

Disability Pension Fund of the City of Gainesville, Florida

Financial Statements and Independent Auditor's Report

September 30, 2013

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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 Disability Pension Fund of the City of Gainesville, Florida (the "Plan"), which comprise the statement of plan net position as of September 30, 2013, 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 pension benefits of the Plan as of September 30, 2013, and the changes in its net position held in trust for pension 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 Disability Pension Fund and do not purport to, and do not, present fairly the net position held in trust for pension benefits of the City of Gainesville, Florida, as of September 30, 2013, or the City's changes in net position held in trust for pension benefits 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.

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 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.

Carly Riggs & Ingram, L.L.C.

Gainesville, Florida
March 21, 2014

Disability Pension Fund of the City of Gainesville, Florida
Statement of Plan Net Position
September 30, 2013

ASSETS	
Cash and Equivalents	\$ 418,649
Investments, at Fair Value	<u>7,371,315</u>
TOTAL ASSETS	7,789,964
LIABILITIES	
Accounts Payable and Accrued Liabilities	<u>117</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	
(A Schedule of Funding Progress is presented on Page 10)	<u><u>\$ 7,789,847</u></u>

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

Disability Pension Fund of the City of Gainesville, Florida
Statement of Changes in Plan Net Position
For the Fiscal Year Ended September 30, 2013

ADDITIONS	
Contributions:	
Employer Contributions	<u>\$ 278,924</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	1,046,893
Dividends and Interest	<u>119,561</u>
Total Investment Income	1,166,454
Less Investment Expense	<u>52,300</u>
Net Investment Income	<u>1,114,154</u>
TOTAL ADDITIONS	<u>1,393,078</u>
DEDUCTIONS	
Benefit Payments	227,458
Administrative Expenses	<u>49,485</u>
TOTAL DEDUCTIONS	<u>276,943</u>
NET INCREASE	1,116,135
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, October 1, 2012	<u>6,673,712</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS, September 30, 2013	<u>\$ 7,789,847</u>

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

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2013

NOTE 1 – PLAN DESCRIPTION

The Plan is a defined benefit pension plan that covers all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Police Officers' and Firefighters' Retirement Plan.

The Plan is reported as a trust fund in the City's comprehensive annual financial report.

Membership

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

Active Participants	1,471
Disabled	<u>34</u>
Total	<u><u>1,505</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 0.34%. Administrative costs are financed through investment earnings and contributions, as appropriate.

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. 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.

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2013

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

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2013

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.

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2013

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 custodian's street name for the benefit of the Plan and held by the counterparty's trust department or agent.

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.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unrated/ Exempt</u>	<u>AAA</u>
Common Stock	\$7,151,705	\$7,151,705	\$ -
US Government Bonds	71,501	-	71,501
Mortgage & Asset Backed	148,109	-	148,109
Totals	<u>\$7,371,315</u>	<u>\$7,151,705</u>	<u>\$219,610</u>

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 fair value.

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:

<u>Investment Type</u>	<u>Total</u>	<u>N/A</u>	<u>< 5 years</u>	<u>5-10 yrs</u>	<u>> 10 yrs</u>
Common Stock	\$ 7,151,705	\$7,151,705	\$ -	\$ -	\$ -
US Government Bonds	71,501	-	60,297	11,204	-
Mortgage & Asset Backed	148,109	-	12,180	7,426	128,503
Totals	<u>\$ 7,371,315</u>	<u>\$7,151,705</u>	<u>\$ 72,477</u>	<u>\$ 18,630</u>	<u>\$ 128,503</u>

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2013

NOTE 4 – 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
9/30/2013	\$ 7,789,847	\$ 2,643,839	\$ (5,146,008)	294.64%	\$ 80,365,984	-6.40%

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.

NOTE 5 – FUTURE ACCOUNTING PRONOUNCEMENT

Statement 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans*, will become effective for the Plan's 2014 fiscal year. Statement 67 will require enhanced note disclosures and schedules of required supplementary information in future financial statements of the Plan.

REQUIRED SUPPLEMENTARY INFORMATION

Disability 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
9/30/2013	\$ 7,789,847	\$ 2,643,839	\$ (5,146,008)	295%	\$ 80,365,984	-6.40%
9/30/2012	6,673,712	2,947,760	(3,725,952)	226%	82,039,340	-4.54%
9/30/2011	5,653,722	2,716,699	(2,937,023)	208%	81,446,055	-3.61%
9/30/2010	5,459,769	4,110,026	(1,349,743)	133%	84,806,744	-1.59%
9/30/2009	4,770,251	3,622,757	(1,147,494)	132%	82,399,453	-1.39%
9/30/2008	4,541,364	3,218,933	(1,322,431)	141%	76,840,947	-1.72%

**Disability Pension Fund of the City of Gainesville, Florida
Schedule of Employer Contributions**

Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
9/30/2013	\$ 301,256	\$ 278,924	92.59%
9/30/2012	288,426	274,696	95.24%
9/30/2011	515,403	482,331	93.58%
9/30/2010	490,854	478,115	97.40%
9/30/2009	467,388	487,901	104.40%
9/30/2008	446,775	503,785	112.76%

Disability Pension Fund of the City of Gainesville, Florida
Notes to Required Supplementary Information
September 30, 2013

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	09/30/13	
Actuarial Cost Method	Entry age normal	
Amortization Method	Level percent-15 years-closed	
Asset Valuation Method	Market value	
Actuarial Assumptions:		
Investment Rate of Return*	8.5% 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%