

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**

Financial Statements and
Required Supplementary Information
(With Independent Auditor's Report Thereon)

Year Ended June 30, 2020



Certified
Public
Accountants

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Financial Statements and Required Supplementary Information
Year Ended June 30, 2020

Table of Contents

| | <i>Page</i> |
|---|--------------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis (Required Supplementary Information - Unaudited) | 3 |
| Basic Financial Statements: | |
| Statement of Fiduciary Net Position | 6 |
| Statement of Changes in Fiduciary Net Position | 7 |
| Notes to Financial Statements..... | 8 |
| Required Supplementary Information (Unaudited) | |
| Schedule of Investment Returns | 14 |
| 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 | 15 |



Independent Auditor's Report

Retiree Health Care Trust Fund Board
City and County of San Francisco
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the City and County of San Francisco Retiree Health Care Trust Fund (RHCTF), an other postemployment benefits trust fund of the City and County of San Francisco, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the RHCTF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The RHCTF's 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.

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 fiduciary net position of the RHCTF as of June 30, 2020, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, the financial statements present only the RHCTF and do not purport to, and do not, present fairly the financial position of the City and County of San Francisco as of June 30, 2020, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of investment returns, as listed in the table of contents, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020 on our consideration of the RHCTF'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 compliance and the results of that testing, and not to provide an opinion on the effectiveness of the RHCTF'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 RHCTF's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Francisco, California
December 22, 2020

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Management's Discussion and Analysis (Unaudited)
June 30, 2020

The management of the City and County of San Francisco Retiree Health Care Trust Fund (RHCTF) is pleased to provide this overview and analysis of the financial activities of its agent multiple-employer, other postemployment benefit plan for the year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the *Financial Statements and Required Supplementary Information*, which follow this discussion.

The RHCTF is reported as an other postemployment benefits trust fund in the City's basic financial statements included in its Comprehensive Annual Financial Report. The RHCTF was established to receive employer and employee contributions prescribed by the City's Charter for the purpose of prefunding certain postretirement health benefits and is to be used to receive the employers' contributions to the health care premiums of their retirees and their survivors. The RHCTF includes two employers: the City and County of San Francisco (City) and the San Francisco Community College District (Community College). The RHCTF is governed by the Retiree Health Care Trust Fund Board as described in Note 1.

Overview of Financial Statements

The following discussion is intended to serve as an introduction to the RHCTF's financial statements, which consist of the statement of fiduciary net position, statement of changes in fiduciary net position, and notes to financial statements.

- The statement of fiduciary net position is a snapshot of account balances as of June 30, 2020. It shows assets, liabilities, and net position available as of that date.
- The statement of changes in fiduciary net position shows additions and deductions to the RHCTF's net position during the year ended June 30, 2020.
- Notes to the financial statements provide additional information that is essential to a full understanding of the numbers in the financial statements.

The financial statements and accompanying notes are presented in all material respects in accordance with the basis of accounting and accounting principles as explained in Note 2. In addition, this report presents required supplementary information concerning the RHCTF's annual money-weighted rate of returns, net of investment expenses.

Financial Analysis – Condensed Schedule of Fiduciary Net Position Available

The Plan's net position as of June 30, 2020, and 2019 are represented in the table below:

| Fiduciary Net Position Summary – June 30, 2020, and 2019 | | |
|---|----------------|----------------|
| | 2020 | 2019 |
| Cash and Investments - City Treasury | \$ 2,882,375 | \$ 2,508,326 |
| Cash and Investments - Outside City Treasury | 515,922,462 | 384,647,343 |
| Other assets | 5,179,110 | 3,898,226 |
| Total assets | 523,983,947 | 391,053,895 |
| Total liabilities | 5,763,616 | 416,049 |
| Fiduciary net position | \$ 518,220,331 | \$ 390,637,846 |

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Management's Discussion and Analysis (Unaudited) (Continued)
June 30, 2020

The net position available for future health obligations increased by \$127.6 million in 2020, or a 32.7 percent increase. The components of the increase are \$61.6 million in employee contributions, and \$42.0 million in City and Community College contributions, net of benefit payments, in the current year. In addition, the RHCTF experienced a \$18.0 million net increase in the fair value of investments, together with other net investment income of \$6.0 million.

