

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
Year ended June 30, 1975
with
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

ARTHUR YOUNG & COMPANY

CITY OF SAN JOSE -- MEMORANDUM

TO The Honorable Mayor and City Council

SUBJECT Audit Report of Retirement Plans by
Arthur Young & Company for Year Ended June 30, 1975FROM Boards of Administration
Federated City Employees' Retirement Plan and
Police & Fire Department Retirement Plan

DATE January 21, 1976 154

APPROVED

DATE 1-26-76 2-16-76

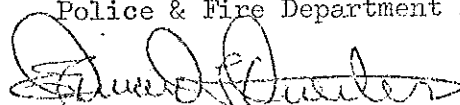
The Board of Administration for the City of San Jose Police and Fire Department Retirement Plan and the Board of Administration for the Federated City Employees' Retirement Plan have reviewed and accepted the auditor's report on the respective retirement plans for the fiscal year ended June 30, 1975.

The Board for the Federated Plan expressed concern about information which appeared in the Notes to the Financial Statements which had not been presented to the Board.

These reports are being forwarded to the Council for its information.

Respectfully submitted,

Boards of Administration
Federated City Employees' Retirement Plan
Police & Fire Department Retirement Plan



Edward F. Overton
Secretary

EFO:ma

Attachments: Copy of Audit Report for Both Retirement Plans

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EMPLOYEE SERVICES

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ARTHUR YOUNG & COMPANY

101 PARK CENTER PLAZA
SAN JOSE, CALIFORNIA 95113

Board of Administration
City of San Jose Police and Fire
Department Retirement System
San Jose, California

We have examined the accompanying balance sheet of the City of San Jose Police and Fire Department Retirement System at June 30, 1975 and the related statements of changes in reserve balances and of cash receipts and disbursements for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the financial position of the City of San Jose Police and Fire Department Retirement System at June 30, 1975 and the changes in reserve balances and cash receipts and disbursements for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination has been made primarily for the purpose of expressing an opinion on the financial statements, taken as a whole. The accompanying supplementary information is presented for analysis purposes and is not necessary for a fair presentation of the financial information referred to in the preceding paragraph. It has been subjected to the tests and other auditing procedures applied in the examination of the financial statements mentioned above and, in our opinion, is fairly stated in all respects material in relation to the financial statements taken as a whole.

Arthur Young & Company

November 21, 1975

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
BALANCE SHEET
June 30, 1975

ASSETS

Cash in bank	\$ 3,208
Receivable from the City of San Jose General Fund:	
Employee contributions	75,738
Employer contributions	328,200
Accrued interest receivable	593,317
Investments (Notes 1 and 2)	<u>38,021,930</u>
	<u>\$39,022,393</u>

LIABILITY AND RESERVES

Bank overdraft	\$ 74,162
Reserves (Notes 1 and 3):	
Employee contribution	5,986,035
General	<u>32,962,196</u>
Total reserves	<u>38,948,231</u>
	<u>\$39,022,393</u>

See accompanying notes.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
STATEMENT OF CHANGES IN RESERVE BALANCES
Year ended June 30, 1975

	Employee Contribution Reserve	General Reserve
Balance at June 30, 1974	<u>\$5,199,021</u>	<u>\$28,388,262</u>
Employee contributions:		
Cash received	888,519	-
Receivable at June 30, 1975	75,738	-
Receivable at June 30, 1974	<u>(69,477)</u>	<u>-</u>
	<u>894,780</u>	<u>-</u>
Employer contributions:		
Cash received, net of refunds due to employee terminations	-	3,780,864
Receivable at June 30, 1975	-	328,200
Receivable at June 30, 1974	<u>-</u>	<u>(294,778)</u>
	<u>-</u>	<u>3,814,286</u>
Interest income:		
Cash received	-	2,122,660
Receivable at June 30, 1975	-	593,317
Receivable at June 30, 1974	-	(453,157)
Interest allocations	<u>108,162</u>	<u>(108,162)</u>
	<u>108,162</u>	<u>2,154,658</u>
Refunds to terminated employees:		
Cash paid out	(30,294)	-
Payable at June 30, 1974	<u>14,879</u>	<u>-</u>
	<u>(15,415)</u>	<u>-</u>
Dividend income received	-	154,161
Gain on sale of investments	-	15,448
Loss on sale of investments	-	(58,910)
Retirement benefits paid	-	(1,533,348)
Death benefits paid	-	(149,437)
Transfer to Federated City Employees' Retirement System	-	(23,437)
Transfer to general reserve upon retirement of employees	<u>(200,513)</u>	<u>200,513</u>
Balance at June 30, 1975	<u><u>\$5,986,035</u></u>	<u><u>\$32,962,196</u></u>

