

2021

Retiree Health Insurance Program of the
City of Gainesville, Florida

Financial Statements and
Independent Auditor's Report

September 30, 2021

RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

SEPTEMBER 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Gainesville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Retiree Health Insurance Program, a fiduciary component unit of the City of Gainesville, Florida, which comprise the statement of fiduciary net position as of September 30, 2021, 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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.

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INDEPENDENT AUDITOR'S REPORT

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 Retiree Health Insurance Program as of September 30, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net OPEB Liability and Related Ratios; Schedule of Employer Contributions; and Schedule of Annual Money-Weighted Rate of Return 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2022, on our consideration of the Retiree Health Insurance Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and

Board of Trustees
City of Gainesville, Florida

INDEPENDENT AUDITOR'S REPORT

compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Retiree Health Insurance Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retiree Health Insurance Program's internal control over financial reporting and compliance.



December 6, 2022
Gainesville, Florida

FINANCIAL STATEMENTS

RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2021

Assets

Cash and cash equivalents	\$ 918,014
Due from City of Gainesville	1,895,575
Investments, at fair value	70,158,015
Interest receivable	12,489

Total Assets	<u>72,984,093</u>
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Liabilities

Accounts payable and accrued liabilities	<u>33,696</u>
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Net Position - Restricted for Other Postemployment Benefits	<u><u>\$ 72,950,397</u></u>
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See accompanying notes to financial statements.

RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2021

Additions

Contributions:

Employer contributions	\$ 1,924,062
Retiree contributions	3,330,813
Total contributions	<u>5,254,875</u>

Investment income:

Net appreciation/increase in fair value of investments	13,384,157
Dividends and interest	1,163,207
Total investment income	<u>14,547,364</u>

(Less investment expenses)	<u>(427,257)</u>
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Net investment income	<u>14,120,107</u>
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Total Additions	<u>19,374,982</u>
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Deductions

Benefit payments	8,426,856
Administrative expenses	6,982
Total Deductions	<u>8,433,838</u>

Change in Net Position	10,941,144
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Net Position - Beginning of Year	<u>62,009,253</u>
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Net Position - End of Year	<u><u>\$ 72,950,397</u></u>
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See accompanying notes to financial statements.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Plan Description

The Retiree Health Insurance Program of the City of Gainesville, Florida (the City) is a single-employer, other postemployment defined benefit (OPEB) plan that covers eligible retired employees. The Retiree Health Insurance Program, which is administered by the City, allows employees who retire and meet eligibility requirements under one of the City's retirement plans to continue medical coverage as a participant in the City's Retiree Health Insurance Program.

Membership

As of the latest actuarial valuation, Retiree Health Insurance Program membership consisted of the following:

Active participants (including DROP)	2,307
Inactive plan members or beneficiaries currently receiving benefits	<u>1,431</u>
Total	<u><u>3,738</u></u>

Benefits Provided

Health Care Subsidies (Retirement Prior to September 1, 2008)

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:

- 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
- 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.

Deferred Retirement Option Program (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:

- 80% of the individual premiums of the least costly City group health plan option being offered at that time.
- 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.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

For current retirees age 65 years 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 Retiree Health Insurance Program.

Health Care Subsidies (Retirement After August 31, 2008)

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 City’s Police Officers’ and Firefighters’ Consolidated Retirement Plan or Employees’ Pension 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, then 100% of the Medicare supplement premium rate.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

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 2021 fiscal year, the City contributed \$1,924,061 for OPEB 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. Retiree contributions are recognized as revenues in the period in which the retiree pays monthly retiree health insurance premiums. 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 - Cash and Investments

Cash and investments as of September 30, 2021 are classified in the accompanying financial statements as follows:

Statement of Net Position	
Cash and cash equivalents	\$ 918,014
Investments	70,158,015
Total cash and investments	\$ 71,076,029

Rate of Return

For the year ended September 30, 2021, the annual money-weighted rate of return on the OPEB Plan investments, net of investment expense, was 25.08%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment Policy

These funds represent investments administered by the City's OPEB Plan investment managers. These investments are reported at fair value. The fair value is derived through valuation efforts done by the investment managers in conjunction with the OPEB 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.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

The OPEB 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
- Real Estate Investment Trusts (REITs)
- Limited Liability Companies (LLCs)

Equity Funds (International)

- Restricted to managers specifically hired to invest in international equities.
- Common and preferred stocks of foreign issuers domiciled in developed and developing countries (emerging markets).
- Forward foreign currency exchange contracts for hedging purposes.
- American and global depository receipts and similar securities.

