

FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITORS' REPORT

OTHER POSTEMPLOYMENT
BENEFITS FUND
OF THE
CITY OF GAINESVILLE,
FLORIDA

SEPTEMBER 30, 2006

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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, 2006, 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.

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 as of September 30, 2006, and the 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.

December 15, 2006
Gainesville, Florida

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Other Postemployment Benefits Fund of the City of Gainesville, Florida
Statement of Plan Net Assets
September 30, 2006

ASSETS	
Cash and Equivalents With Trustee	\$ 2,369,167
Investments, at Fair Value	<u>49,748,323</u>
TOTAL ASSETS	52,117,490
LIABILITIES	
Accounts Payable and Accrued Liabilities	<u>308,034</u>
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS (A Schedule of Funding Progress is Presented on Page 8)	<u><u>\$ 51,809,456</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, 2006

ADDITIONS	
Contributions:	
Employer Contributions	\$ 768,378
Employee Contributions	<u>1,065,460</u>
Total Contributions	<u>1,833,838</u>
Investment Income:	
Net Appreciation in Fair Value of Investments	3,216,007
Dividends and Interest	<u>1,558,107</u>
Total	4,774,114
Less Investment Expense	<u>399,837</u>
Net Investment Income	<u>4,374,277</u>
TOTAL ADDITIONS	<u><u>6,208,115</u></u>
DEDUCTIONS	
Benefit Payments	3,649,387
Administrative Expenses	<u>3,658</u>
TOTAL DEDUCTIONS	<u><u>3,653,045</u></u>
NET INCREASE	2,555,070
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS, October 1, 2005	<u>49,254,386</u>
NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS, September 30, 2006	<u><u>\$ 51,809,456</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, 2006

NOTE 1 - PLAN DESCRIPTION

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

Membership

At October 1, 2006, the most-recent database, Plan membership consisted of the following:

Active Participants	1,688
Retirees & Beneficiaries	664
Terminated Vested and Limited Members	<u>302</u>
Total	<u><u>2,654</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.

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, GAAS 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 0.50%. Administrative costs are financed through investment earnings.

Other Postemployment Benefits Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2006

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 and international)

- Equity securities (including convertible bonds) listed on the New York, American and principal regional exchanges
- Over-the-counter securities for which there is an active market maker regulated by the NASD

Fixed Income Funds

- Marketable debt securities issued or guaranteed by either the United States Government or its agencies, domestic corporations (including industrial and utilities), or domestic banks and other United States financial institutions

Other Postemployment Benefits Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

The City also imposes the following limitations on its investment managers:

Equity Managers

- The equity portion of each portfolio manager shall not be more than 10% invested in the securities of any one company at market
- The portfolio manager shall not make short sales or use margin or leverage
- The portfolio manager shall not be invested in commodities, private real estate, or investment art objects
- The portfolio manager shall not invest in options, including the purchase, sale or writing of options unless options are “covered” by the corresponding security
- The portfolio manager shall not invest in warrants, although warrants issued in connection with stocks held by the fund may be sold, held, or converted by the investment manager at its discretion

Fixed Income Managers

- Security ratings reduced beneath the three highest classifications after purchase should be sold by the portfolio manager within a reasonable period of time
- Except for treasury and agency obligations, the debt portion of the OPEB fund shall contain no more than 10% of a given issuer irrespective of the number of differing issues
- If commercial paper is used, it must be only of the highest quality (A-1 or P-1).
- Private placement debt is not permissible

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 Plan’s name or are held by the counterparty’s trust department or agent in the Plan’s name.

Other Postemployment Benefits Fund of the City of Gainesville, Florida
Notes to Financial Statements
September 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

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>
Domestic Equities	\$ 24,090,537	\$ 24,090,537	\$ -
International Equities	11,566,536	11,566,536	-
Corporate Bonds	69,489	-	69,489
US Treasury Notes	1,689,832	-	1,689,832
Federal Agencies:			
FHLMC	1,478,527	-	1,478,527
FNMA	8,425,380	-	8,425,380
Mortgage & Asset Backed Securities	2,428,022	-	2,428,022
Totals	\$ 49,748,323	\$ 35,657,073	\$ 14,091,250

Concentration of Credit Risk

Investments in any one issuer that represent 5% or more of the Plan's investments are reported below. 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. Investments that represent 5% or more by each category are shown below by issuer and percent of total investments.

Federal National Mortgage Association, Federal Agency Securities, \$8,425,380, 16.9%

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>n/a</u>	<u>< 5 years</u>	<u>5-10 years</u>	<u>10-20 years</u>	<u>>20 years</u>
Domestic Equities	\$ 24,090,537	\$ -	\$ -	\$ -	\$ -
International Equities	11,566,536	-	-	-	-
Corporate Bonds	-	-	-	69,489	-
US Treasury Notes	-	1,689,832	-	-	-
Federal Agencies:					
FHLMC	-	270,911	-	434,645	772,971
FNMA	-	3,177,987	1,091,243	610,333	3,545,817
Mortgage & Asset Backed Securities	-	221,255	1,698,602	259,224	248,941
Totals	\$ 35,657,073	\$ 5,359,985	\$ 2,789,845	\$ 1,373,691	\$ 4,567,729

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
9/30/2006	\$ 51,805,265	\$ 73,563,260	\$ 21,757,995	70.42%	\$ 99,154,562	21.94%
9/30/2005	\$ 49,249,956	\$ 75,573,136	\$ 26,323,180	65.17%	\$ 95,340,925	27.61%

Note: Fiscal year 2005 was the first year the Other Postemployment Benefits Fund was separately valued and reported.

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

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>
9/30/2006	\$ 9,271,124	\$ 2,713,934	29.27%
9/30/2005	\$ 7,680,930	\$ 39,822,573	518.46%

Note: Fiscal year 2005 was the first year the Other Postemployment Benefits Fund was separately valued and reported.

The 2006 Employer Contribution includes \$768,378 deposited in the Fund by the City as well as \$1,945,556 paid by the City through the payment of the active employees' implicit rate subsidy.

The 2005 Employer Contribution includes \$34,656,923 of OPEB bond proceeds, \$3,533,925 deposited in the Fund by the City, and \$1,631,725 paid by the City through the payment of the active employees' implicit rate subsidy.

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	9/30/06
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*	9% per annum
Healthcare Cost Trend Rate*	7% per annum

* Includes inflation at 3.75%