See accompanying notes.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 1975

Receipts:

Employee contributions	\$ 888,519
Employer contributions	3,780,864
Interest income	2,122,660
Dividend income	154,161
Sales and maturities of investments:	
Time deposits	6,861,500
Bankers' acceptances and commercial paper	29,668,858
U.S. Government securities	1,675,529
Corporate bonds	69,993
Corporate stocks	119,121
Total receipts	<u>45,341,205</u>

Disbursements:

Refunds to terminated employees	30,294
Death benefits paid	149,437
Retirement benefits paid	1,533,348
Transfer to Federated City Employees' Retirement System	23,437
Investment purchases:	
Time deposits	4,454,000
Bankers' acceptances and commercial paper	29,517,555
U.S. Government securities	1,227,969
Corporate bonds	7,211,210
Corporate stocks	1,278,408
Total disbursements	<u>45,425,658</u>

Excess of disbursements over receipts	(84,453)
Cash balance at June 30, 1974	<u>13,499</u>
Cash balance at June 30, 1975, net of overdraft	<u>\$ (70,954)</u>

See accompanying notes.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

1. Accounting policies

Basis of presentation

The City of San Jose Police and Fire Department Retirement System (the "Retirement System") was established to provide retirement benefits for employees of the police and fire departments of the City of San Jose (the "City") pursuant to various Retirement Plans adopted by the City. The Retirement Plans require the City to account for Retirement System transactions in two funds: (1) the Retirement Fund and (2) the Cost of Living Fund. The accompanying financial statements are prepared on the accrual basis and combine the accounts of the Retirement Fund and the Cost of Living Fund.

Administrative costs of the Retirement System are paid by the General Fund of the City and are not included in the accompanying financial statements.

Description of the Retirement System

The Retirement System is administered by the Retirement and Benefits Administrator under the direction of the Board of Administration.

All sworn officers of the City's police and fire departments are required to be members of the Retirement System.

The Retirement System is financed by employee payroll deductions and by City contributions. Prior service costs (which relate to employee services performed prior to the date of an actuarial valuation)

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

1. Accounting policies (continued)

Description of the Retirement System (continued)

(Note 3) are financed entirely by City contributions. Current service costs are shared by the City and member employees in the ratio of \$8 from the City for each \$3 from the employees. Contribution rates (expressed as a percentage of salaries) are set by the Board of Administration and adjusted periodically (not less than once each five years) based on studies by consulting actuaries. All contributions, together with interest earned thereon, are refundable upon termination of employment of the employee on whose account the contribution was made.

Retirement benefits are payable upon disability, death, or normal retirement of the employee. The benefit amount is based upon a formula arising from the employees highest annual rate of pay while employed, adjusted for changes in the cost of living subsequent to retirement up to a maximum of 3% per year (cumulative changes in excess of 3% per year are offset against years in which the change is less than 3%), as evidenced by changes in the Consumer Price Index published by the United States Department of Labor's Bureau of Labor Statistics.

Investments

Investments are stated at cost. Gains or losses on each investment are recognized only upon sale of the investment. Generally, government obligations and corporate bonds are held until they mature.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

1. Accounting policies (continued)

Investments (continued)

Premiums and discounts (differences between purchase cost and maturity value) are included in gains or losses on sale or maturity of investments. They are not amortized as an element of interest income as is required by generally accepted accounting principles. However, at June 30, 1975 this departure from generally accepted accounting principles did not have a material effect upon the financial statements.

Reserve for future benefits

The Retirement System does not provide a reserve in the balance sheet for the unfunded portion of the present value of future benefits (Note 3).

2. Investments

Investments in the accompanying balance sheet are stated at cost. The following table summarizes the investments held at June 30, 1975 and includes lower

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

2. Investments (continued)

of cost or market (applied on an individual investment basis) information for purposes of comparison.

