

FINANCIAL STATEMENTS  
AND INDEPENDENT  
AUDITORS' REPORT

EMPLOYEES' PENSION FUND  
OF THE  
CITY OF GAINESVILLE,  
FLORIDA

SEPTEMBER 30, 2006

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## Independent Auditors' Report

Honorable Mayor and City Commissioners  
City of Gainesville, Florida

Certified Public Accountants  
& Business Consultants

*A Partnership Consisting of  
Professional Associations*

*Gainesville*

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We have audited the statement of plan net assets of the Employees' Pension Fund of the City of Gainesville, Florida, as of September 30, 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for pension benefits as of September 30, 2006, and the changes in net assets held in trust for pension benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The supplementary information referred to in the table of contents is not a required part of the basic financial statements but is information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information; however, we did not audit the information and express no opinion on it.

December 15, 2006  
Gainesville, Florida

*Members:*

CPAmerica International

Florida Institute of  
Certified Public Accountants

American Institute of  
Certified Public Accountants

Horwath International

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Statement of Plan Net Assets**  
**September 30, 2006**

<b>ASSETS</b>	
Cash and Equivalents With Trustee	\$ 2,072,894
Investments, at Fair Value	276,410,447
Receivables	<u>730,790</u>
<b>TOTAL ASSETS</b>	<u><u>279,214,131</u></u>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities	4,543
Cash Overdraft	<u>212,898</u>
<b>TOTAL LIABILITIES</b>	<u><u>217,441</u></u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	
(A Schedule of Funding Progress is Presented on Page 9)	<u><u>\$ 278,996,690</u></u>

The accompanying "Notes to Financial Statements"  
form an integral part of this statement.

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Statement of Changes in Plan Net Assets**  
**For the Fiscal Year Ended September 30, 2006**

<b>ADDITIONS</b>	
Contributions:	
Employer Contributions	\$ 2,489,336
Employee Contributions	<u>5,472,910</u>
Total Contributions	<u>7,962,246</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	23,279,340
Dividends and Interest	<u>4,871,053</u>
Total	28,150,393
Less Investment Expense	<u>1,297,273</u>
Net Investment Income	<u>26,853,120</u>
<b>TOTAL ADDITIONS</b>	<u><u>34,815,366</u></u>
<b>DEDUCTIONS</b>	
Benefit Payments	13,923,251
Refunds of Contributions	3,921,241
Administrative Expenses	<u>262,483</u>
<b>TOTAL DEDUCTIONS</b>	<u>18,106,975</u>
<b>NET INCREASE</b>	16,708,391
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,</b> October 1, 2005	<u>262,288,299</u>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS,</b> September 30, 2006	<u><u>\$ 278,996,690</u></u>

The accompanying "Notes to Financial Statements"  
form an integral part of this statement.

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2006**

**NOTE 1 - PLAN DESCRIPTION**

The Plan is a single-employer, defined benefit pension plan, covering all permanent employees of the City, except certain managerial and professional personnel who elect to participate in either the Defined Contribution Plan or the Deferred Compensation Plan, and police officers and firefighters who participate in the Consolidated Police Officers' and Firefighters' Retirement Plan.

**Membership**

At October 1, 2006, the most-recent database, Plan membership consisted of the following:

Active Participants	1,527
Retirees & Beneficiaries	788
Terminated Vested and Limited Members	<u>326</u>
Total	<u><u>2,641</u></u>

**Contribution Information**

The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission.

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

The required contribution rate for the City for the current fiscal year was 3.51%. In addition to this amount, members contributed 5% of gross pay to the plan. Administrative costs are financed through investment earnings.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make various estimates. Actual results could differ from those estimates.

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Investment Policies**

These funds represent investments administered by the City's Defined Benefit Pension Fund Investment Managers. These investments are reported at fair value. The fair value of this plan is derived through valuation efforts done by our investment managers in conjunction with our plan custodian. The fair values for the vast majority of these assets are readily available. For those assets whose fair value is less verifiable, the best available information is used.

