

Disability Pension Fund of the City of Gainesville, Florida

Financial Statements and Independent Auditor's Report

September 30, 2014

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Statement of Fiduciary Net Position	3
Statement of Changes in Fiduciary Net Position	4
Notes to Financial Statements	5-9
Required Supplementary Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios	10
Schedule of Employer Contributions	11
Schedule of Investment Returns	12



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 Disability Pension Fund of the City of Gainesville, Florida (the "Plan"), which comprise the statement of fiduciary net position as of September 30, 2014, 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. 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 restricted for pension benefits of the Plan as of September 30, 2014, and the changes in its net position restricted 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 to the financial statements, the accompanying financial statements present only the Disability Pension Fund and do not purport to, and do not, present fairly the net position restricted for pension benefits of the City of Gainesville, Florida, as of September 30, 2014, or the City's changes in net position restricted 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.

Change in Accounting Principle

As discussed In Note 1 of the financial statements, the Plan implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. 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 identified in the table of contents as "required supplementary information" 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 25, 2015

Disability Pension Fund of the City of Gainesville, Florida
Statement of Fiduciary Net Position
September 30, 2014

ASSETS	
Cash and Equivalents	\$ 403,706
Investments, at Fair Value	<u>8,038,936</u>
TOTAL ASSETS	8,442,642
LIABILITIES	
Accounts Payable and Accrued Liabilities	<u>1,237</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u><u>\$ 8,441,405</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 Fiduciary Net Position
For the Fiscal Year Ended September 30, 2014

ADDITIONS	
Contributions:	
Employer Contributions	<u>\$ 269,682</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	591,251
Dividends and Interest	<u>130,119</u>
Total Investment Income	721,370
Less Investment Expense	<u>61,718</u>
Net Investment Income	<u>659,652</u>
TOTAL ADDITIONS	<u>929,334</u>
DEDUCTIONS	
Benefit Payments	209,268
Administrative Expenses	<u>68,508</u>
TOTAL DEDUCTIONS	<u>277,776</u>
NET INCREASE IN NET POSITION	651,558
NET POSITION RESTRICTED FOR PENSION BENEFITS, October 1, 2013	<u>7,789,847</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS, September 30, 2014	<u>\$ 8,441,405</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, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Disability Plan is a contributory defined benefit single-employer plan that covers all permanent employees of the City of Gainesville, Florida (“City”), except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan

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.

Pension Trust Fund

The accompanying financial statements include only the Disability Pension Fund, which is reported as a trust fund in the City’s comprehensive annual financial report.

Change in Accounting Principle

During the year the plan implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*.

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 Disability 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. As of October 1, 2013, the Disability Plan membership consisted of the following:

Inactive plan members currently receiving benefits	34
Active plan members	1,474
Total	<u>1,508</u>

Plan Benefit Terms. The Disability Plan provides disability benefits to plan members and beneficiaries. The 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.

Benefit Eligibility:

- All Plan members are eligible for benefits when a disability is incurred in-line-of-duty.
- Completion of at least five consecutive years of service is required for members to be eligible for benefits in the event of a not-in-line-of-duty disability.

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2014

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

Benefit Amount:

A monthly benefit payable for life, until termination of disability, or until superseded by retirement benefits earned under the General Employees' Pension Plan. Amount calculation is based upon average monthly earnings as defined in the General Employees' Pension Plan, times the greater of years of creditable service times 2% or 42% of in-line-of-duty or 25% for not-in-line-of-duty. This amount is offset by retirement benefits (attributable to City contributions) in payment status and disability benefit percentage (up to a maximum of 50%) multiplied by the initial monthly Social Security Primary Insurance Amount (whether or not in payment status) to which the member is entitled. Benefit is limited to \$3,750 per month or an amount equal to the member's maximum benefit percentage with the above reductions, payable beginning the month of disability or the month following the termination of sick leave payments.

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; the rate for fiscal year 2014 for disability benefits was 0.34% of covered payroll. Plan members do not contribute to this Plan. Administrative costs are financed through investment earnings.

NOTE 3 – INVESTMENTS

Rate of Return. The annual money-weighted rate of return on investments, net of investment expense, was 10.61%.

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
Common Stock	\$7,818,281	\$7,818,281	\$ -
US Government Bonds	67,062	-	67,062
Mortgage & Asset Backed	153,593	-	153,593
Totals	<u>\$8,038,936</u>	<u>\$7,818,281</u>	<u>\$220,655</u>

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:

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2014

NOTE 3 – INVESTMENTS (CONTINUED)

Investment Type	Total	N/A	< 5 years	5-10 yrs	> 10 yrs
Common Stock	\$7,818,281	\$7,818,281	\$ -	\$ -	\$ -
US Government Bonds	67,062	-	50,276	12,850	3,936
Mortgage & Asset Backed	153,593	-	14,426	7,658	131,509
Totals	<u>\$8,038,936</u>	<u>\$7,818,281</u>	<u>\$64,702</u>	<u>\$20,508</u>	<u>\$135,445</u>

Investment Policy

The investment policy of the Plan is established and amended by the Board of Trustees. There were no significant changes to the investment policy during fiscal year 2014.