	At the Lower of Cost or Market	At Cost		
		Combined Retirement System	Retirement Fund	Cost of Living Fund
Time deposits	\$ 305,500	\$ 305,500	\$ 305,500	\$ -
Bankers' acceptances	1,024,410	1,024,410	1,000,792	23,618
	<u>1,329,910</u>	<u>1,329,910</u>	<u>1,306,292</u>	<u>23,618</u>
U.S. Treasury securities	1,561,150	1,635,240	1,635,240	-
U.S. Government sponsored securities	873,384	925,384	908,634	16,750
International agency securities	600,000	757,708	757,708	-
Canadian Government securities	1,500,050	1,582,724	1,532,974	49,750
	<u>4,534,584</u>	<u>4,901,056</u>	<u>4,834,556</u>	<u>66,500</u>
Corporate bonds	21,631,664	25,253,359	24,642,392	610,967
Corporate stock and convertible bonds	5,754,720	6,537,605	6,480,855	56,750
	<u>\$33,250,878</u>	<u>\$38,021,930</u>	<u>\$37,264,095</u>	<u>\$757,835</u>

Gross unrealized gains representing the excess of market value over cost for all investments at June 30, 1975 aggregate approximately \$709,000 comprised of: government obligations and corporate bonds - \$201,000 and corporate stocks and convertible bonds - \$508,000. These unrealized gains, when offset against the unrealized losses in the "Lower of Cost or Market" column of the above table, produce an aggregate market value for all investments of approximately \$33,960,000 at June 30, 1975.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

2. Investments (continued)

Investments in government obligations and corporate bonds having an aggregate principal (maturity value) of \$31,085,464 are included in the table above at an aggregate cost of \$30,154,415. This \$931,049 difference represents the net of unamortized discounts and premiums at June 30, 1975.

3. Present value of future benefits

The present value of future benefits is the amount of assets which would, if owned at a given date and invested at the assumed yield rate, provide sufficient funds without further contributions, to pay all members at that date amounts of retirement benefits to which they are expected to become entitled. It is an estimate computed by a consulting actuary using data and assumptions provided by the Retirement System. The most recent computation for the purpose of estimating Retirement System funding requirements was prepared by the Retirement System's actuary as of June 30, 1974. The actuary used "a combination of aggregate costs with a split between prior and current service" method in preparing the computation. Certain of the more significant assumptions entering into that computation are as follows:

- (a) Salary increases will average 3% per year compounded annually.
- (b) Yield on Retirement System assets will average 6% per year compounded annually.
- (c) Cost of living increases to retired members monthly benefits will average 3% per year compounded annually.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

3. Present value of future benefits (continued)

- (d) Rate of termination will be slightly less than half that which would normally be expected from a group of safety employees and is based upon the City's experience with related terminations.
- (e) Rate of disability retirements will be less than half that which the City has experienced during the 4 year period ended June 30, 1974.
- (f) Rate of post retirement mortality was based upon the 1971 group annuity mortality table for retired lives and their survivors.
- (g) "Permanent cost of living" benefit grants, including any cost of living increases attributable to them, are not included in the valuation.
- (h) Refunds of contributions to the City due to terminations of employment are not included in the valuation as their effect on the contribution rates was considered to be immaterial.

A comparison of the estimated present value of future benefits for all persons covered by the Retirement System, as computed by the actuary, with Retirement System assets determined on a cost basis at June 30, 1974 is as follows:

	Combined Retirement System	Retirement Fund	Cost of Living Fund
	<u>(Millions of Dollars)</u>		
Present value of future benefits attributable to:			
Retired members	\$ 25.3	\$ 17.4	\$ 7.9
Active members	<u>124.1</u>	<u>93.6</u>	<u>30.5</u>
	149.4	111.0	38.4
Less Retirement System assets at cost	<u>(33.6)</u>	<u>(33.0)</u>	<u>(.6)</u>
Excess of present value of future benefits over Retirement System assets	<u>\$115.8</u>	<u>\$ 78.0</u>	<u>\$37.8</u>

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

3. Present value of future benefits (continued)

The table which follows shows the present value of future contributions on the assumption that the contribution rates shown will be the actual contribution rates. Lower contribution rates will produce a lower present value of future contributions. The table reflects a change in the definition of prior service costs which has been recommended by the Board of Administration and which the Retirement System's management believes the City Council will adopt. The effect of this change is an increase of approximately \$2,174,000 in the present value of the City's contributions with a corresponding decrease in the employee's contributions.

