plan. For the year ended September 30, 2019, the actuarially determined contribution amount as determined by the October 1, 2017 actuarial valuation, was \$2,097,788 and the actual contribution was \$2,100,105.

For the year ended September 30, 2019, the total City's covered payroll (general employees only) amounted to \$13,044,000. Covered payroll refers to all compensation paid by the City to active employees covered by the GERS on which contributions to the Pension Plan are based. Total payroll for general employees (covered and uncovered) for the year ended September 30, 2019, was \$15,341,004.

Note 2 - Summary of Significant Accounting Policies and Plan Position Matters

Basis of Accounting

The GERS financial statements are prepared on the accrual basis of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Interest and dividend income is recognized when earned by the Pension Plan. Realized gains and losses on the sale of investments held by the Pension Plan are recognized when incurred. Net appreciation in the fair value of investments held by the Pension Plan is recorded as an increase to investment income based on the valuation of investments as of the date of the statement of plan net position available for benefits. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments in securities are reported at fair value. Corporate bond securities are assigned a value based on yields currently available on securities of issuers with credit ratings similar to the securities held by the Pension Plan. Unrestricted capital stock securities are assigned a value based on quoted market prices. There are no investments in, loans to, or leases with parties related to the Pension Plan.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Note 3 - Cash and Investments

Florida Statutes and City ordinances authorize the GERS to invest in obligations of the United States, in obligations guaranteed as to principal and interest by the United States and in bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States provided that the corporation is listed on one or more of the recognized national stock exchanges and holds a rating of the three highest classifications by a major rating service. Corporate fixed income securities must hold a rating of A or higher by a Nationally Recognized Statistical Rating Organization (Moody's, Standard & Poor's, Fitch).

Following is a summary of the investments and maturities held by the GERS at September 30, 2019:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Mutual Fund (Equities)	\$ 37,488,863	\$ 37,488,863			
U.S. Government Securities	7,060,374		\$ 1,252,401	\$ 4,304,103	\$ 1,503,870
Federal Agency Securities:					
Federal Home Loan Bank	486,575			389,156	97,419
Federal Home Loan Mtg. Corp.	608,105	1,338	30,642		576,125
Federal National Mtg. Assoc.	3,864,027		20,431	1,570,676	2,272,920
Corporate Bonds	3,619,901		241,313	3,054,774	323,814
Real Estate Fund	<u>3,047,808</u>	<u>3,047,808</u>			
Total	<u>\$ 56,175,653</u>	<u>\$ 40,538,009</u>	<u>\$ 1,544,787</u>	<u>\$ 9,318,709</u>	<u>\$ 4,774,148</u>

Credit quality distribution for the GERS' investments with credit exposure as a percentage of the total pension investment is as follows:

Investment Type	Moody's Credit Rating	Percent of Total
U.S. Government Securities	Aaa	12.57%
Federal Agency Securities	Aaa	8.83%
Corporate Bonds	A1	0.86%
Corporate Bonds	A2	3.25%
Corporate Bonds	A3	0.24%
Corporate Bonds	Aa2	0.52%
Corporate Bonds	Aaa	0.58%
Corporate Bonds	Baa1	0.99%

Cash and money market funds totaling \$851,883 at September 30, 2019, are classified as cash and short-term investments on the accompanying statement of fiduciary net position because they are available for immediate withdrawal or transfer.

Risk Disclosure

The Plan's investment policies do not specifically address its exposure to interest rate changes, custodial credit risk, or quality credit risk. The following items discuss the pension funds' exposure to various risks of their investment portfolios:

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

- **Interest Rate Risk**—the City’s pension funds limit their risk by averaging investment maturities at approximately three to five years.
- **Custodial Credit Risk**—for an investment, custodial credit 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 generally utilizes third party custodians to help manage custodial credit risk.
- **Concentration of Credit Risk**—the pension funds’ investment policies and practices require investments to be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are purchased and sold.