Fixed Income Funds (Domestic)

- Must have a rating of investment grade (BBB/Baa) or better.
- United States Treasury and Agency Securities
- Commercial Paper with either a Standard & Poor's quality rating of A-1 or a Moody's quality rating of P-1 and a maturity of 270 days or less.
- Certificates of Deposit up to the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation 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 short-term investment funds, and other appropriate liquid short-term investments.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

Real Estate and Alternative Assets

- Discretionary commingled vehicles such as insurance company separate accounts, open-end or closed-end funds and REITS holding either leveraged or unleveraged positions in real property and real property related assets.
- All must be of institutional investment quality and must be diversified by property type and geographic location.

Pooled or Commingled Funds

- The fund may invest in commingled vehicles such as mutual funds, LLCs or common trust funds that are invested in substantially the same manner and same investments as stated above.

Derivatives

- No use of leverage.
- No use of “linked” securities that have the principal value or interest rate tied to anything not specifically allowed as permissible investments in these guidelines.
- Any structured note must maintain a constant spread relationship with its underlying acceptable index.
- Collateralized mortgage obligations cannot be more sensitive to interest-rate changes than the underlying mortgage-backed security.

Restricted 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 the Securities and Exchange Commission 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.

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 fair value.
- 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.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

- 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 trust 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 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 OPEB Plan's name. All deposits of the OPEB Plan are either covered by depository insurance or are collateralized by the pledging financial institution's trust department or agent in the OPEB 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 OPEB Plan and are held by either the counterparty or by the counterparty's trust department or agent but not in the OPEB Plan's name. All identifiable investment securities of the OPEB Plan are either insured or are registered in the custodian's name for the benefit of the OPEB 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:

Investment Type	Fair Value	Exempt from Disclosure	AAA	AA	A	BBB
Equities	\$ 59,796,801	\$ 59,796,801	\$ -	\$ -	\$ -	\$ -
Limited Partnerships	7,727,031	7,727,031	-	-	-	-
U.S. Treasury/Agency Securities	800,107	800,107	-	-	-	-
Corporate Bonds	992,181	-	-	89,796	508,957	393,428
Mortgage/Asset Backed Securities	841,895	-	-	841,895	-	-
Totals	\$ 70,158,015	\$ 68,323,939	\$ -	\$ 931,691	\$ 508,957	\$ 393,428

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

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 OPEB 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 OPEB 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 OPEB Plan's investments to market interest rate fluctuations is provided below, using the segmented time distribution method:

Investment Type	Fair Value	Exempt from Disclosure	< 2 Years	2-5 Years	5-10 Years	> 10 Years
Equities	\$ 59,796,801	\$ 59,796,801	\$ -	\$ -	\$ -	\$ -
Real Estate	7,727,031	7,727,031	-	-	-	-
U.S. Treasury/Agency Securities	800,107	-	346,897	429,243	23,967	-
Corporate Bonds	992,181	-	103,055	346,407	542,719	-
Mortgage and Asset Backed	841,895	-	-	-	-	841,895
Totals	\$ 70,158,015	\$ 67,523,832	\$ 449,952	\$ 775,650	\$ 566,686	\$ 841,895

Note 4 - Fair Value Measurements

The OPEB Plan records assets and liabilities in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in GASB Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, GASB Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs that reflect the OPEB Plan's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Real estate investments are valued by market assumptions provided by the individual managers of each fund. The managers determine the fair value of the underlying investments of the fund then allocate their fair value to the OPEB Plan's investments based on the percentage of ownership it has in the fund. For investments in certain entities that calculate net asset value (NAV) that do not have a readily determinable fair value, the OPEB Plan is permitted to report fair value on the NAV per share as a practical expedient, where certain conditions are met. Such measurements are included within the disclosure, but should not be classified as Level 1, Level 2, or Level 3 within the hierarchy.