In the current year, cash totaling \$515.9 million was invested outside of the City's investment pool as planned and directed by the RHCTF Board. The City investment pool's earned income yield, which includes net gains on investments sold, was 1.9 percent for the year ended June 30, 2020. By contrast, the City's investments outside of the City returned 7.5 percent since inception, and 5.1 percent for the year ended June 30, 2020. For the Community College, the investments outside of the City returned 7.1 percent since inception, and 4.8 percent for the year ended June 30, 2020. These rates of return are calculated on a time-weighted basis.

Highlights of Changes in Fiduciary Net Position – Years Ended June 30, 2020 and 2019

| | 2020 | 2019 |
|--|----------------|----------------|
| Additions: | | |
| Employee contributions | \$ 61,588,438 | \$ 51,969,910 |
| Employer contributions | 248,780,048 | 229,690,861 |
| Investment Income | | |
| Net appreciation in fair value of investments | 18,006,478 | 23,261,825 |
| Investment Income | 6,365,393 | 5,836,635 |
| Investment expenses | (305,883) | (317,524) |
| Net investment income | 24,065,988 | 28,780,936 |
| Total additions | 334,434,474 | 310,441,707 |
| Deductions: | | |
| Benefit payments | 206,738,055 | 194,562,930 |
| Administrative expenses | 113,934 | 132,110 |
| Total deductions | 206,851,989 | 194,695,040 |
| Change in net position | 127,582,485 | 115,746,667 |
| Fiduciary net position - beginning of the year | 390,637,846 | 274,891,179 |
| Fiduciary net position - end of the year | \$ 518,220,331 | \$ 390,637,846 |

Employee contributions increased by \$9.6 million, or 18.5 percent, due to the increase in employees contributing to the fund and the increase in overall salaries. Employer contributions include direct payments of insurance premiums by the City and the Community College, and irrevocable contributions into the trust. Employer contributions increased by \$19.1 million, or 8.3 percent, primarily due to the increase of \$12.2 million in direct insurance premium payments, and \$6.9 million of increase in required matching employer contributions due to the increase in employees contributing to the fund.

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Management's Discussion and Analysis (Unaudited) (Continued)
June 30, 2020

Total investment income was \$24.1 million, which was \$4.7 million, or 16.4 percent, lower than the prior year due to volatility in the capital markets. The net appreciation in fair value of investments outside of the City investment pool and the favorable returns on those investments were the primary contributors to the total investment income

Benefit payments increased by \$12.2 million, or 6.3 percent, and represent the participating employers' direct payments of insurance premiums to the insurers. The City's benefit payments increased by \$10.6 million and the Community College's increased by \$1.6 million.

Requests for information

This financial report is designed to provide a general overview of the Retiree Health Care Trust Fund's finances for the year ended June 30, 2020. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Jay Huish, Executive Director
San Francisco City and County Employees' Retirement System
1145 Market Street – 5th floor
San Francisco, CA 94103

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Statement of Fiduciary Net Position
June 30, 2020

Assets

| | |
|--|--------------------|
| Receivables | |
| Employee Contributions | \$ 2,857,131 |
| Employer Contributions | 1,857,793 |
| Interest and Dividends | 441,767 |
| Interest from City Investments | 22,419 |
| | |
| Cash and Investments with City Treasury | 2,882,375 |
| Cash and Investments outside City Treasury | |
| Short-term Investments | 6,563,500 |
| Debt Securities | 180,670,049 |
| Equity Securities: | |
| Domestic | 166,718,609 |
| International | 161,970,304 |
| Total Investments | <u>518,804,837</u> |
| Total Assets | <u>523,983,947</u> |

Liabilities

| | |
|--------------------------------|------------------|
| Accounts Payable | 47,092 |
| Investment Purchases and Other | <u>5,716,524</u> |
| Total Liabilities | <u>5,763,616</u> |

Net Position

| | |
|--|-----------------------|
| Fiduciary Net Position Restricted for Postemployment Healthcare Benefits | <u>\$ 518,220,331</u> |
|--|-----------------------|

See accompanying notes to the financial statements.

