File #170330E

Other Postemployment Benefits Fund of the City of Gainesville, Florida

Financial Statements and Independent Auditor's Report

September 30, 2016

Other Postemployment Benefits Fund of the City of Gainesville, Florida

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CRI CARR RIGGS & INGRAM
CPAs and Advisors

Carr, Riggs & Ingram, LLC
4010 N.W. 25th Place
Gainesville, Florida 32606
P.O. Box 13494
Gainesville, Florida 32604

(352) 372-6300
(352) 375-1583 (fax)
www.cricpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commissioners
City of Gainesville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Other Postemployment Benefits Fund of the City of Gainesville, Florida (the "Plan"), which comprise the statement of plan net position as of September 30, 2016, and the related statement of changes in plan 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position held in trust for other postemployment benefits of the Plan as of September 30, 2016, and the changes in its net position held in trust for other postemployment benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed In Note 1, the accompanying financial statements present only the Other Postemployment Benefits Fund and do not purport to, and do not, present a complete presentation of the City's financial activity in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Required Supplementary Information

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

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.

Carr, Riggs & Ingram, L.L.C.

Gainesville, Florida
June 8, 2017

Other Postemployment Benefits Fund of the City of Gainesville, Florida

Statement of Plan Net Position
September 30, 2016

Assets	
Cash and equivalents	$ 2,550,087
Investments, at fair value	56,905,971
Total assets	59,456,058
Liabilities	
Accounts payable and accrued liabilities	13,584
Net position held in trust for other postemployment benefits	
(A schedule of funding progress is presented on page 12)	$ 59,442,474

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

Other Postemployment Benefits Fund of the City of Gainesville, Florida

Statement of Changes in Plan Net Position For the Fiscal Year Ended September 30, 2016

Additions	
Contributions:	
Employer contributions	$ 2,915,780
Employee contributions	3,279,192
Total contributions	6,194,972
Investment income (loss):	
Net appreciation in fair value of investments	4,727,943
Dividends and interest	1,040,501
Total	5,768,444
Less investment expense	407,645
Net investment income (loss)	5,360,799
Total additions	11,555,771
Deductions	
Benefit payments	8,527,047
Administrative expenses	8,415
Total deductions	8,535,462
Net increase	3,020,309
Net position held in trust for other postemployment benefits, October 1, 2015	56,422,165
Net position held in trust for other postemployment benefits, September 30, 2016	$ 59,442,474

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

NOTE 1 – PLAN DESCRIPTION

The Plan is a single-employer, defined benefit healthcare plan administered by the City of Gainesville, Florida (the "City"), covering all permanent employees of the City.

The Plan is reported as a trust fund in the City's comprehensive annual financial report. Accordingly, the accompanying financial statements do not purport to, and do not, present a complete presentation of the City's financial activity.

Membership

As of the latest actuarial valuation, Plan membership consisted of the following:

Active participants	2,000
Retirees & beneficiaries	1,798
Total	3,798

Contribution Information

In 1995, the City instituted a cost sharing agreement with retired employees for individual coverage only, based on a formula taking into account age at the time the benefit is first accessed and service at time of retirement. The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. These contributions are neither mandated nor guaranteed. The City has retained the right to unilaterally modify its payment for retiree health care benefits.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Plan pays up to 50% of the individual premium for each insured according to the age/service formula factor of the retiree. Spouses and dependents are eligible for coverage, but the employee is responsible for the entire premium cost, there is no direct Plan subsidy. The employee contributes the premium cost each month, less the Plan subsidy calculated as a percentage of the individual premium.

In September 2008, the City approved Ordinance 0-08-52, terminating the existing program and trust and creating a new program and trust, effective January 1, 2009. This action changed the benefits available to retirees, such that the City will contribute towards the premium of those who retire after August 31, 2008 under a formula that provides ten dollars per year of credit service, adjusted for age at first access of the benefit. Current retirees receive a similar benefit, however the age adjustment is modified to be set at the date the retiree first accesses the benefit or January 1, 2009, whichever is later. For current retirees that are 65 or older as of January 1, 2009, the City's contribution towards the premium will be the greater of the amount calculated under this method or the amount provided under the existing Ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

NOTE 1 – PLAN DESCRIPTION (CONTINUED)

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP require the actuarial figures presented in these notes to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the Plan at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the Plan.