Fair value measurements are performed on a recurring basis. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

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

Investments by Fair Value Level	September 30, 2021	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	\$ 59,796,801	\$ 59,796,801	\$ -	\$ -
U.S. treasury/agency securities	800,107	-	800,107	-
Mortgage/asset backed securities	841,895	-	-	841,895
Corporate bonds	992,181	-	992,181	-
Total Investments by Fair Value Level	\$ 62,430,984	\$ 59,796,801	\$ 1,792,288	\$ 841,895

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

Investments Measured at Net Asset Value (NAV)	Total Investments	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Real estate strategies ¹	7,727,031	5,000,000	Quarterly	60 Day Written, Subjective
Total Investments Measured at NAV	7,727,031	5,000,000		
Total Investments	\$ 70,158,015			

¹*Real Estate Strategies* – This type includes one core private real estate fund comprised of commercial and residential real estate investments as of September 30, 2021. Participation in this fund is through a limited partnership with ownership measured in shares of partners' capital. These holdings are typically illiquid with redemption requests permitted with 60 days written notice prior to the end of the quarter, subject to certain restrictions and the availability of cash.

Note 5 - Net OPEB Liability of the City

The net OPEB liability related to the OPEB Plan was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of October 1, 2019, rolled forward to September 30, 2021.

The components of the net OPEB liability at September 30, 2021, were as follows:

Total OPEB liability	\$ 65,385,327
Plan fiduciary net position	(72,950,397)
City's Net OPEB Liability/(Asset)	\$ (7,565,070)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	111.57%

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of October 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation Rate	3.00%
Investment Return Rate	7.90%
Salary Increase	Service Based
Discount Rate	7.90%
Healthcare Cost Trend Rate	7.60% to 4.50%

Discount Rate

The discount rate used to measure total OPEB liability was 7.90%. The projection of cash flows used to determine the discount rate assumed the OPEB Plan members' contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the

**RETIREE HEALTH INSURANCE PROGRAM
OF THE CITY OF GAINESVILLE, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Mortality Rates

All mortality rates were based on the RP-2000 mortality tables. All mortality rates are those outlined in Milliman's July 1, 2018 Florida Retirement System (FRS) valuation report.

Long-Term Expected Rate of Return

The long-term expected rate of return on the OPEB 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. For the year ended September 30, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 25.08 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested.

The following reflects the current target allocation and expected returns:

	Target Allocation	Long-Term Expected Rate of Return
Large Cap Value Equity	19.44%	6.00%
Large Cap Growth Equity	19.44%	5.90%
Small Cap Value Equity	11.11%	6.10%
Small Cap Growth Equity	11.11%	4.90%
International Value Equity	11.11%	4.90%
International Growth Equity	11.11%	4.90%
Core Fixed Income	5.57%	1.70%
Private Real Estate	11.11%	5.90%
Total	100%	

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 7.90%, 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 (6.90%) or 1 percentage point higher (8.90%) than the current rate:

**RETIREE HEALTH INSURANCE PROGRAM
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NOTES TO FINANCIAL STATEMENTS**

	1% Decrease (6.90%)	Current Discount Rate (7.90%)	1% Increase (8.90%)
Net OPEB Liability/(Asset)	\$ (937,377)	\$ (7,565,070)	\$ (13,230,823)

Sensitivity of the Net OPEB Liability/(Asset) to Changes in the Healthcare Cost Trend Rate

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

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB Liability/(Asset)	\$ (14,865,966)	\$ (7,565,070)	\$ 1,110,617

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GAINESVILLE, FLORIDA SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS RETIREE HEALTH INSURANCE PROGRAM LAST FIVE FISCAL YEARS

