# 2019

Employees' Pension Plan of the

City of Gainesville, Florida

# Financial Statements and Independent Auditor's Report

September 30, 2019

PURVIS GRAY

CERTIFIED PUBLIC ACCOUNTANTS

**EMPLOYEES' PENSION PLAN OF THE**
**CITY OF GAINESVILLE, FLORIDA**

**FINANCIAL STATEMENTS**
**AND**
**INDEPENDENT AUDITOR'S REPORT**

**SEPTEMBER 30, 2019**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Gainesville, Florida

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Employees' Pension Plan (the Employees' Plan), a fiduciary fund of the City of Gainesville, Florida, which comprise the statement of fiduciary net position 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.

**Management's Responsibility for the Financial Statements**

Plan 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Plan'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 Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Trustees
City of Gainesville, Florida

**INDEPENDENT AUDITOR'S REPORT**

**Opinions**

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

**Emphasis of Matters**

As discussed In Note 1 to the financial statements, the accompanying financial statements present only the Employees' Pension Plan and do not purport to, and do not, present fairly the net position restricted for financial position of the City of Gainesville, Florida, as of September 30, 2019, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

We draw attention to Note 6 of the financial statements, which describes how the Employees' Plan was impacted by the continued uncertainty due to the COVID-19 pandemic. Our opinion is not modified in respect to this matter.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in City's Net Pension Liability and Related Ratios; Schedule of City Contributions; and Schedule of Investment Returns 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 appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Board of Trustees
City of Gainesville, Florida

**INDEPENDENT AUDITOR'S REPORT**

**Other Reporting Required by Government Auditing Standards**
In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2020, on our consideration of the Employees' Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Employees' Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Employees' Plan's internal control over financial reporting and compliance.

Purvis Gray

September 10, 2020
Gainesville, Florida

# FINANCIAL STATEMENTS

**EMPLOYEES' PENSION PLAN OF**
**THE CITY OF GAINESVILLE, FLORIDA**
**STATEMENT OF FIDUCIARY NET POSITION**
**SEPTEMBER 30, 2019**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 6,293,589 |
| Investments, at fair value | | 409,066,823 |
| **Total Assets** | | 415,360,412 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities | | 73,395 |
| **Net Position Restricted for Pension Benefits** | $ | 415,287,017 |

See accompanying notes to financial statements.

**EMPLOYEES' PENSION PLAN OF**
**THE CITY OF GAINESVILLE, FLORIDA**
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

| | |
|---|---|
| **Additions** | |
| Contributions: | |
| Employer contributions | $ 16,939,286 |
| Employee contributions | 4,723,900 |
| Total Contributions | 21,663,186 |
| Investment Income: | |
| Net decrease in fair value of investments | (8,876,082) |
| Dividends and interest | 8,114,659 |
| Net Position Restricted for Pension Benefits | (761,423) |
| (Less Investment Expense) | (1,969,943) |
| Net Investment Income | (2,731,366) |
| **Total Additions** | 18,931,820 |
| **Deductions** | |
| Benefit payments | 35,056,449 |
| Refunds of contributions | 512,458 |
| Administrative expenses | 584,034 |
| **Total Deductions** | 36,152,941 |
| **Change in Net Position** | (17,221,121) |
| **Net Position - Beginning of Year** | 432,508,138 |
| **Net Position - End of Year** | $ 415,287,017 |

See accompanying notes to financial statements.

## Note 1 - Summary of Significant Accounting Policies

### Reporting Entity

The Employees' Pension Plan (the Employees' Plan), of the City of Gainesville, Florida (the City), is a contributory defined benefit single-employer pension plan that covers all permanent employees of the City, except certain personnel who elected to participate in the Defined Contribution Plan and who were grandfathered into that plan, and police officers and firefighters who participate in the Consolidated Plan. Benefits and refunds of the Employees' Plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the Employees' Plan, like other plan costs, are captured within the Employees' Plan itself and financed through contribution and investment income, as appropriate.