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 0.46%. 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. Employer contributions are recognized as revenues in the period in which employee services are performed. Employee contributions are recognized as revenues in the period in which the employee receives monthly retiree health insurance benefits. Benefits 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.

NOTE 3 – DEPOSITS AND INVESTMENTS

Investment Policies

These funds represent investments administered by the City’s Other Postemployment Benefits 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:

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

- 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 Direct 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.

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 Plan and are held by either the counterparty or by the counterparty’s trust department or agent but not in the Plan’s name. All identifiable investment securities of the Plan are either insured or are registered in the custodian’s street name for the benefit of the Plan and held by the counterparty’s trust department or agent.

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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.

Investment Type	Fair Value	Exempt from Disclosure	AAA	AA+
Common stock	$ 55,153,323	$ 55,153,323	$ -	
US Government Bonds	487,743	-	487,743	
Mortgage & asset backed	1,264,905	-	1,152,351	112,554
Totals	$ 56,905,971	$ 55,153,323	$ 1,640,094	$ 112,554

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.

No investments in any one issuer exceed 5% of total Plan 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:

Investment Type	Fair Value	< 5 years	5-10 years	>10 years
Common stock *	$ 55,153,323	$ -	$ -	$ -
US Government Bonds	487,743	352,534	135,209	-
Mortgage & asset backed	1,264,905	55,554	60,695	1,148,656
Totals	$ 56,905,971	$ 408,088	$ 195,904	$ 1,148,656

* Included but not required to be presented by maturity date

NOTE 4 – FAIR VALUE MEASUREMENTS

The 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 Plan has the following recurring fair value measurements as of September 30, 2016:

- Common stock – Valued at the daily closing price.
- U.S. Government Bonds – Valued using quoted market prices.
- Mortgage & 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 Plan's assets for which fair values are determined on a recurring basis:

Investment Type	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 55,153,323	$ 55,153,323	$ -	$ -
US Government Bonds	487,743	487,743	-	-
Mortgage & asset backed	1,264,905	-	1,264,905	-
	$ 56,905,971	$ 55,641,066	$ 1,264,905	$ -

NOTE 5 – FUNDED STATUS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % Of Covered Payroll (b-a)/c
9/30/2016	$ 59,442,474	$ 59,679,811	$ 237,337	99.60%	$ 117,510,870	0.20%

NOTE 5 – FUNDED STATUS (CONTINUED)

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Required Supplementary Information

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
9/30/2016	$ 59,442,474	$ 59,679,811	$ 237,337	99.60%	$ 117,510,870	0.20%
9/30/2015	56,422,165	63,325,773	6,903,608	89.10%	131,000,000	5.27%
9/30/2014	59,867,314	66,343,732	6,476,418	90.24%	126,000,000	5.14%
9/30/2013	57,374,787	65,560,356	8,185,569	87.51%	124,000,000	6.60%
9/30/2012	50,448,282	61,493,434	11,045,152	82.04%	122,000,000	9.05%
9/30/2011	44,229,562	63,676,679	19,447,117	69.46%	116,000,000	16.76%

Other Postemployment Benefits Fund of the City of Gainesville, Florida

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
9/30/2016	$ 1,070,129	$ 2,915,780	272.47%
9/30/2015	3,449,239	2,972,451	86.18%
9/30/2014	3,440,342	2,746,676	79.84%
9/30/2013	3,318,685	3,028,733	91.26%
9/30/2012	3,292,685	2,909,942	88.38%
9/30/2011	3,166,700	1,979,375	62.51%

Other Postemployment Benefits 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	9/30/16
Actuarial Cost Method	Individual entry actuarial cost method
Amortization Method	Level percent-20 years-closed (1994 to 2003) Level percent-10 years-open (post 2003)
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return*	8.2% per annum
Healthcare Cost Trend Rate*	- Initial 8.10/7.50%
	- Ultimate 4.50%
Mortality Rates	RP-2000 mortality tables

* Includes inflation at 3.75%