	2021	2020	2019	2018	2017
Total OPEB Liability					
Service Costs	\$ 1,488,138	\$ 1,742,093	\$ 1,591,950	\$ 1,467,084	\$ 1,282,158
Interest	4,977,350	6,093,319	5,887,782	5,676,583	5,274,094
Differences Between Expected and Actual Experience	-	(3,069,055)	-	3,158,374	(914,359)
Changes of Assumptions	-	(13,744,743)	625,481	675,415	559,493
Gross Benefit Payments	(8,426,856)	(8,225,362)	(7,676,658)	-	-
Retiree Contributions	3,330,813	3,404,162	3,173,162	(4,354,263)	(4,109,173)
Net Change in Total OPEB Liability	1,369,445	(13,799,586)	3,601,717	6,623,193	2,092,213
Total OPEB Liability - Beginning	64,015,882	77,815,468	74,213,751	67,590,558	65,498,345
Total OPEB Liability - Ending (a)	\$ 65,385,327	\$ 64,015,882	\$ 77,815,468	\$ 74,213,751	\$ 67,590,558
Plan Fiduciary Net Position					
Employer Contributions	\$ 1,924,061	\$ 2,557,953	\$ 2,348,167	\$ 2,016,572	\$ 1,622,729
Net Investment Income	14,120,107	602,848	(1,550,570)	6,250,519	6,550,405
Gross Benefit Payments	(8,426,856)	(8,225,362)	(7,676,658)	(4,354,263)	(4,109,173)
Retiree Contributions	3,330,813	3,404,162	3,173,162	-	-
Administrative Expense	(6,982)	(4,661)	(19,078)	(13,890)	(6,082)
Net Change in Plan Fiduciary Net Position	10,941,143	(1,665,060)	(3,724,977)	3,898,938	4,057,879
Plan Fiduciary Net Position - Beginning	62,009,254	63,674,314	67,399,291	63,500,353	59,442,474
Plan Fiduciary Net Position - Ending (b)	\$ 72,950,397	\$ 62,009,254	\$ 63,674,314	\$ 67,399,291	\$ 63,500,353
City's Net OPEB Liability/(Asset) Ending (a)-(b)	\$ (7,565,070)	\$ 2,006,628	\$ 14,141,154	\$ 6,814,460	\$ 4,090,205
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	111.57%	96.87%	81.83%	90.82%	93.95%
Annual Covered Payroll	\$ 156,333,484	\$ 148,889,032	\$ 124,457,080	\$ 118,530,552	\$ 122,798,859
Net OPEB Liability as a Percentage of Covered Payroll	-4.84%	1.35%	11.36%	5.75%	3.33%

Notes to Schedule

Differences Between Expected and Actual Experience - Fiscal year 2020 reflects the impact of changes to the census data from the prior valuation to the valuation as of October 1, 2019. The October 1, 2019, valuation was rolled to fiscal year 2021.

Changes of Assumptions -- Changes of assumptions reflect the effects of changes in the discount rate each period.

- For measurement date 9/30/2021, there were no change in assumptions.
- For measurement date 9/30/2020, changes of assumptions includes changes due to claims experience and premium rates.
- For measurement date 9/30/2019, investment rate was reduced from 8.00% to 7.90%.
- For measurement date 9/30/2018, investment rate was reduced from 8.10% to 8.00%.
- For measurement date 9/30/2017, investment rate was reduced from 8.20% to 8.10%, mortality assumptions were updated, retirement rates for firefighters and withdrawal rates and salary increase assumptions for firefighters and police officers were updated to reflect the results of an experience study conducted by Conduent in 2017, and the healthcare claims cost per participant assumption was updated.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GAINESVILLE, FLORIDA SCHEDULE OF EMPLOYER CONTRIBUTIONS RETIREE HEALTH INSURANCE PROGRAM LAST FIVE FISCAL YEARS

Fiscal Year Ended September 30,	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Total Contributions as a Percentage of Covered Payroll
2021	\$ -	\$ 1,924,061	\$ (1,924,061)	\$ 156,333,484	1.23%
2020	-	2,557,953	(2,557,953)	148,889,032	1.72%
2019	767,613	2,348,167	(1,580,554)	124,457,080	1.89%
2018	731,060	2,016,572	(1,285,512)	118,530,552	1.70%
2017	616,087	1,622,729	(1,006,642)	122,798,859	1.32%

Notes to Schedule

Valuation Date: 10/1/2019

Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Individual entry age, normal cost
Amortization Method	Level percentage, closed
Remaining Amortization Period	10 years
Asset Valuation Method	Market Value of Assets
Discount Rate	7.90% per year assumed investment return rate
Salary Increase Rate	Police Officers: 3.0% - 6.0%; Firefighters: 2.0% - 5.0%
Payroll Growth	3.00%
Health Care Inflation	Medical Claims (Pre-65) 7.30% - 4.50%, (Post-65) 4.30% - 4.50%
Mortality Rates	<i>Healthy Active Lives</i> -- Female: RP2000 Generational, 100% Combined

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GAINESVILLE, FLORIDA
SCHEDULE OF ANNUAL MONEY-WEIGHTED RATE OF RETURN
RETIREE HEALTH INSURANCE PROGRAM
LAST FIVE FISCAL YEARS

