

OTHER POSTEMPLOYMENT  
BENEFITS FUND OF THE CITY OF  
GAINESVILLE, FLORIDA

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2011

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## Independent Auditors' Report

Honorable Mayor and City Commissioners  
City of Gainesville, Florida

We have audited the statement of plan net assets of the Other Postemployment Benefits Fund of the City of Gainesville, Florida, as of September 30, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 fairly the net assets held in trust of the City of Gainesville, Florida as of September 30, 2011, or the City's changes in net assets held in trust for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets held in trust for other postemployment benefits of the Other Postemployment Benefits Fund as of September 30, 2011, and its changes in net assets held in trust for other postemployment benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

*Carr, Riggs & Ingram LLC*

March 26, 2012  
Gainesville, Florida

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Statement of Plan Net Assets**  
**September 30, 2011**

ASSETS	
Cash and Equivalents	\$ 3,324,069
Investments, at Fair Value	<u>40,911,036</u>
TOTAL ASSETS	44,235,105
LIABILITIES	
Accounts Payable and Accrued Liabilities	<u>5,543</u>
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	
(A Schedule of Funding Progress is Presented on Page 9)	<u><u>\$ 44,229,562</u></u>

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 Assets**  
**For the Fiscal Year Ended September 30, 2011**

ADDITIONS	
Contributions:	
Employer Contributions	\$ 1,979,375
Employee Contributions	<u>2,542,899</u>
Total Contributions	<u>4,522,274</u>
Investment Income:	
Net Depreciation in Fair Value of Investments	(643,670)
Dividends and Interest	<u>1,255,434</u>
Total	611,764
Less Investment Expense	<u>389,855</u>
Net Investment Income	<u>221,909</u>
TOTAL ADDITIONS	<u>4,744,183</u>
DEDUCTIONS	
Benefit Payments	6,759,535
Administrative Expenses	<u>57,889</u>
TOTAL DEDUCTIONS	<u>6,817,424</u>
NET DECREASE	(2,073,241)
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS, October 1, 2010	<u>46,302,803</u>
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS, September 30, 2011	<u><u>\$ 44,229,562</u></u>

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

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**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.

**Membership**

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

Active Participants	1,700
Retirees & Beneficiaries	794
Terminated Vested and Limited Members	<u>270</u>
Total	<u><u>2,764</u></u>

**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 of 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.

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

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 1 – PLAN DESCRIPTION**

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 0.37%. 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:

*Equity Funds (domestic)*

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

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

*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
- 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

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

- 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 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>Exempt from Disclosure</u>	<u>AAA</u>
Common Stock	\$ 34,522,809	\$ 34,522,809	\$ -
US Government Bonds	1,680,772	-	1,680,772
Mortgage & Asset Backed	4,707,455	-	4,707,455
Totals	<u>\$ 40,911,036</u>	<u>\$ 34,522,809</u>	<u>\$ 6,388,227</u>



**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Financial Statements**  
**September 30, 2011**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**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:

<b>Investment Type</b>	<b>Fair Value</b>	<b>&lt; 5 years</b>	<b>5-10 years</b>	<b>&gt;10 years</b>
Common Stock *	\$ 34,522,809	\$ -	\$ -	\$ -
US Government Bonds	1,680,772	700,872	979,900	-
Mortgage & Asset Backed	4,707,455	17,522	496,397	4,193,536
Totals	<u>\$ 40,911,036</u>	<u>\$ 718,394</u>	<u>\$ 1,476,297</u>	<u>\$ 4,193,536</u>

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

**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
9/30/2011	\$ 44,229,562	\$ 63,676,679	\$ 19,447,117	69.46%	\$ 116,000,000	16.76%

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**

**Other Postemployment Benefits 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
9/30/2011	\$ 44,229,562	\$ 63,676,679	\$ 19,447,117	69.46%	\$ 116,000,000	16.76%
9/30/2010	46,302,803	62,824,947	16,522,144	73.70%	136,000,000	12.15%
9/30/2009	43,646,711	63,847,239	20,200,528	68.36%	131,000,000	15.42%
9/30/2008	48,305,411	57,006,464	8,701,053	84.74%	121,357,630	7.17%
9/30/2007	58,288,705	74,904,008	16,615,303	77.82%	104,807,692	15.85%
9/30/2006	51,805,265	73,563,260	21,757,995	70.42%	99,154,562	21.94%

**Other Postemployment Benefits Fund of the City of Gainesville, Florida  
Schedule of Employer Contributions**

Year Ended	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
9/30/2011	\$ 3,166,700	\$ 1,979,375	62.51%
9/30/2010	2,894,862	2,220,742	76.71%
9/30/2009	3,466,806	1,919,088	55.36%
9/30/2008	4,153,871	2,900,961	69.84%
9/30/2007	3,958,996	2,685,591	67.84%
9/30/2006	9,271,124	2,713,934	29.27%

**Other Postemployment Benefits Fund of the City of Gainesville, Florida**  
**Notes to Required Supplementary Information**  
**September 30, 2011**

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	9/30/11
Actuarial Cost Method	Individual entry age normal
Amortization Method	Level percent-20 years-closed (1994 to 2003) Level percent-10 years-open (post 2003)
Asset Valuation Method	Fair market value
Actuarial Assumptions:	
Investment Rate of Return*	8.5% per annum
Healthcare Cost Trend Rate*	6% per annum

\* Includes inflation at 3.75%