### 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.

### Pension Trust Fund

These financial statements include only the Employees' Pension Plan, which is reported as a trust fund in the City's comprehensive annual financial report.

### 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.

## Note 2 - Plan Description

### Plan Board

The Board of Trustees of the Employees' Plan is composed of all seven members of the City Commission who sit as a separate body to approve plan provisions and changes.

### Plan Membership

At September 30, 2019, the following employees were covered by the Plan:

| | |
|---|---|
| Active employees | 1,553 |
| Inactive employees: | |
| Retirees and beneficiaries currently receiving benefits | 1,352 |
| Terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits | 428 |
| **Total** | 3,333 |

### Benefit Terms

The Employees' Plan provides retirement and death benefits to plan members and beneficiaries. This plan and any amendments were adopted through a City Ordinance by the Commission of the City of Gainesville. Benefit terms are established and may be amended by approval of the Board of Trustees. In October 2002, the Board of Trustees approved allowing participants to buy back City years of service at its actuarial valuation.

**Monthly Accrued Benefit**

- For City employees with hire dates on or before October 1, 2012, a monthly benefit payable for life, starting at normal retirement age, equal to 2% of final average earnings times credited service.
- For City employees with hire dates on or after October 2, 2012, a monthly benefit payable for life, starting at normal retirement age, equal to 1.8% of final average earnings times credited service.
- For Gainesville Gas Company employees, a monthly benefit payable for life starting at normal retirement age, equal to: (i) the accrued benefit earned under the Gainesville Gas Company Employees' Pension Plan (predecessor plan) as of January 10, 1990; plus (ii) 2% of final average earnings times credited service earned after January 10, 1990; plus (iii) for each year of service earned after January 10, 1990, an additional 2% of final average earnings will be credited, not to exceed the service years earned ender the accrued benefit formula under the predecessor plan; less (iv) for each year of predecessor plan service credited under (iii) above, the portion of the accrued benefit determined under (i) above based on such years.

**Final Average Earnings**

- For members with hire dates on or before October 1, 2007, the average of the member's monthly earnings for the 36 consecutive months that produce the highest average at the date of benefit determination.
- For members with hire dates on or after October 2, 2007 but on or before October 1, 2012, the average of the member's monthly earnings for the 48 consecutive months that produce the highest average at the date of benefit determination.
- For members with hire dates on or after October 2012, the average of the member's monthly earnings for the 60 consecutive months that produce the highest average at the date of benefit determination.

**Normal Retirement Age and Benefits**

*Age*—For members with hire dates on or before October 1, 2007, the eligibility date is the earlier of age 65 and 10 years of credited service or 20 years of credited service at any age. For members with hire dates on or after October 2, 2007 and on or before October 1, 2012, the eligibility date is the earlier of age 65 and 10 years of credited service or 25 years of credited service at any age. For members with hire dates on or after October 2, 2012, the eligibility date is the earlier of age 65 and 10 years of credited service or 30 years of credited service at any age.

*Amount*—Monthly accrued benefit as detailed above.

*Form of Payment*

- Life annuity option pays the member 100% of normal retirement benefit for life. This option does not provide for a continuing pension to a beneficiary upon the member's death.
- Joint and last survivor option pays a reduced pension benefit for the life of the member. Upon death of either the member or beneficiary, the monthly benefit is reduced to 2/3 of the original benefit.
- Social security option pays an increased benefit before social security benefits begin and then decreases when the member becomes eligible for social security benefits.

**Early Retirement Age and Benefits**
*Age*—For members with hire dates on or before October 1, 2012, the eligibility date is the attainment of age 55 and 15 years of credited service. For members with hire dates on or after October 2, 2012, the eligibility date is the attainment of age 60 and 20 years of credited service.

*Amount*—Monthly accrued benefit actuarially reduced by 5/12% for each month by which the early retirement date precedes the date on which the member would have reached age 65.

*Form of Payment*—Same as for Normal Retirement.

**Termination Benefit**
If a member should terminate prior to completing five years of credited service, no benefits are payable except the return of member contributions, without interest. After the completion of five years but less than normal or early retirement eligibility, a member is entitled to a benefit equal to the accrued benefit payable at age 65 for life.