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2020

Additions

| | |
|---|------------------------|
| Employee Contributions | \$ 61,588,438 |
| Employer Contributions | 248,780,048 |
| Investment Income: | |
| Net Appreciation in Fair Value of Investments | 18,006,478 |
| Interest and Dividend Income | 6,365,393 |
| Less: Investment Expenses | <u>(305,883)</u> |
| Net Investment Income | <u>24,065,988</u> |
| Total Additions | <u>334,434,474</u> |

Deductions

| | |
|-------------------------|------------------------|
| Benefit Payments | 206,738,055 |
| Administrative Expenses | <u>113,934</u> |
| Total Deductions | <u>206,851,989</u> |

| | |
|----------------------------------|-------------|
| Change in Fiduciary Net Position | 127,582,485 |
|----------------------------------|-------------|

Fiduciary Net Position Restricted for Postemployment Healthcare Benefits

| | |
|-------------------|------------------------------|
| Beginning of Year | <u>390,637,846</u> |
| End of Year | <u><u>\$ 518,220,331</u></u> |

See accompanying notes to the financial statements.

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**

Notes to the Financial Statements

Year Ended June 30, 2020

Note 1 – Description of Entity

The Retiree Health Care Trust Fund (RHCTF), an irrevocable trust fund, was established under the City and County of San Francisco (City) Charter Appendix A8.432 as a result of the passage of Proposition B on the June 2008 ballot. The RHCTF was established to receive employer and employee contributions from participating employers in separate employer prefunding accounts, as prescribed by the Charter for the purpose of prefunding certain postemployment health benefits in accordance with the terms of the participating employers' plans. The RHCTF is an agent multiple-employer, defined benefit other postemployment benefits plan.

The RHCTF has two employers participating in the plan: the City and the San Francisco Community College District (Community College). As of June 30, 2020, there were 33,892 active members, 26,585 retirees and beneficiaries, and 3,514 vested, terminated members. The City's health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The Community College's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

The RHCTF is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as an other postemployment benefits trust fund. The financial statements of the RHCTF are intended to present only the fiduciary net position and changes in fiduciary net position of the RHCTF. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2020, 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. The City's basic financial statements can be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

The RHCTF is governed by a Retiree Health Care Trust Fund Board (Board), as described in the Charter Section 12.204. The Board consists of five trustees: one appointed by the City Controller, one appointed by the City Treasurer, one appointed by the Executive Director of the San Francisco Employees' Retirement System, one elected from among the active employees of the City's Health Service System, and one elected from among the retired employees of the City's Health Service System. Each elected trustee serves for a term of five years.

Note 2 – Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and on the accrual basis of accounting. The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The RHCTF follows U.S. generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB).

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Notes to the Financial Statements (Continued)
Year Ended June 30, 2020

(b) Investments

The RHCTF maintains its cash in the City's investment pool. Income earned from the City's pooled investments is allocated monthly to the RHCTF based on its average daily cash balance. Investments are reported at fair value. Equity and debt commingled funds are priced at net asset value (NAV) by industry vendors and fund families. NAV is the fair value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. Purchases and sales of investments are reported on a trade date basis.

(c) Contributions

Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to legal requirements for the City and recognized when received for the Community College since these contributions are elective and not required. Benefits are recognized when currently due and payable in accordance with the terms of the participating employers' plans. In addition, employer contributions made in the form of direct payments of insurance premiums by the employers are recognized as employer contributions and benefit payments for plan financial reporting purposes.

(d) Administrative Costs

Costs to administer the plan are determined through the Board-approved budget where actual direct costs of administering the Plan are assessed to each employer.

Note 3 – Cash and Investments

The RHCTF maintains cash in the City's investment pool. The City's pool is invested pursuant to investment policy guidelines established by the City Treasurer, subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee, established under California Government Code Sections 27130 to 27137, is composed of various City officials and representatives of agencies with large cash balances in the pool. The objectives of the investment policy are, in order of priority, preserve capital, meet the daily cash flow demands of the City and pool participants, and provide a market rate of return while conforming to all state and local statutes governing the investment of public funds. The policy addresses soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The provisions of the City's investment policy also address interest rate risk, credit risk, and concentration of credit risk and provide for additional restrictions related to investments. The notes to the basic financial statements of the City provide more detailed information concerning deposit and investment risks associated with the City's investment pool at June 30, 2020.