Identification of Investments

- **Equities**—Investments in equity securities must be traded on the national exchange or electronic network. No more than 5% of the Plan’s assets, at the time of purchase, may be invested in the common stock, capital stock, or convertible stock of any one issuing company. In addition, the aggregate investment in any one company shall not exceed 5% of the outstanding capital stock of that company. No more than 10% of the Plan’s assets, at the time of purchase, may be invested in the shares of companies that have been publicly traded for less than one year.
- **Fixed Income**—Investments in corporate fixed income securities shall be limited to those securities rated “A” (or its equivalent) or higher by a Nationally Recognized Statistical Rating Organization. In the event an investment security rating drops below a rating of A, the investment manager notifies the investment advisor. The investment advisor instructs the investment manager to monitor the investment closely or dispose of it when economically feasible. The maximum maturity of any single security in the Plan’s fixed income portfolio shall not exceed 30 years, and the average effective duration of the portfolio shall not exceed that of the benchmark index by more than 20%. No more than 10% of the Plan’s assets, at the time of purchase, shall be invested in securities of any single corporate issuer. Investments in Collateralized Mortgage Obligations (CMO) shall be limited to 10% of the market value of the Plan’s fixed income portfolio and shall be restricted to those issues that are currently paying interest, receiving principal pay-downs and do not contain leverage.
- **Real Estate Fund**—All real estate investments shall be managed by experienced and qualified professional real property investment managers. The Board will seek to diversify its real estate investment by property type (residential, industrial, office, retail, timberland, etc.) and property location (geographic region).

The following is the Board’s adopted asset allocation policy as of September 30, 2019:

Asset Class	Target Allocation
Domestic Equity	50%
International Equity	10%
Fixed Income	35%
Real Estate Fund	5%
Total	100%

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Concentration

The Plan did not hold investments in any one organization that represents 5% or more of the Pension Plan's fiduciary net position.

Rate of Return

For the year ended September 30, 2019, the annual money-weighted rate of return on plan investments, net of plan investment expense, was 5.61%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurements

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

- **Level 1 Inputs**—are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- **Level 2 Inputs**—are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- **Level 3 Inputs**—are unobservable inputs for an asset or liability. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

The Plan's investments are measured at fair value on a recurring basis. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value in the hierarchy described above. The fair value measurements for the Plan's operating investments are as follows at September 30, 2019:

Investments by Fair Value Level	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 37,488,863	\$ 37,488,863		
U.S. Government Securities	7,060,374	7,060,374		
Federal Agency Securities:				
Federal Home Loan Bank	486,575	486,575		
Federal Home Loan Mortgage Corporation	608,105	140,718	\$ 467,387	
Federal National Mortgage Association	3,864,027		3,864,027	
Corporate Bonds	3,619,901		3,619,901	
Total Investments Measured at Fair Value	\$ 53,127,845	\$ 45,176,530	\$ 7,951,315	\$ -
Investments Measured at the Net Asset Value (NAV)	Amount	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real Estate Fund	\$ 3,047,808	\$ -	Quarterly	45 days
Total Investments	\$ 56,175,653			

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Equities and U.S. Government Securities are valued based on prices quoted in active markets and are categorized as Level 1 in the fair value hierarchy. Federal Agency Securities are valued using matrix pricing techniques that value securities based on their relationship to benchmark quoted prices. Corporate bonds are valued using quoted prices for similar securities in active markets and are categorized as Level 2 in the fair value hierarchy. The Real Estate Fund is valued at Net Asset Value (NAV), which is determined using certified annual appraisals of investment properties held by the fund.

Note 4 - Pension Cost

The pension cost for the year ended September 30, 2019, was \$2,100,105 (actual contribution-City share). The pension cost for the 2019 fiscal year was determined as part of an October 1, 2017, actuarial valuation using the entry age actuarial cost method.

The actuarial assumptions used for funding purposes in the October 1, 2017, valuation included: (a) 7.9% investment rate of return (includes 2.5% inflation and 5.4% real investment return); and (b) projected salary increases ranging from 2.5% to 6.3% per year. The assumptions did not include post-retirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at October 1, 2017, was four to twenty-five years.

Note 5 - Net Pension Liability

The Pension Plan's fiscal year-end net pension liability as of September 30, 2019, was as follows:

Total Pension Liability	\$ 73,255,661
Plan Fiduciary Net Position	<u>57,101,628</u>
Net Pension Liability	<u>\$ 16,154,033</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.95%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2018, updated to September 30, 2019, using the following actuarial assumptions:

Inflation	2.5%
Salary Increases	2.5-6.3% (Including Inflation)
Investment Rate of Return	7.5%

Mortality rates were based on the House Bill 1309, which mandated the use of the Florida Retirement System (FRS) mortality tables. The RP-2000 table and projection scale BB produce life expectancies that are longer for male and females. This table was first used for the October 1, 2016 valuation.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

The long-term expected rate of return on the Plan investments was determined using building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2019, are summarized below:

<u>Asset Class</u>	<u>Long-Term Expected Rate of Return (Excluding Inflation)</u>
Domestic Equity	10.0%
International Equity	11.0%
Domestic Bonds	5.0%
International Bonds	6.0%
Real Estate Fund	7.0%
Cash	0.0%

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The single discount rate reflects the long-term expected rate of return on Pension Plan investments including inflation.