**Cost of Living Adjustments (COLA)**
A 2% cost of living adjustment (COLA) will be applied to retirement benefits annually if the retiree reaches eligibility for the COLA prior to that date:

- At least 20 years of credited service on or before October 1, 2012, and at least 20 years but less than 25 years of credited service upon retirement; COLA will begin on the October payment after reaching age 62.
- At least 20 years of credited service on or before October 1, 2012, and at least 25 years of credited service upon retirement; COLA will begin on the October payment after reaching age 60.
- At least 25 years of credited service upon retirement and a hire date on or before October 1, 2012, but less than 20 years of credited service on or before October 1, 2012; COLA will begin with the October payment after reaching age 65.
- At least 30 years of credited service upon retirement and a hire date on or after October 2, 2012; COLA will begin with the October payment after reaching age 65.

**Contribution Requirements**
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 is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rate for fiscal year 2019 was 18.4% of covered payroll. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

**Reserves**

The Employees' Plan had $4,624,441 in reserves for members participating in the deferred retirement option Plan (DROP).

**Deferred Retirement Option Program**

Employees hired on or before October 1, 2012 are eligible to participate in the DROP when they have completed 27 years of credited service and are still employed by the City. Such employees retire from the Employees' Plan but continue to work for the City. The retirement benefit is calculated as if the employee had terminated employment and is paid to a DROP account held within the pension plan until the employee actually leaves the employment of the City. While in DROP, these payments earn a guaranteed rate of annual interest, compounded monthly. For employees who entered DROP on or before October 1, 2012, DROP balances earn 6% annual interest. For employees who entered DROP on or after October 1, 2012, DROP balances earn 2.25% annual interest. Employees may continue in the DROP for a maximum of 5 years or until reaching 35 years of service, whichever occurs earlier. Upon actual separation from employment, the monthly retirement benefits begin being paid directly to the retiree and the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options.

**Note 3 - <u>Deposits with Financial Institutions and Investments</u>**

**Cash Deposits**

Deposits in financial institutions are collateralized as public funds through a state procedure provided for in Chapter 280, Florida Statutes. Financial institutions qualifying as public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, Florida Statutes, no public depositor shall be liable for any loss thereof. The City's operating and Component Units cash deposits are placed with qualified financial institutions and are fully insured or collateralized.

**Equity in Pooled Cash and Investments**

The City, for accounting and investment purposes, maintains an internal investment pool that includes all of the City's cash deposits and investments, except for those monies which are legally restricted to separate administration or are administered by other agencies. This provides the City the ability to invest large amounts of idle cash for short periods of time and maximize earning potential.

Deposits and investments as of September 30, 2019, are classified in the accompanying financial statements as follows:

| | |
|---|---|
| **Statement of Net Position** | |
| Cash and cash equivalents | $ 4,249,495 |
| Equity in pooled cash and investments | 2,044,094 |
| Investments | 409,066,823 |
| **Total Cash and Investments** | $ 415,360,412 |

Deposits and investments as of September 30, 2019 consist of the following:

| | |
|---|---|
| Deposits with financial institutions | $ 6,293,589 |
| Investments | 409,066,823 |
| **Total Cash and Investments** | $ 415,360,412 |

## Rate of Return

For the year ended September 30, 2019, the annual money-weighted rate of return on the Plan investments, net of pension plan investment expense was -0.64%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

## 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 below provide guidelines for the credit ratings of specific types of investments. Presented below is the rating as of year-end for each investment type.