	<u>Present Value of Future Contributions</u>	<u>Contribution Rate (i)</u>
	<u>(Millions of Dollars)</u>	
City portion:		
Prior service	\$ 16.1	5.70%
Current service	<u>72.5</u>	<u>25.65%</u>
	88.6	31.35%
Employee portion	<u>27.2</u>	<u>9.63%</u>
	<u>\$115.8</u>	<u>40.98%</u>

- (i) The level contribution rate, expressed as a percentage of expected future salaries, necessary to produce the corresponding present value of future contributions during the expected remaining City employment period of present employees. It should be noted that other combinations of rates could produce the same present values but that to do so either a different time period would be involved or the contributions rates would not be level.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

3. Present value of future benefits (continued)

The Board of Administration has adopted contribution rates computed in accordance with provisions in Chapter 9 of the San Jose Municipal Code, effective December 28, 1975. These rates aggregate 29.23% of future salaries comprised of: City - 22.81% and employee - 6.42%.

Contributions rates are estimates based on assumptions about the future and they produce the expected results only when actual events closely match assumed events. For example, a comparison of assumed salary increases with actual salary increases for fiscal 1975 and fiscal 1976 shows actual increases aggregated approximately 14.5% while assumed increases aggregated 6% for the 2 year period. This difference between assumed events and actual events causes an approximate \$10,500,000 understatement of the present value of future benefits (inclusion of this amount in the first of the above two tables would result in an excess of present value of future benefits over Retirement System assets of \$126,300,000) and it also causes an understatement of the present value of future contributions in the second of the above two tables. However, the amount of the increase in the present value of future contributions due to this difference can be determined only by an actuarial computation. A comparison of actual events with assumed events by an actuary has not been performed subsequent to June 30, 1974 and contribution rates have not been revised to compensate for these differences.

Vested benefits at a specified date are the amounts for which the Retirement System would be liable if

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 1975

3. Present value of future benefits (continued)

member employees were to terminate employment at that date. The consulting actuary did not compute the present value of vested benefits at June 30, 1974 and, therefore, an accurate comparison of the present value of vested benefits with Retirement System assets at either that date or at June 30, 1975 is not available.

SUPPLEMENTARY INFORMATION

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
COMBINING BALANCE SHEET
June 30, 1975

	<u>Combined Retirement System</u>	<u>Retirement Fund</u>	<u>Cost of Living Fund</u>
<u>ASSETS</u>			
Cash in bank	\$ 3,208	\$ -	\$ 3,208
Receivable from the City of San Jose General Fund:			
Employee contributions	75,738	70,675	5,063
Employer contributions	328,200	314,761	13,439
Accrued interest receivable	593,317	581,788	11,529
Investments (Notes 1 and 2)	<u>38,021,930</u>	<u>37,264,095</u>	<u>757,835</u>
	<u>\$39,022,393</u>	<u>\$38,231,319</u>	<u>\$791,074</u>
<u>LIABILITY AND RESERVES</u>			
Bank overdraft	\$ 74,162	\$ 74,162	\$ -
Reserves (Notes 1 and 3):			
Employee contribution	5,986,035	5,742,415	243,620
General	<u>32,962,196</u>	<u>32,414,742</u>	<u>547,454</u>
Total reserves	<u>38,948,231</u>	<u>38,157,157</u>	<u>791,074</u>
	<u>\$39,022,393</u>	<u>\$38,231,319</u>	<u>\$791,074</u>

See accompanying Notes to Financial Statements.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
COMBINING STATEMENT OF CHANGES IN RESERVE BALANCES
Year ended June 30, 1975