The Plan maintains separate investment managers for its equity and fixed income portfolios. The managers are required to comply with Florida statutes, City ordinances, other applicable laws and with the fiduciary standards set forth in the Employees Retirement Income Security Act of 1974 at 29 U.S.C. Section 1140(a)(1)(A)(C). The managers of these funds are permitted to invest in the following instruments:

*Equity Funds (domestic)*

- Common Stocks
- Stock Index Futures
- Convertible and Preferred Stocks
- American Depository Receipts
- REITS
- Limited Liability Companies (LLCs)

*Equity Funds (international)*

- Restricted to managers specifically hired to invest in international equities
- Common and Preferred Stocks of foreign issuers domiciled in developed and developing countries (emerging markets)
- Forward Foreign Currency Exchange Contracts for hedging purposes
- American and Global Depository Receipts and similar securities

*Fixed Income Funds (domestic)*

- Must have a rating of investment grade (BBB/Baa) or better
- United States Treasury and Agency Securities
- Commercial Paper with either a Standard & Poor's quality rating of A-1 or a Moody's quality rating of P-1 and a maturity of 270 days or less
- Certificates of Deposit up to FDIC or FSLIC insurance coverage or any amount fully collateralized by United States Government Securities or issued by an institution which is a qualified public depository within the State of Florida
- Corporate Bonds, Mortgage Backed Securities, or Asset Backed Securities
- Yankee Bonds
- Convertible Securities
- Money Market or Cash Equivalent Securities

*Fixed Income Funds (international)*

- Investment Grade Sovereign Issued Debt
- Investment Grade Corporate Bonds and Commercial Paper

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

*Cash Equivalents*

- Certificates of Deposit, Commercial Paper, Direct Obligations of the U.S. Government, Repurchase Agreements, Bankers Acceptances, Custodian STIFs, and other appropriate liquid short-term investments

*Real Estate and Alternative Assets*

- Discretionary commingled vehicles such as insurance company separate accounts, open-end or closed-end funds and real estate investment trusts (REITS) holding either leveraged or unleveraged positions in real property and real property related assets
- All must be of institutional investment quality and must be diversified by property type and geographic location

*Pooled or Commingled Funds*

- The fund may invest in commingled vehicles such as mutual funds, LLCs or common trust funds that are invested in substantially the same manner and same investments as stated above

*Derivatives*

- No use of leverage
- No use of “linked” securities that have the principal value or interest rate tied to anything not specifically allowed as permissible investments in these guidelines
- Any structured note must maintain a constant spread relationship with its underlying acceptable index
- Collateralized mortgage obligations cannot be more sensitive to interest-rate changes than the underlying mortgage-backed security

*Restricted Investments – Prohibited*

- Short Sales or Margin Transactions
- Investments in Commodities or Commodity Contracts
- Direct loans or extension lines of credit to any interested party
- Letter Stock
- Unregistered securities and private placements (except those regulated by SEC Rule 144a or as specifically permitted by the Board)
- Investments and assets for which a generally recognized market is not available or for which there is no consistent or generally accepted pricing mechanism, unless specifically permitted by the Board

Custodial Credit Risk - Deposits

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and they are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Plan's name. All deposits of the Plan are either covered by depository insurance or are collateralized by the pledging financial institution's trust department or agent in the Plan's name.

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Custodial Credit Risk - Investments**

Investment securities are exposed to custodial credit risk if they are uninsured and are not registered in the name of the government and are held by either the counterparty or by the counterparty's trust department or agent but not in the government's name.

All identifiable investment securities of the Plan are either insured or are registered in the City's name or are held by the counterparty's trust department or agent in the City's name.

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment policies described above provide guidelines for the credit ratings of specific types of investments. Presented below is the rating as of year end for each investment type.

<b>Investment Type</b>	<b>Fair Value</b>	<b>Exempt from Disclosure</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>
Common Stock	\$ 106,609,527	\$ 106,609,527	\$ -	\$ -	\$ -	\$ -
Mutual Funds	124,346,153	124,346,153	-	-	-	-
Real Estate Inv Trust	936,260	936,260	-	-	-	-
US Treasury Bonds	3,544,289	3,544,289	-	-	-	-
US Treasury Notes	446,584	446,584	-	-	-	-
CMO	1,706,520	-	1,706,520	-	-	-
Corporate Bonds	28,701,470	-	1,725,891	5,519,144	19,532,787	1,923,648
FHLMC Pool	8,527	-	8,527	-	-	-
FNMA Pool	1,475,634	-	1,475,634	-	-	-
FHLMC	2,113,974	-	2,113,974	-	-	-
FHLB	4,374,493	-	4,374,493	-	-	-
FNMA	2,147,016	-	2,147,016	-	-	-
<b>Totals</b>	<b>\$ 276,410,447</b>	<b>\$ 235,882,813</b>	<b>\$ 13,552,055</b>	<b>\$ 5,519,144</b>	<b>\$ 19,532,787</b>	<b>\$ 1,923,648</b>