The table below provides the sensitivity of the net pension liability to changes in the discount rate. The table represents the Plan's net pension liability, if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage point higher than the single discount rate.

**Sensitivity of Net Pension Liability to the
Single Discount Rate Assumption**

1% Decrease	Current Discount Rate	1% Increase
<u>6.50%</u>	<u>7.50%</u>	<u>8.50%</u>
\$ 24,431,738	\$ 16,154,033	\$ 9,174,725

The total pension liability information is based on the actuarial valuation performed October 1, 2018. The total pension liability was rolled-forward from the valuation date to the Plan year ended September 30, 2019, using generally accepted actuarial principles.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM

Note 6 - Subsequent Event

The COVID-19 pandemic has created economic disruptions throughout the country as of the date of our report causing significant declines in the financial markets and economic activity overall. The Plan expects to experience declines in investment values which could result in increased contributions from the City or the Plan members in the future. The ultimate effect of these items is expected to be significant but is not quantifiable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS MULTI-YEAR
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

(Ultimately 10 Years Will Be Displayed)

Fiscal Year Ended September 30,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability						
Service Cost	\$ 1,503,973	\$ 1,376,902	\$ 1,391,483	\$ 1,207,176	\$ 1,111,657	\$ 1,129,366
Interest on the Total Pension Liability	5,292,226	5,106,511	4,852,273	4,606,558	4,557,077	4,443,924
Difference Between Expected and Actual Experience	(1,027,446)	1,126,397	325,573	(1,228,033)	(891,893)	
Assumption Changes (#)	(4,346,876)	2,931,687	2,129,976	2,784,150		
Benefit Payments	(4,346,876)	(4,555,656)	(4,599,574)	(3,929,634)	(4,052,263)	(3,669,967)
Refunds	(301,365)	(158,889)	(97,989)	(153,923)	(276,366)	(301,456)
Net Change in Total Pension Liability	<u>1,120,512</u>	<u>5,826,952</u>	<u>4,001,742</u>	<u>3,286,294</u>	<u>448,212</u>	<u>1,601,867</u>
Total Pension Liability-Beginning	<u>72,135,149</u>	<u>66,308,197</u>	<u>62,306,455</u>	<u>59,020,161</u>	<u>58,571,949</u>	<u>56,970,082</u>
Total Pension Liability-Ending (a)	<u>\$ 73,255,661</u>	<u>\$ 72,135,149</u>	<u>\$ 66,308,197</u>	<u>\$ 62,306,455</u>	<u>\$ 59,020,161</u>	<u>\$ 58,571,949</u>
Plan Fiduciary Net Position						
Employer and State Contributions	\$ 2,100,105	\$ 1,898,689	\$ 1,591,545	\$ 1,321,320	\$ 1,387,165	\$ 1,216,994
Employee Contributions	1,036,998	1,029,762	1,018,627	927,251	853,057	771,553
Pension Plan Net Investment Income	3,062,326	4,761,584	6,557,114	3,782,591	(153,496)	4,697,264
Benefit Payments	(4,346,876)	(4,555,656)	(4,599,574)	(3,929,634)	(4,052,263)	(3,669,967)
Refunds	(301,365)	(158,889)	(97,989)	(153,923)	(276,366)	(301,456)
Pension Plan Administrative Expenses	(96,476)	(100,429)	(105,804)	(111,995)	(92,050)	(102,359)
Other			(729,535)			
Net Change in Plan Fiduciary Net Position	<u>1,454,712</u>	<u>2,875,061</u>	<u>3,634,384</u>	<u>1,835,610</u>	<u>(2,333,953)</u>	<u>2,612,029</u>
Plan Fiduciary Net Position-Beginning	<u>55,646,916</u>	<u>52,771,855</u>	<u>49,137,471</u>	<u>47,301,861</u>	<u>49,635,814</u>	<u>47,023,785</u>
Plan Fiduciary Net Position-Ending (b)	<u>\$ 57,101,628</u>	<u>\$ 55,646,916</u>	<u>\$ 52,771,855</u>	<u>\$ 49,137,471</u>	<u>\$ 47,301,861</u>	<u>\$ 49,635,814</u>
Net Pension Liability-Ending (a) – (b)	<u>\$ 16,154,033</u>	<u>\$ 16,488,233</u>	<u>\$ 13,536,342</u>	<u>\$ 13,168,984</u>	<u>\$ 11,718,300</u>	<u>\$ 8,936,135</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	77.95%	77.14%	79.59%	78.86%	80.15%	84.74%
Covered Employee Payroll	<u>\$ 13,044,000</u>	<u>\$ 12,952,981</u>	<u>\$ 12,812,918</u>	<u>\$ 11,663,535</u>	<u>\$ 10,730,277</u>	<u>\$ 10,622,900</u>
Net Pension Liability as a Percentage of Covered Employee Payroll	123.84%	127.29%	105.65%	112.91%	109.21%	84.12%