	Combined Retirement System		Retirement Fund		Cost of Living Fund	
	Employee Contribution Reserve	General Reserve	Employee Contribution Reserve	General Reserve	Employee Contribution Reserve	General Reserve
Balance at June 30, 1974	\$5,199,021	\$28,388,262	\$5,013,216	\$27,943,605	\$185,805	\$ 444,657
Employee contributions:						
Cash received	888,519	-	829,228	-	59,291	-
Receivable at June 30, 1975	75,738	-	70,675	-	5,063	-
Receivable at June 30, 1974	(69,477)	-	(64,834)	-	(4,643)	-
	<u>894,780</u>	<u>-</u>	<u>835,069</u>	<u>-</u>	<u>59,711</u>	<u>-</u>
Employer contributions:						
Cash received, net of refunds due to employee terminations	-	3,780,864	-	3,627,716	-	153,148
Receivable at June 30, 1975	-	328,200	-	314,761	-	13,439
Receivable at June 30, 1974	-	(294,778)	-	(283,011)	-	(11,767)
	<u>-</u>	<u>3,814,286</u>	<u>-</u>	<u>3,659,466</u>	<u>-</u>	<u>154,820</u>
Interest income:						
Cash received	-	2,122,660	-	2,070,283	-	52,377
Receivable at June 30, 1975	-	593,317	-	581,788	-	11,529
Receivable at June 30, 1974	-	(453,157)	-	(444,857)	-	(8,300)
Interest allocations	108,162	(108,162)	104,012	(104,012)	4,150	(4,150)
	<u>108,162</u>	<u>2,154,658</u>	<u>104,012</u>	<u>2,103,202</u>	<u>4,150</u>	<u>51,456</u>
Refunds to terminated employees:						
Cash paid out	(30,294)	-	(28,892)	-	(1,402)	-
Payable at June 30, 1974	14,879	-	14,670	-	209	-
	<u>(15,415)</u>	<u>-</u>	<u>(14,222)</u>	<u>-</u>	<u>(1,193)</u>	<u>-</u>
Dividend income received	-	154,161	-	154,161	-	-
Gain on sale of investments	-	15,448	-	14,143	-	1,305
Loss on sale of investments	-	(58,910)	-	(58,910)	-	-
Retirement benefits paid	-	(1,533,348)	-	(1,424,011)	-	(109,337)
Death benefits paid	-	(149,437)	-	(149,437)	-	-
Transfer to Federated City Employees' Retirement System	-	(23,437)	-	(23,137)	-	(300)
Transfer to general reserve upon retirement of employees	(200,513)	200,513	(195,660)	195,660	(4,853)	4,853
Balance at June 30, 1975	<u>\$5,986,035</u>	<u>\$32,962,196</u>	<u>\$5,742,415</u>	<u>\$32,414,742</u>	<u>\$243,620</u>	<u>\$ 547,454</u>

See accompanying Notes to Financial Statements.

CITY OF SAN JOSE
POLICE AND FIRE DEPARTMENT RETIREMENT SYSTEM
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 1975

	Combined Retirement System	Retirement Fund	Cost of Living Fund
Receipts:			
Employee contributions	\$ 888,519	\$ 829,228	\$ 59,291
Employer contributions	3,780,864	3,627,716	153,148
Interest income	2,122,660	2,070,283	52,377
Dividend income	154,161	154,161	-
Sales and maturities of investments:			
Time deposits	6,861,500	6,610,500	251,000
Bankers' acceptances and commercial paper	29,668,858	27,724,529	1,944,329
U.S. Government securities	1,675,529	1,623,236	52,293
Corporate bonds	69,993	69,993	-
Corporate stocks	119,121	119,121	-
Total receipts	<u>45,341,205</u>	<u>42,828,767</u>	<u>2,512,438</u>
Disbursements:			
Refunds to terminated employees	30,294	28,892	1,402
Death benefits paid	149,437	149,437	-
Retirement benefits paid	1,533,348	1,424,011	109,337
Transfer to Federated City Employees' Retirement System	23,437	23,137	300
Investment purchases:			
Time deposits	4,454,000	4,239,000	215,000
Bankers' acceptances and commercial paper	29,517,555	27,710,607	1,806,946
U.S. Government securities	1,227,969	1,176,982	50,987
Corporate bonds	7,211,210	6,880,020	331,190
Corporate stocks	1,278,408	1,278,408	-
Total disbursements	<u>45,425,658</u>	<u>42,910,494</u>	<u>2,515,164</u>
Excess of disbursements over receipts	(84,453)	(81,727)	(2,726)
Cash balances at June 30, 1974	<u>13,499</u>	<u>7,565</u>	<u>5,934</u>
Cash balances at June 30, 1975	<u>\$ (70,954)</u>	<u>\$ (74,162)</u>	<u>\$ 3,208</u>

See accompanying Notes to Financial Statements.