**Concentration of Credit Risk**

The Plan's investment policies do not specifically restrict the concentration allowed to be held with any individual issuer, except that the equity portion of each portfolio manager shall not be more than 10% invested in the securities of any one company at market value. Only mutual fund investments, which are exempt from disclosure requirements, exceed 5% of total investments.



**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. The Plan's investment policies do not provide specific restrictions as to maturity length of investments. Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided below, using the segmented time distribution method:

<b>Investment Type</b>	<b>n/a</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>5-10 years</b>	<b>&gt; 10 yrs</b>
Common Stock	\$ 106,609,527	\$ -	\$ -	\$ -	\$ -	\$ -
Mutual Funds	124,346,153	-	-	-	-	-
Real Estate Inv Trust	936,260	-	-	-	-	-
US Treasury Bonds	-	-	-	-	2,655,231	889,058
US Treasury Notes	-	-	-	305,381	141,203	-
CMO	-	-	-	-	-	1,706,520
Corporate Bonds	-	1,405,349	2,279,410	9,052,040	10,559,580	5,405,091
FHLMC Pool	-	-	-	-	-	8,527
FNMA Pool	-	-	-	-	781,397	694,237
FHLMC	-	211,890	150,112	1,963,862	-	-
FHLB	-	-	-	2,533,999	1,628,604	-
FNMA	-	-	264,560	664,547	1,217,909	-
<b>Totals</b>	<b>\$ 231,891,940</b>	<b>\$ 1,617,239</b>	<b>\$ 2,694,082</b>	<b>\$ 14,519,829</b>	<b>\$ 16,983,924</b>	<b>\$ 8,703,433</b>

**REQUIRED SUPPLEMENTARY INFORMATION**

**Employee's Pension Fund of the City of Gainesville, Florida**  
**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll (b-a)/c
9/30/2006	\$ 262,621,476	\$ 274,195,707	\$ 11,574,231	96%	\$ 71,106,379	16.28%
9/30/2005	\$ 246,611,495	\$ 249,529,300	\$ 2,917,805	99%	\$ 63,792,144	4.57%
9/30/2004	\$ 222,092,000	\$ 236,067,000	\$ 13,975,000	94%	\$ 67,135,000	20.82%
9/30/2003	\$ 202,748,044	\$ 212,162,122	\$ 9,414,078	96%	\$ 52,321,455	17.99%
9/30/2002	\$ 152,896,547	\$ 191,220,663	\$ 38,324,116	80%	\$ 52,418,000	73.11%
9/30/2001	\$ 157,637,000	\$ 189,421,000	\$ 31,784,000	83%	\$ 49,922,000	63.67%

**Employee's Pension Fund of the City of Gainesville, Florida  
Schedule of Employer Contributions**

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2006	\$ 2,489,336	\$ 2,489,336	100.00%
9/30/2005	\$ 1,894,206	\$ 1,894,206	100.00%
9/30/2004	\$ 2,719,588	\$ 2,719,588	100.00%
9/30/2003	\$ 2,901,910	\$ 41,536,043	1431.33%
9/30/2002	\$ 3,032,698	\$ 3,032,698	100.00%
9/30/2001	\$ 3,023,078	\$ 3,023,078	100.00%

**Employees' Pension Fund of the City of Gainesville, Florida**  
**Notes to Required Supplementary Information**

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

Valuation Date	9/30/06	
Actuarial Cost Method	Entry age normal	
Amortization Method	Level percent-30 years-closed	
Asset Valuation Method	5-year smoothed fair value	
Actuarial Assumptions:		
Investment Rate of Return*	9.25% per annum	
Salary Increase Rate*	<u>Years of Service</u>	<u>Rate</u>
	6 and under	7.00%
	7 - 11	6.00%
	12 - 16	4.00%
	Over 16	3.75%

\* Includes inflation at 3.75%