| Investment Type | Fair Value | Unrated/ Exempt | AAA | AA | A | BBB |
|---|---|---|---|---|---|---|
| Equities | $ 252,983,526 | $ 252,983,526 | $ - | $ - | $ - | $ - |
| Limited partnerships | 20,198,496 | 20,198,496 | - | - | - | - |
| Real estate | 3,167,330 | 3,167,330 | - | - | - | - |
| Mutual funds | 115,128,885 | 115,128,885 | - | - | - | - |
| U.S. government bonds | 5,941,425 | - | 3,997,391 | 234,092 | 399,264 | 1,310,678 |
| Corporate bonds | 5,624,829 | - | 3,784,385 | 221,618 | 377,989 | 1,240,837 |
| Mortgage and asset backed | 6,022,332 | - | 4,051,825 | 237,280 | 404,701 | 1,328,526 |
| **Totals** | $ 409,066,823 | $ 391,478,237 | $ 11,833,601 | $ 692,990 | $ 1,181,954 | $ 3,880,041 |

## 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 Employees' 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 Employees' Plan's investments to market interest rate fluctuations is provided below, using the segmented time distribution method:

| Investment Type | Fair Value | Exempt from Disclosure | < 2 Years | 2-5 Years | 5-10 Years | > 10 Years |
|---|---|---|---|---|---|---|
| Equities * | $ 252,983,526 | $ 252,983,526 | $ - | $ - | $ - | $ - |
| Limited partnerships * | 20,198,496 | 20,198,496 | - | - | - | - |
| Real estate * | 3,167,330 | 3,167,330 | - | - | - | - |
| Mutual funds * | 115,128,885 | 115,128,885 | - | - | - | - |
| U.S. government bonds | 5,941,085 | - | 578,661 | 2,083,539 | 2,327,717 | 951,168 |
| Corporate bonds | 5,624,914 | - | 547,867 | 1,972,657 | 2,203,841 | 900,549 |
| Mortgage and asset backed | 6,022,587 | - | 586,600 | 2,112,121 | 2,359,650 | 964,216 |
| **Totals** | $ 409,066,823 | $ 391,478,237 | $ 1,713,128 | $ 6,168,317 | $ 6,891,208 | $ 2,815,933 |

*Included but not required to be presented by maturity date.

**Investment Policy**

The investment policy of the Employees' Plan is established and amended by the Board of Trustees. There were no significant changes to the investment policy during fiscal year 2019.

The primary investment objective of the Employees' Plan is to ensure an adequate level of assets are available to fund the benefits guaranteed to City employees (except for police and firefighters) and their beneficiaries at the time they are payable. In meeting this objective, the Board seeks to achieve a high level of investment return consistent with a prudent level of risk.

A secondary objective is to earn total rate of return after expenses that equals or exceeds the actuarial investment return assumption. The Trustees, with the help from actuary and investment consultant, will use the Employees' Plan's asset allocation as the primary tool to achieve this objective. As this is a long-term projection and investments are subject to short-term volatility, this main investment focus of the Trustee towards the total Employees' Plan and each investment manager will be on performance relative to the appropriate asset class, mix of asset classes, and peer performance over relevant time periods. Each manager is expected to maintain consistent philosophy and style, perform well versus other utilizing the same style, and add incremental value after costs.

Other general investment objectives for the Employees' Plan are:

- Long-term growth of capital—In the absence of contributions and withdrawals, the asset value of the Employees' Plan should grow in the long run and earn rates of return greater than those of its Policy Index while avoiding excessive risk.
- Preservation of purchasing power—Asset growth, exclusive of contributions and withdrawals, should exceed the rate of inflation (as measured by annual CPI) in order to preserve purchasing power.
- Maintain sufficient funding—Funding should be sufficient to cover unexpected developments, possible future benefit increases and reduction of expected investment returns.

**Note 4 - <u>Fair Value Measurements</u>**

The Employees' Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Employees' Plan has the following recurring fair value measurements as of September 30, 2019.

- Equities—Valued at the daily closing price.
- Limited Partnership—Valued at the daily closing price as reported by the partnership.
- Mutual Funds—Valued at the daily closing price as reported by the fund.
- Real Estate Investment Trust—Value based on property appraisals.
- U.S. Government Bonds—Valued using quoted market prices.
- Corporate Bonds—Valued using a matrix pricing model.
- Mortgage and Asset Backed Securities—Valued using interest rate curves and credit spreads applied to the terms of the instrument and consider the counterparty credit rating.