The primary investment objective of the Plan is to ensure over the long-term of the Plan, 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 a 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 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 Trustees towards the total 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 Plan are:

- Long-Term Growth of Capital – In the absence of contributions and withdrawals, the asset value of the 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.

Fair Value of Investments. Investments are reported at fair value, based on quoted market prices.

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2014

NOTE 4 - NET PENSION LIABILITY

The components of the net pension liability at September 30, 2014 were as follows:

Total pension liability	\$	2,455,848
Plan fiduciary net position		(8,441,405)
Net pension liability (asset)		\$ (5,985,557)
Plan fiduciary net position as a percentage of the total pension liability		343.73%

Significant Actuarial Assumptions. The total pension liability as of September 30, 2014 was determined based on a roll-forward of aggregate liabilities from the October 1, 2013 actuarial valuation to the pension plan's fiscal year end of September 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.75%
Salary Increases	7.00% to 3.75%
Investment Rate of Return	8.40%, of net pension investment expenses

Mortality Rate:

Mortality rates were based on the RP-2000 Table.

Discount Rate:

The discount rate used to measure the total pension liability was 8.40%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. 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, in accordance with the method prescribed by GASB Statement No. 67. We believe this assumption is reasonable for the purposes of the measurements required by the Statement. In the event that benefit payments are not covered by the Plan's fiduciary net position, a municipal bond rate of 3.51% would be used to discount the benefit payments not covered by the Plan's fiduciary net position. The 3.51% rate equals the S&P Municipal Bond 20-Year High Grade Rate Index at September 30, 2014.

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:

Disability Pension Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2014

NOTE 4 - NET PENSION LIABILITY (CONTINUED)

	Real Risk			Total	Policy Allocation	Policy Return
	Inflation	Free Return	Risk Premium	Expected Return		
Domestic Equity	3.00%	2.00%	4.50%	9.50%	47.00%	4.47%
Intl Equity	3.00%	2.00%	5.50%	10.50%	28.00%	2.94%
Domestic Bonds	3.00%	2.00%	0.50%	5.50%	8.00%	0.44%
Intl Bonds	3.00%	2.00%	1.50%	6.50%	0.00%	0.00%
Real Estate	3.00%	2.00%	2.50%	7.50%	17.00%	1.28%
US Treasuries	3.00%	2.00%	-2.00%	3.00%	0.00%	0.00%
Cash	3.00%	0.00%	-1.00%	2.00%	0.00%	0.00%
Total					100.00%	9.12%

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 8.4%, 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 (7.4%) or 1 percentage-point higher (9.4%) than the current rate:

	1% Decrease (7.4%)	Current Discount Rate (8.4%)	1% Increase (9.4%)
Net pension liability (asset)	\$ (5,888,072)	\$ (5,985,557)	\$ (6,119,226)

REQUIRED SUPPLEMENTARY INFORMATION

DISABILITY PENSION FUND OF THE CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

		2014
Total pension liability		
Service costs	\$	251,104
Interest		209,093
Differences between expected and actual experience		(24,466)
Benefit payments		(217,981)
Net Change in total pension liability		217,750
Total pension liability-beginning		2,238,098
Total pension liability-ending (a)	\$	2,455,848
 Plan fiduciary net position		
Employer contributions	\$	269,682
Net investment income		659,652
Benefit payments		(209,268)
Administrative expense		(68,508)
Net change in plan fiduciary net position		651,558
Plan fiduciary net position-beginning		7,789,847
Plan fiduciary net position-ending (b)	\$	8,441,405
Net position liability (asset)-ending (a)-(b)	\$	(5,985,557)
 Plan fiduciary net position as a percentage of the total pension liability		343.73%
 Annual covered payroll	\$	81,654,532
 Net pension liability (asset) as a percentage of covered employee payroll		-7.33%

Notes to Schedule:

Benefit Payments in Total Pension Liability include an interest calculation. This amount does not represent actual Benefit Payments as shown in the changes in Plan fiduciary net position. The schedule will present ten years comparative data in the future. GASB 67 was implemented in FY 2014.

**DISABILITY PENSION FUND OF THE CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

	2014	2013
Actuarially determined contribution	\$ -	\$ 312,021
Contributions in relation to the actuarially determined contribution	269,682	278,924
Contribution deficiency (excess)	(269,682)	33,097
 Covered payroll	 81,654,532	 80,365,984
Contributions as percentage of covered payroll	0.33%	0.35%

Notes to Schedule:

Methods and assumptions used to determine contribution rates

Actuarial cost method	Aggregate
Amortization method	Level percentage, closed
Remaining amortization period	N/A
Asset valuation method	Market Value
Inflation rate	3.75%
Future rate of growth in valuation payroll	4.50%
Investment return rate	8.40%
Salary increase rate	3.75% to 7.00%
Retirement rates	Schedule of probabilities based on age and service, increasing as age and service increase
Mortality rates	RP-2000 mortality table

The schedule will present ten years comparative data in the future. GASB 67 was implemented in FY 2014.

DISABILITY PENSION FUND OF THE CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF INVESTMENT RETURNS

FY	Annual Money-Weighted Rate of Return on Pension Plan Investments
2014	10.61%

Note to Schedule:

The schedule will present ten years comparative data in the future. GASB 67 was implemented in FY 2014.