

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

SEPTEMBER 30, 2018

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA**

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Commissioners
City of Gainesville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Retiree Health Care Plan (the Plan), a fiduciary fund of the City of Gainesville, Florida, which comprise the statement of fiduciary net position as of September 30, 2018, 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.

Auditors' 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 financial position of the Plan as of September 30, 2018, and its changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Honorable Mayor and City Commissioners
City of Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

Emphasis of Matter

As discussed in Note 1 to the financial statements, the accompanying financial statements present only the Other Postemployment Benefits Fund and do not purport to, and do not, present fairly the financial position of the City of Gainesville, Florida, as of September 30, 2018, the changes in financial position, or where applicable, its cash flows 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 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 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.

Purvis, Gray and Company, LLP

August 1, 2019
Gainesville, Florida

FINANCIAL STATEMENTS

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2018**

| | |
|--|-----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,920,139 |
| Investments, at fair value | <u>65,586,820</u> |
| Total Assets | <u>67,506,959</u> |
| Liabilities | |
| Accounts payable and accrued liabilities | <u>107,668</u> |
| Net Position Restricted for Other Postemployment Benefits | <u><u>\$ 67,399,291</u></u> |

See accompanying notes to financial statements.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

| | |
|---|-----------------------------|
| Additions | |
| Contributions: | |
| Employer contributions | \$ 2,016,573 |
| Retiree contributions | <u>3,622,415</u> |
| Total Contributions | <u>5,638,988</u> |
| Investment income: | |
| Net appreciation in fair value of investments | 5,203,258 |
| Dividends and interest | <u>1,470,004</u> |
| Total investment income | <u>6,673,262</u> |
| (Less investment expense) | <u>(422,745)</u> |
| Net investment income | <u>6,250,517</u> |
| Total Additions | <u>11,889,505</u> |
| Deductions | |
| Benefit payments | 7,976,678 |
| Administrative expenses | <u>13,889</u> |
| Total Deductions | <u>7,990,567</u> |
| Change in Net Position | 3,898,938 |
| Net Position Restricted for Other Postemployment Benefits - October 1, 2017 | <u>63,500,353</u> |
| Net Position Restricted for Other Postemployment Benefits - September 30, 2018 | <u><u>\$ 67,399,291</u></u> |

See accompanying notes to financial statements.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Plan Description

Other Postemployment Benefits Fund of the City of Gainesville, Florida (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 Employees | 2,068 |
| Inactive Employees: | |
| Retirees and Beneficiaries Currently Receiving Benefits | 869 |
| Vested Terminated Members Entitled to Future Benefits | 1,131 |
| Total | 4,068 |

Benefits Provided

Prior to September 1, 2008, normal or early retirees are subsidized \$10.00 times the number of years of credited service plus one of the following:

- a. Plus \$5.00 times the numbers of years of age and portion thereof over 65, on the date that retiree first enters the retiree health insurance program or January 1, 2009, whichever is later; or
- b. Minus \$5.00 times the number of years of age and portion thereof under 65, on the date that retiree first enters the retiree health insurance program or January 1, 2009, whichever is later.

DROP participants who have entered a regular DROP before September 1, 2008, or who have declared their intention to reverse DROP before September 1, 2008, shall have the period of employment while in the regular DROP, or the period of employment after the effective date of commencement of participation in the (reverse) DROP, added to credited service for purposes of the calculation described above.

For disabled retirees, the amount that the City will contribute towards the required premium, for persons who become retirees based upon application for disability retirement submitted before September 1, 2008, will be an amount equal to:

- a. 80% of the individual premiums of the least costly city group health plan option being offered at that time.
- b. The City will contribute towards any other tier of coverage an amount equal to 150% of the individual premium of the least costly City group plan option being offered at that time.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 1 - Plan Description (Continued)

Benefits Provided (Concluded)

For current retirees age 65 or older on January 1, 2009, the amount the City will contribute towards the required premium will be the greater of the amount contributed for the month of August 2008 or the amount determined under the provisions of the Plan.

After August 31, 2008, normal or early retirees are subsidized \$10.00 times the number of years of credited service plus one of the following:

- a. Plus \$5.00 times the numbers of years of age and portion thereof over 65, on the date that retiree first enters the retiree health insurance program; or
- b. Minus \$5.00 times the number of years of age and portion thereof under 65, on the date that retiree first enters the retiree health insurance program.