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Notes to the Financial Statements (Continued)
Year Ended June 30, 2020

The RHCTF's investments outside of the City Treasury are invested pursuant to investment policy guidelines as established by the RHCTF Board. The objective of the policy is to manage fund assets so as to achieve the highest, reasonably prudent real return possible. The RHCTF allocates its investments among numerous investment managers and in accordance with the investment policy approved by the RHCTF Board. The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

| <u>Asset Class</u> | <u>Target Allocation from November 2017 to September 2019</u> |
|---|---|
| Equities | |
| U.S. Equity | 41.0% |
| Developed Market Equity (Non-U.S.) | 20.0% |
| Emerging Market Equity | 16.0% |
| Credit | |
| High Yield Bonds | 3.0% |
| Bank Loans | 3.0% |
| Emerging Market Bonds | 3.0% |
| Rate Securities | |
| Treasury Inflation-Protected Securities (TIPS) | 5.0% |
| Investment Grade Bonds | 9.0% |
| | 100.0% |
| | |
| <u>Asset Class</u> | <u>Target Allocation since October 2019</u> |
| Equities | |
| U.S. Equity | 31.0% |
| Developed Market Equity (Non-U.S.) | 15.0% |
| Emerging Market Equity | 13.0% |
| Credit | |
| Bank Loans/ High Yield | 6.0% |
| Emerging Market Bonds | 3.0% |
| Rate Securities | |
| Investment Grade Bonds | 9.0% |
| Long-term Government Bonds | 4.0% |
| Short-term Treasury Inflation-Protected Securities (TIPS) | 4.0% |
| Private Markets | |
| Private Equity | 5.0% |
| Core Private Real Estate | 5.0% |
| Risk Mitigating Strategies | |
| Global Macro | 5.0% |
| | 100.0% |

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Notes to the Financial Statements (Continued)
Year Ended June 30, 2020

(a) Fair Value Measurement of Investments

At June 30, 2020, the RHCTF had cash and investments in the City Treasury pool, commingled funds, mutual funds, feeder funds, and money market funds. The funds are priced at net asset value (NAV) by industry vendors and fund families. NAV is the fair value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. As of June 30, 2020, one debt security investment, valued at \$38.9 million, has quarter-end redemptions with a 90 day advance written notice requirement. In addition, one international equity investment, valued at \$76.1 million, has weekly redemptions with a three-day advance notification requirement. Both investments have 5% holdbacks for a full liquidation. There are no redemption restrictions for the remaining commingled funds.

| | Fair Value 6/30/2020 |
|--|---------------------------------|
| Cash and Investments with City Treasury | \$ 2,882,375 |
| Cash and Investments outside City Treasury | |
| Short-term Investments | 6,563,500 |
| Debt Securities | 180,670,049 |
| Equity Securities: | |
| Domestic | 166,718,609 |
| International | 161,970,304 |
| Total investments | \$ 518,804,837 |

(b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The RHCTF does not have a specific policy to manage interest rate risk, but invests in a diversified portfolio of stocks and bonds with a goal of reducing sensitivity to any one interest rate regime.

As of June 30, 2020, the weighted average maturities in years for the RHCTF's fixed income investments were as follows:

| Investment Type | Weighted Average Maturity in Years |
|-------------------------------------|------------------------------------|
| US Debt Index Fund | 8.0 |
| Government Bond Index Fund | 25.1 |
| Inflation Protected Debt Index Fund | 2.7 |
| Emerging Markets Debt Fund | 11.9 |
| Multi-Sector Debt Fund | 7.2 |
| City Investment Pool | 0.7 |
| Treasury Money Market Fund | 0.1 |

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Notes to the Financial Statements (Continued)
Year Ended June 30, 2020

(c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The RHCTF's investments in the US Debt Index Fund, Government Bond Index Fund, Inflation Protected Debt Index Fund, Emerging Markets Debt Fund, Multi-Sector Debt Fund, City's Investment Pool and Treasury Money Market Fund are not rated. Although those funds may invest in rated securities, and securities issued or explicitly guaranteed by the U.S. Government that are exempt from the credit rating disclosures, the funds do not themselves have a specific credit rating.