The following table summarizes the Employees' Plan's assets for which fair values are determined on a recurring basis:

| Investment Type | September 30, 2019 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Equities | $ 212,116,082 | $ 212,116,082 | $ - | $ - |
| Limited partnerships | 20,198,496 | - | 20,198,496 | - |
| Real estate | 44,034,774 | - | - | 44,034,774 |
| Mutual funds | 115,128,885 | 115,128,885 | - | - |
| U.S. government bonds | 5,941,085 | 5,941,085 | - | - |
| Corporate bonds | 5,624,914 | - | 5,624,914 | - |
| Mortgage and asset backed | 6,022,587 | - | 6,022,587 | - |
| **Totals** | $ 409,066,823 | $ 333,186,052 | $31,845,997 | $ 44,034,774 |

**Note 5 - Net Pension Liability**

The components of the net pension liability at September 30, 2019, were as follows:

| | |
|---|---|
| Total pension liability | $ 585,350,538 |
| Plan fiduciary net position | (415,287,016) |
| **Net Pension Liability** | $ 170,063,522 |

Plan Fiduciary Net Position as Percentage of the Total Pension Liability 70.95%

**Significant Actuarial Assumptions**

The total pension liability as of September 30, 2019, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2018 actuarial valuation, to the pension plan's fiscal year-end of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|---|---|
| Inflation | 2.50% |
| Salary Increases | Service Based |
| Discount Rate | 7.90% |
| Investment Rate of Return | 7.90% |

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table projected generationally with Mortality Improvement Scale BB.

**Discount Rate**

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those 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 the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Long-Term Expected Rate of Return**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These estimates 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 pension plan's target asset allocation are summarized in the following table:

| | Target Allocation | Long-Term Expected Rate of Return |
|---|---|---|
| Domestic Equity | 47.00% | 7.50% |
| International Equity | 28.00% | 8.50% |
| Broad Market Fixed Income | 8.00% | 2.50% |
| Real Estate | 12.00% | 4.50% |
| Alternative | 5.00% | 7.00% |
| **Total** | 100.00% | |

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability, calculated using the discount rate of 7.90%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.90%) or 1 percentage-point higher (8.90%) than the current rate:

| | 1% Increase (6.90%) | Current Discount Rate (7.90%) | 1% Increase (8.90%) |
|---|---|---|---|
| Net Pension Liability | $236,933,522 | $ 17,006,352 | $114,028,644 |

**Note 6 - <u>Subsequent Events</u>**

A novel strain of coronavirus ("COVID-19") was first identified in December 2019, and was subsequently declared a pandemic by the World Health Organization during the first quarter of 2020. The outbreak of COVID-19 has caused significant volatility in the U.S. and international financial markets impacting the Plan's investments. There have been some early signs of improving market conditions; however, the extent and duration of the pandemic and related market volatility remains unclear.

## REQUIRED SUPPLEMENTARY INFORMATION

**REQUIRED SUPPLEMENTARY INFORMATION**

**EMPLOYEES' PENSION PLAN OF THE**
**CITY OF GAINESVILLE, FLORIDA**
**SCHEDULE OF CHANGES IN CITY'S NET PENSION LIABILITY AND RELATED RATIOS**