DROP participants who have entered a regular DROP after August 31, 2008, or who have declared their intention to reverse DROP after August 31, 2008, shall not have the period of employment while in regular DROP, or the period of employment after the effective date of commencement of participation in the (reverse) DROP, count as credited service for purposes of the calculation described above.

For disabled retirees, the amount that the City will contribute towards the required premium, for persons who become retirees based upon application for disability retirement submitted after August 31, 2008, will be:

- a. For approved "in-line-of-duty" disabilities under the Consolidated Plan or the City's Employees' Disability Plan, the City will contribute towards an individual premium an amount equal to:
 - i. 80% of the individual premiums of the least costly city group health plan option being offered at the time the disability retirement is approved.
 - ii. The City will contribute towards any other tier of coverage an amount equal to 150% of the individual premium of the least costly City group plan option being offered at the time the disability retirement is approved.
- b. For approved disabilities other than "in-line-of-duty", the City will contribute 50% of the amount described above.

Those who do not meet the age and service requirements above are eligible for coverage only. Retirees must pay 100% of the active premium rates up to age 65, the 100% of the Medicare supplement premium rate.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 1 - Plan Description (Concluded)

Contributions

The contribution policy of the City is established and may be amended by the City at any time. The annual contribution consists of the normal cost amount developed annually plus, given there is any unfunded actuarial accrued liability (UAAL), an amount to amortize said UAAL over 10 years from inception.

For the 2018 fiscal year, the City contributed a total of \$2,016,572 to pre-fund benefits.

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.

Pension Trust Fund

These financial statements include only the Other Postemployment Benefits Fund, which is reported as a trust fund in the City's comprehensive annual financial report.

Note 3 - Deposits with Financial Institutions and Investments

Cash Deposits

Deposits in financial institutions are collateralized as public funds through a state procedure provided for in Chapter 280, Florida Statutes. Financial institutions qualifying as public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits times the depository's collateral. The Public Deposit Security Trust Fund has a procedure to allocate and recover losses in the event of a default or insolvency. When public deposits are made in accordance with Chapter 280, F. S., no public depositor shall be liable for any loss thereof. The City's operating and Component Units cash deposits are placed with qualified financial institutions and are fully insured or collateralized.

Equity in Pooled Cash and Investments

The City, for accounting and investment purposes, maintains an internal investment pool that includes all of the City's cash deposits and investments, except for those monies which are legally restricted to separate administration or are administered by other agencies. This provides the City the ability to invest large amounts of idle cash for short periods of time and maximize earning potential.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 3 - Deposits with Financial Institutions and Investments (Continued)

Deposits and investments as of September 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position

| | |
|---------------------------------------|----------------------|
| Cash and Cash Equivalents | \$ 877,348 |
| Equity in Pooled Cash and Investments | 1,042,791 |
| Investments | 65,586,820 |
| Total Cash and Investments | \$ 67,506,959 |

Deposits and investments as of September 30, 2018 consist of the following:

| | |
|--------------------------------------|----------------------|
| Deposits with Financial Institutions | \$ 1,920,139 |
| Investments | 65,586,820 |
| Total Cash and Investments | \$ 67,506,959 |

Investment Policies

These funds represent investments administered by the City's Plan 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:

- 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.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 3 - Deposits with Financial Institutions and Investments (Continued)

Investment Policies (Continued)

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.
- Collateralized mortgage obligations cannot be more sensitive to interest-rate changes than the underlying mortgage-backed security.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 3 - Deposits with Financial Institutions and Investments (Continued)

Investment Policies (Concluded)

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 of Trustees).
- 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 of Trustees.

Custodial 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 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 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> | <u>AA</u> | <u>A</u> | <u>BBB</u> |
|---------------------------|----------------------|-------------------------------|-------------------|---------------------|-------------------|-------------------|
| Equities | \$ 55,076,100 | \$ 55,076,100 | \$ - | \$ - | \$ - | \$ - |
| Limited partnerships | 7,875,169 | 7,875,169 | - | - | - | - |
| U.S. government bonds | 777,958 | - | 777,958 | - | - | - |
| Corporate bonds | 909,874 | - | 34,189 | 176,795 | 341,158 | 357,732 |
| Mortgage and asset backed | 947,719 | - | - | 947,719 | - | - |
| Totals | <u>\$ 65,586,820</u> | <u>\$ 62,951,269</u> | <u>\$ 812,147</u> | <u>\$ 1,124,514</u> | <u>\$ 341,158</u> | <u>\$ 357,732</u> |