Fiscal Year	Annual Money-Weighted Rate of Return on OPEB Plan Investments
2021	25.08
2020	0.25%
2019	-2.41%
2018	9.97%
2017	11.25%

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
City of Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Retiree Health Insurance Program, a fiduciary component unit of the City of Gainesville, Florida, (the City) which comprise the statement of fiduciary net position as of and for the year ended September 30, 2021, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Retiree Health Insurance Program’s basic financial statements, and have issued our report thereon dated December 6, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Retiree Health Insurance Program’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Retiree Health Insurance Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Retiree Health Insurance Program’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified the following deficiency in internal control that we consider to be a significant deficiency:

■ **2021-1 Investment and Retiree Health Insurance Program Activity Reconciliation**

Condition: Due to the City implementing a new enterprise resource planning (ERP) system in the current year and significant turnover in the finance department, investment statements and Retiree Health Insurance Program activity were not reconciled to the general ledger on a timely basis. As a result, there were significant errors in the Retiree Health Insurance Program balances per the general ledger during the year ended September 30, 2021. A consultant, engaged by the City several months after year end, reviewed and corrected general ledger account balances prior to the audit.

Criteria: Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Effect: Inaccurate financial information within the general ledger could result in material misstatements of the financial statements.

Recommendation: We recommend management reconcile investment and Retiree Health Insurance Program activity to its general ledger monthly.

Management’s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on management’s response to the finding identified in our audit, which is included in the accompanying management response letter. Management’s response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Retiree Health Insurance Program’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations contracts and grant agreements, non-compliance with

Board of Trustees
City of Gainesville, Florida

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
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which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Retiree Health Insurance Program’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



December 6, 2022
Gainesville, Florida



City of Gainesville

Department of Financial Services

December 6, 2022

Board of Trustees

City of Gainesville, Florida

Re: Management response to the Independent Auditor's Report and Management Letter for the Retiree Health insurance Program Financial Statements for the period ended September 30, 2021

2021-1 - Investment and Retiree Health Insurance Program Activity Reconciliation

Condition: Due to the City implementing a new enterprise resource planning (ERP) system in the current year and significant turnover in the finance department, investment statements and Retiree Health Insurance Program activity were not reconciled to the general ledger on a timely basis. As a result, there were significant errors in the Retiree Health Insurance Program balances per the general ledger during the year ended September 30, 2021. A consultant, engaged by the City several months after year end, reviewed and corrected general ledger account balances prior to the audit.

Criteria: Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Effect: Inaccurate financial information within the general ledger could result in material misstatements of the financial statements.

Recommendation: We recommend management reconcile investment and Retiree Health Insurance Program activity to its general ledger monthly.

Management response: Management is aware of this issue. The City has experienced significant staff turnover in the Department of Financial Services since the 2018 audit. The staff turnover led to challenges in completing the annual audit for the Fiscal Year 2021, and the completion of



City of Gainesville

Department of Financial Services

the audit was further exacerbated by the mid-year implementation of a new Enterprise Resource Planning (ERP) system (Workday) in July 2021 that touched all of the City's financial operations systems (general ledger, accounting, accounts payable, payroll, billing and collections, and treasury management). To help provide support to the Department of Financial Services, the City hired an external CPA firm in December 2021 (Carr, Riggs, & Ingram, LLC), and entered into a Service Level Agreement with the Budget and Finance, and Accounting Department of the City-owned utility (Gainesville Regional Utility) in February 2022. The City has since hired a Finance Director who is a certified public accountant and a certified public finance officer. In addition, an accounting manager and a senior accountant with significant accounting experiences were hired on September 6, 2022. The Department also hired a Financial Systems Architect who is certified in Workday Human Resources, Payroll and Reporting to help with data flow and mapping in Workday. An Internal Control Manager who is a certified internal auditor and a certified fraud examiner has also been hired to help strengthen internal controls. We have made significant improvement with understanding of Workday and are developing processes and checklists for period close. Included in the period close process is the reconciliation of investment statements and Retiree Health Insurance Program activity to the general ledger. This will ensure subsidiary ledgers balance to the general ledger, and all balances are reconciled and reviewed on a monthly basis. We will also start distributing trial balance and other reports to the Board for their review.

Sincerely

Sue Wang

Finance Director

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