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service cost | $ 7,962,015 | $ 8,196,544 | $ 8,355,553 | $ 7,789,638 | $ 7,153,541 | $ 6,612,646 |
| Interest | 43,726,387 | 42,877,827 | 39,934,706 | 38,189,162 | 35,741,289 | 36,171,225 |
| Differences between expected and actual experience | 6,644,543 | (5,088,593) | 7,646,058 | 1,125,190 | 1,954,558 | 1,105,967 |
| Transfer from Disability Plan | - | - | - | - | 2,455,848 | - |
| Changes of assumptions | 6,062,725 | 5,721,214 | 21,041,875 | 4,860,706 | 15,880,346 | - |
| One time adjustment for DROP account balances | - | - | 10,038,916 | - | - | - |
| Contributions - buy back | 121,500 | 89,300 | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (35,568,906) | (33,106,728) | (34,963,352) | (37,252,988) | (28,306,207) | (31,819,142) |
| Net position restricted for pension benefits | 28,948,264 | 18,689,564 | 52,053,756 | 14,711,708 | 34,879,375 | 12,070,696 |
| Total pension liability-beginning | 556,402,274 | 537,712,710 | 485,658,954 | 470,947,246 | 436,067,871 | 423,997,175 |
| Total pension liability-ending (a) | $ 585,350,538 | $ 556,402,274 | $ 537,712,710 | $ 485,658,954 | $ 470,947,246 | $ 436,067,871 |
| **Plan Fiduciary Net Position** | | | | | | |
| Employer contributions | 16,939,286 | 16,372,689 | 14,654,934 | 13,481,032 | 11,746,935 | 11,519,431 |
| Employee contributions | 4,602,400 | 4,317,403 | 4,829,122 | 7,947,069 | 4,429,289 | 4,260,476 |
| Contributions - buy back | 121,500 | 89,300 | - | - | - | - |
| Net investment income | (2,731,366) | 49,219,793 | 58,605,302 | 39,190,078 | (2,486,089) | 34,176,892 |
| Transfer from Disability Plan | - | - | - | - | 2,320,442 | - |
| Benefit payments, including refunds of employee contributions | (35,568,906) | (33,106,728) | (38,469,162) | (37,252,988) | (28,306,207) | (26,161,924) |
| Administrative expense | (584,033) | (697,884) | (604,905) | (670,867) | (580,988) | (613,886) |
| Net change in total pension liability | (17,221,119) | 36,194,573 | 39,015,291 | 22,694,324 | (12,876,618) | 23,180,989 |
| Plan fiduciary net position-beginning | 432,508,135 | 396,313,562 | 357,298,271 | 334,603,947 | 347,480,565 | 324,299,576 |
| Plan fiduciary net position-ending (b) | $ 415,287,016 | $ 432,508,135 | $ 396,313,562 | $ 357,298,271 | $ 334,603,947 | $ 347,480,565 |
| City's net pension liability-ending (a)-(b) | $ 170,063,522 | $ 123,894,139 | $ 141,399,148 | $ 128,360,683 | $ 136,343,299 | $ 88,587,306 |
| Plan fiduciary net position as a percentage of the total total pension liability | 70.95% | 77.73% | 73.70% | 73.57% | 71.05% | 79.68% |
| Annual covered payroll | $ 92,048,000 | $ 89,976,976 | $ 91,143,976 | $ 80,223,575 | $ 79,930,261 | $ 81,654,532 |
| Net pension liability as a percentage of covered payroll | 184.76% | 137.70% | 155.14% | 160.00% | 170.58% | 108.49% |

**Notes to Schedule**

Changes of assumptions:

For measurement date September 30, 2019, amounts reported as changes of assumptions resulted from lowering the investment rate of return from 8.00% to 7.90%. Additionally, the inflation assumption rate was lowered from 3.75% to 2.50%

For measurement date September 30, 2018, amounts reported as changes of assumptions resulted from lowering the investment rate of return from 8.10% to 8.00%.

# REQUIRED SUPPLEMENTARY INFORMATION

# EMPLOYEES' PENSION PLAN OF THE CITY OF GAINESVILLE, FLORIDA SCHEDULE OF CITY CONTRIBUTIONS

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|---|
| Actuarially determined contribution | $ 16,939,286 | $ 16,777,348 | $ 14,654,934 | $ 13,481,032 | $ 13,211,521 | $ 12,700,223 | $ 10,927,391 |
| Contributions in relation to the actuarially determined contributions | 16,939,286 | 16,372,689 | 14,654,934 | 13,481,032 | 12,224,716 | 11,995,271 | 10,206,334 |
| **Contribution Deficiency (Excess)** | $ - | $ 404,659 | $ - | $ - | $ 986,805 | $ 704,952 | $ 721,057 |
| Covered payroll | $ 92,048,000 | $ 89,976,976 | $ 91,143,976 | $ 80,223,575 | $ 79,930,261 | $ 81,654,532 | $ 80,365,984 |
| Contributions as percentage of covered payroll | 18.40% | 18.20% | 16.08% | 16.80% | 15.29% | 14.69% | 12.70% |

**Notes to Schedule**

Actuarially determined contribution rates are calculated as of October 1, 2017, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: The method used to determine Normal Cost and Accrued Actuarial Liability is the Entry Age Normal Cost Method.