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 3 - Deposits and Investments (Concluded)

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:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt from Disclosure</u> | <u>< 2 Years</u> | <u>2-5 Years</u> | <u>5-10 Years</u> | <u>> 10 Years</u> |
|---------------------------|----------------------|-------------------------------|---------------------|-------------------|---------------------|----------------------|
| Equities | \$ 55,076,100 | \$ 55,076,100 | \$ - | \$ - | \$ - | \$ - |
| Limited partnerships | 7,875,169 | 7,875,169 | - | - | - | - |
| U.S. government bonds | 777,958 | - | - | 203,036 | 268,824 | 306,098 |
| Corporate bonds | 909,874 | - | - | - | 909,874 | - |
| Mortgage and asset backed | 947,719 | - | 83,409 | 46,794 | 817,516 | - |
| Totals | \$ 65,586,820 | \$ 62,951,269 | \$ 83,409 | \$ 249,830 | \$ 1,996,214 | \$ 306,098 |

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, 2018:

- Equities—Valued at the daily closing price.
- Limited Partnership—Valued at the daily closing price as reported by the partnership.
- Real Estate Investment Trust—Value based on property appraisals.
- U.S. Government Bonds—Valued using quoted market prices.
- Corporate Bonds—Valued using a matrix pricing model.
- Mortgage and Asset Backed Securities—Valued using interest rate curves and credit spreads applied to the terms of the instrument and consider the counterparty credit rating.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Continued)**

Note 4 - Fair Value Measurements (Concluded)

The following table summarizes the Plan's assets for which fair values are determined on a recurring basis:

| <u>Investment Type</u> | <u>September 30, 2018</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|----------------------------|-------------------------------|---|--|--|
| Equities | \$ 55,040,384 | \$ 55,040,384 | \$ - | \$ - |
| Limited partnerships | 7,875,169 | - | - | 7,875,169 |
| Real estate | 35,716 | 35,716 | - | - |
| U.S. treasury securities | 777,958 | 777,958 | - | - |
| Mortgage backed securities | 947,719 | - | 947,719 | - |
| Corporate bonds | 909,874 | - | 909,874 | - |
| Totals | \$ 65,586,820 | \$ 55,854,058 | \$ 1,857,593 | \$ 7,875,169 |

Note 5 - Net OPEB Liability of the City

The net OPEB liability related to the Plan was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2017, rolled forward to September 30, 2018.

The components of the net OPEB liability at September 30, 2018, were as follows:

| | |
|----------------------------------|----------------------------|
| Total OPEB Liability | \$ 74,213,751 |
| Plan Fiduciary Net Position | <u>(67,399,291)</u> |
| City's Net OPEB Liability | <u>\$ 6,814,460</u> |

Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability 90.82%

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of October 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|----------------------------|----------------|
| Inflation Rate | 3.00% |
| Investment Return Rate | 8.00% |
| Salary Increase | Service Based |
| Discount Rate | 8.00% |
| Healthcare Cost Trend Rate | 8.30% to 4.50% |

Discount Rate

The discount rate used to measure total OPEB liability was 8.0%. The projection of cash flows used to determine the discount rate assumed the Plan members' contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the 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 Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**OTHER POSTEMPLOYMENT BENEFITS FUND
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS
(Concluded)**

Note 5 - Net OPEB Liability of the City (Concluded)

Long-term Expected Rate of Return

The long-term expected rate of return on the Plan's investments can be determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges 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 geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018, are summarized in the following table:

| | Target Allocation | Long-term Expected Rate of Return |
|-------------------------|------------------------------|--|
| Equities | 80.00% | 9.00% |
| Real estate | 10.00% | 6.00% |
| Alternative investments | 5.00% | 8.00% |
| Fixed income | 5.00% | 3.00% |
| Total | 100.00% | |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 8.0%, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate:

| | 1% Decrease (7.0%) | Current Discount Rate (8.0%) | 1% Increase (9.0%) |
|----------------------------|-------------------------------|---|-------------------------------|
| Net OPEB Liability (Asset) | \$ 13,903,239 | \$ 6,814,460 | \$ 682,774 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the health care cost trend rate, as well as what the Plan's net OPEB liability would be if it were calculated using the health care cost trend rate that is 1 percentage-point lower or 1 percentage point higher than the current rate:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|----------------------------|--------------------|--------------------------------------|--------------------|
| Net OPEB Liability (Asset) | \$ (459,802) | \$ 6,814,460 | \$ 15,334,100 |