Notes to Schedule

Assumption changes include the following:

- For 2016, adding a 2% load on the present value of future benefits as a margin for future mortality improvements and decreasing the long-term municipal bond rate from 3.71% to 3.06%.
- For 2017, decreasing the single discount rate and long-term expected rate of return from 8.00% to 7.90%, and increasing the long-term municipal bond rate from 3.06% to 3.50%.
- For 2018, decreasing the single discount rate and long-term expected rate of return from 7.90% to 7.50%, and increasing the long-term municipal bond rate from 3.50% to 3.83%.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF NET PENSION LIABILITY MULTI-YEAR
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

(Ultimately 10 Years Will Be Displayed)

Fiscal Year Ended <u>September 30,</u>	Total Pension Liability (TPL)	Plan Net Position	Net Pension Liability	Plan Net Position as a % of TPL	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2014	\$ 58,571,949	\$ 49,635,813	\$ 8,936,136	84.74%	\$ 10,622,900	84.12%
2015	59,020,161	47,301,861	11,718,300	80.15%	10,730,277*	109.21%
2016	62,306,455	49,137,471	13,168,984	78.86%	11,663,535*	112.91%
2017	66,308,197	52,771,855	13,536,342	79.59%	12,812,918*	105.65%
2018	72,135,149	55,646,916	16,488,233	77.14%	12,952,981	127.29%
2019	73,255,661	57,101,628	16,154,033	77.95%	13,044,000	123.84%

*Source: Implicit payroll based on employee contributions during the fiscal year.

Note: The above calculations were performed under the requirements of GASB Statement No. 67.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

(Ultimately 10 Years Will Be Displayed)

Fiscal Year Ending <u>October 1,</u>	Actuarially Determined <u>Contribution</u>	Actual <u>Contribution</u>	Contribution Deficiency <u>(Excess)</u>	Covered <u>Payroll</u>	Actual Contribution as a % of <u>Covered Payroll</u>
2014	\$ 1,205,756	\$ 1,216,994	\$ (11,238)	\$ 10,622,900	11.46%
2015	1,387,165	1,387,165		10,730,277*	12.93%
2016	1,321,320	1,321,320		11,663,535*	11.33%
2017	1,591,545	1,591,545		12,812,918*	12.42%
2018	1,892,707	1,898,689	(5,982)	12,952,981*	14.66%
2019	2,097,788	2,100,105	(2,317)	13,044,000*	16.10%

* Source: Implicit payroll based on employee contributions during the fiscal year.

Notes to Schedule of Contributions

Methods and Assumptions used to Actuarially Determine Contribution Rates for FY Ending September 30, 2019:

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	4-25 Years
Asset Valuation Method:	4-Year Smoothed Market
Inflation	2.50% Wage Inflation, 2.50% Price Inflation
Salary Increases	2.50% to 6.30% Including Inflation
Investment Rate of Return	7.90%
Retirement Age:	Age and experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2002 valuation.
Mortality:	The Florida Retirement System (FRS) mortality tables, which use variations of the fully generational RP-2000 Mortality Tables with projection scale BB.

Other Information:

Notes: The Employer Contribution for fiscal year 2019 was determined in the Actuarial October 1, 2017 valuation report.

Additional years will be added to this schedule annually until 10 years of data are presented.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
CITY OF JACKSONVILLE BEACH, FLORIDA
GENERAL EMPLOYEES' RETIREMENT SYSTEM**

<u>Fiscal Year Ended September 30,</u>	<u>Annual Money-Weighted Rate of Return Net of Investment Expense</u>
2019	5.61%
2018	9.22%
2017	12.11%
2016	8.15%
2015	-0.35%
2014	10.22%
2013	11.97%
2012	16.52%
2011	-0.17%
2010	8.16%

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