Mortality rates: RP-2000 combined fully generational mortality table with blue collar adjustment

Retirement: See tables on page 25 of the October 1, 2017, valuation

Permanent withdrawal from active status: See tables on page 25 of the October 1, 2017, valuation

Disability rate: Sample of rates of disability are shown below:

| Age | Males | Females |
|---|---|---|
| 25 | 0.0300% | 0.0100% |
| 30 | 0.0580% | 0.2500% |
| 35 | 0.0730% | 0.0480% |
| 40 | 0.1020% | 0.0750% |
| 45 | 0.1880% | 0.1650% |
| 50 | 0.3130% | 0.2850% |
| 55 | 0.5230% | 0.4780% |
| 60 | 0.6860% | 0.5990% |
| 65 | 0.2390% | 0.1500% |

Interest rate: 8.0% per annum. This interest rate is assumed to be net of investment expenses and commissions

Marriage assumption: 100% of members are assumed to be married. Male spouses are assumed to be two years older than female spouses

Salary increases: Salaries are assumed to increase at the annual rates set forth in the following table:

| Years of Service | Rate |
|---|---|
| 6 and Under | 5.00% |
| 7-11 | 4.00% |
| Over 11 | 3.00% |

Assets: The actuarial value of assets is based on a method which fully recognizes benefit payments, expenses, contributions, interest and dividends for the year, and recognizes gains or losses in the fair market value of assets at the rate of 20% per year The result cannot be greater than 120% of market value or less than 80% of market value

Unfunded liability bases and funding period (pursuant to Chapter 112, Florida Statutes): All bases established as of October 1, 2004 were combined and amortized over a period of 30 years
New bases established at October 1, 2016 and later are amortized over a period of 30 years

Vacation payout and accumulated sick leave: Service credits were adjusted by 0.15 year for employees in the paid-time-off (PTO) program and 0.25 year for employees not in the PTO program for benefit determination to recognize any accumulated unused sick leave. Final year of earnings was increased by 10% if service greater than 24, 8% if service greater than 17, 6% ifservice greater than 12, 4% if service greater than 7
No final earnings adjustment was made for PTO employees

The schedule will present ten years comparative data in the future.

**REQUIRED SUPPLEMENTARY INFORMATION**

**EMPLOYEES' PENSION PLAN OF THE CITY OF GAINESVILLE, FLORIDA SCHEDULE OF INVESTMENT RETURNS**

| FY | Annual Money-Weighted Rate of Return on Pension Plan Investments |
|---|---|
| 2019 | -0.64% |
| 2018 | 12.63% |
| 2017 | 16.65% |
| 2016 | 11.84% |
| 2015 | -0.74% |
| 2014 | 10.61% |

**Note to Schedule**

The schedule will present ten years comparative data in the future.

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

Board of Trustees
City of Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employees' Pension Plan (the Employees' Plan), a fiduciary fund of the City of Gainesville, Florida, (the City) which comprise the statement of fiduciary net position as of and for the year ended 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 Employees' Plan's basic financial statements, and have issued our report thereon dated September 10, 2020.

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

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

Board of Trustees
City of Gainesville, Florida

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, as disclosed in our report dated June 29, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, included in the City's 2019 Comprehensive Annual Financial Report, that we consider to be material weaknesses, and could also impact the Employees' Plan. Management's response to those findings is also included in the City's 2019 Comprehensive Annual Financial Report.

**Compliance and Other Matters**

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

**Purpose of this Report**

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

Purvis Gray

September 10, 2020
Gainesville, Florida