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GAINESVILLE, FLORIDA
SCHEDULES OF CHANGES IN CITY'S NET OPEB LIABILITY AND RELATED RATIOS
OPEB PLAN
LAST TWO FISCAL YEARS**

| Total OPEB liability | 2018 | 2017 |
|--|-----------------------------|-----------------------------|
| Service costs | \$ 1,467,084 | \$ 1,282,158 |
| Interest | 5,676,583 | 5,274,094 |
| Differences between expected and actual experience | 3,158,374 | (914,359) |
| Changes of assumptions | 675,415 | 559,493 |
| Benefit payments, including refunds of employee contributions | (4,354,263) | (4,109,173) |
| Net change in total OPEB liability | <u>6,623,193</u> | <u>2,092,213</u> |
| Total OPEB liability - beginning | 67,590,558 | 65,498,345 |
| Total OPEB liability - ending (a) | <u><u>\$ 74,213,751</u></u> | <u><u>\$ 67,590,558</u></u> |
| Plan fiduciary net position | | |
| Employer contributions | 2,016,572 | 1,622,729 |
| Net investment income | 6,250,519 | 6,550,405 |
| Net benefit payments | (4,354,263) | (4,109,173) |
| Administrative expense | (13,890) | (6,082) |
| Net change in plan fiduciary net position | <u>3,898,938</u> | <u>4,057,879</u> |
| Plan fiduciary net position-beginning | 63,500,353 | 59,442,474 |
| Plan fiduciary net position-ending (b) | <u><u>\$ 67,399,291</u></u> | <u><u>\$ 63,500,353</u></u> |
| City's net OPEB liability-ending (a)-(b) | <u><u>\$ 6,814,460</u></u> | <u><u>\$ 4,090,205</u></u> |
| Plan fiduciary net position as a percentage of the total pension liability | 90.82% | 93.95% |
| Annual covered payroll | \$ 118,530,552 | \$ 122,798,859 |
| Net OPEB liability as a percentage of covered payroll | 5.75% | 3.33% |

Notes to Schedule

A. Benefit changes: None

B. Changes to assumptions:

The discount rate was updated from 8.1% at 9/30/17 to 8.0% at 9/30/18.

The following assumption changes are reflected in both the total OPEB liability at the beginning of FY18 and the total OPEB liability at the end of FY18:

- The mortality assumptions was updated in accordance with the changes that were enacted in the 2016 legislative session to sections 112.63 and 112.664 of the Florida Statutes.
- The retirement rates for firefighters and the withdrawal rates and salary increase assumption for firefighters and police officers were updated to reflect the results of an experience study conducted by Conduent in 2017.
- The salary increase assumption for general employees was updated to reflect the results of an experience study conducted by Conduent in 2017.
- The healthcare claims cost per participant assumption was updated to include October 2017 through September 2018 actual claims.
- Updated valuation model for Medicare participants due to the implementation of Alternative Medicare options in 2016.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF CITY CONTRIBUTIONS
OPEB PLAN
LAST TWO FISCAL YEARS**

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Actuarially determined contribution | \$ 731,060 | \$ 616,087 |
| Contributions in relation to the actuarially determined contribution | 2,016,572 | 1,622,729 |
| Contribution deficiency (excess) | <u>\$ (1,285,512)</u> | <u>\$ (1,006,642)</u> |
| Covered payroll | \$ 118,530,552 | \$ 122,798,859 |
| Contributions as percentage of covered payroll | 1.70% | 1.32% |

Notes to Schedule

A. Valuation date: Actuarially determined contribution calculated as of October 1, 2017, applies for the fiscal year ended September 30, 2018.

B. Methods and assumptions used to determine contribution:

| | |
|----------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percentage, closed |
| Amortization period | 10 years |
| Asset valuation method | Actuarial value |
| Inflation rate | 3.00% |
| Salary scale | Service based, 2.00% to 5.00% |
| Investment return rate | 8.00%, net of investment expenses |
| Healthcare cost trend rate | 8.30% to 4.50% |
| 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.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN
OPEB PLAN
LAST TWO FISCAL YEARS**

| Fiscal Year | Annual Money-Weighted Rate of Return on OPEB Plan Investments |
|--------------------|--|
| 2018 | 9.97% |
| 2017 | 11.25% |

Note to Schedule

The schedule will present ten years comparative data in the future.