(d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Securities issued or explicitly guaranteed by the U.S. government are excluded from this disclosure. As of June 30, 2020, the RHCTF had only commingled funds and a partnership investment that equaled or exceeded 5% of the plan's fiduciary net position. However, there is no position within the funds or partnership investment that has equal and greater than 5% at the issuer level and likely very little, if any, overlap.

(e) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the RHCTF would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The RHCTF does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the RHCTF's custodial agent in the RHCTF's name. As of June 30, 2020, none of the RHCTF's investments were exposed to custodial credit risk because they were either insured or registered in the name of the RHCTF and were held by the custodial bank. Investments in the City pool are held by the City's custodial agent and are not subject to custodial credit risk.

(f) Foreign Currency Risk

The RHCTF allows investments in international equity. The RHCTF's investments in the commingled funds are denominated in U.S. dollars, but may consist of underlying securities that are denominated in foreign currencies. The RHCTF's investment managers value investments denominated in foreign currencies by converting them into U.S. dollars using the most appropriate exchange rates as identified by each manager. Also, the cost of purchases and proceeds from sales of investments, interest and dividend income are translated into U.S. dollars using the spot market rate of exchange prevailing on the respective dates of such transactions.

(g) Rate of return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 5.6 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Notes to the Financial Statements (Continued)
Year Ended June 30, 2020

Note 4 – Funding Policy

Actuarially determined contributions are based on actuarial valuations that are conducted at least biennially by outside actuaries engaged by participating employers. The Community College's contributions to the RHCTF are elective and not required. The City's contributions to the RHCTF are established through the City Charter.

City employees hired after January 9, 2009, contribute two percent of their salary, which is matched by a one percent contribution from the City. Between January 10, 2009, and the establishment of the RHCTF in December 2010, contributions were set aside and deposited into the RHCTF when it was established. Beginning in July 2016, employees hired prior to January 9, 2009, also contribute a share of their salary to the fund with an equal matching contribution from the City, starting at 0.25 percent of salary each (employee and City) in Fiscal Year 2016-17, and rising by 0.25 percent of salary each fiscal year until it reaches 1.0 percent of salary each in Fiscal Year 2019-20.

No withdrawals from the City's plan other than for reasonable administrative expenses are allowed prior to January 2020. The Charter amendment passed by voters as Proposition A on November 5, 2013, prohibits withdrawals from the RHCTF until sufficient funds are set-aside to pay for all future retiree health care costs as determined by an actuarial study. Limited withdrawals prior to accumulating sufficient funds will be permitted only if annually budgeted retiree health care costs rise above 10 percent of payroll expenses, and will be limited to no more than 10 percent of the RHCTF balance. Proposition A allows for revisions to these funding limitations and requirements only upon the recommendation of the Controller and an external actuary and if approved by the RHCTF Board, two-thirds of the Board of Supervisors, and the Mayor.

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Required Supplementary Information (Unaudited)
Year Ended June 30, 2020

Schedule of Investment Returns

| <u>Year</u> | <u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u> |
|-------------|---|
| 2020 | 5.6% |
| 2019 | 9.5% |
| 2018 | 7.0% |
| 2017 | 13.1% |

This schedule is intended to show information for 10 years. Information is presented for those years for which information is available.



**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***

Retiree Health Care Trust Fund Board
City and County of San Francisco
San Francisco, California

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 City and County of San Francisco Retiree Health Care Trust Fund (RHCTF), an other postemployment benefits trust fund of the City and County of San Francisco, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the RHCTF’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 RHCTF’s internal control. Accordingly, we do not express an opinion on the effectiveness of RHCTF’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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the RHCTF’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of

laws, regulations, contracts, and grant agreements, noncompliance with 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 noncompliance 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, professional style.

San Francisco, California
December 22, 2020