

**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, 2021



Certified
Public
Accountants

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Year Ended June 30, 2021

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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, 2021, 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, 2021, 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, 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. 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the RHCTF's basic financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2022, 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
January 10, 2022

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Management's Discussion and Analysis (Unaudited)
June 30, 2021

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 benefits plan for the year ended June 30, 2021. 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 Annual Comprehensive 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, 2021. 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, 2021.
- 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 return, net of investment expenses.

Financial Analysis – Condensed Schedule of Fiduciary Net Position Available

The Plan's net position as of June 30, 2021, and 2020 are represented in the table below:

	2021	2020
Cash and Investments - City Treasury	\$ 2,537,894	\$ 2,882,375
Cash and Investments - Outside City Treasury	739,312,880	515,922,462
Other assets	6,152,847	5,179,110
Total assets	748,003,621	523,983,947
Total liabilities	895,694	5,763,616
Fiduciary net position	\$ 747,107,927	\$ 518,220,331

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Management's Discussion and Analysis (Unaudited)
June 30, 2021

The net position available for future health obligations increased by \$228.9 million in 2021, or a 44.2 percent increase. The components of the increase are \$64.6 million in employee contributions, and \$29.3 million in City and Community College contributions, net of benefit payments, in the current year. In addition, the RHCTF experienced a \$127.6 million net increase in the fair value of investments, together with other net investment income of \$7.6 million.

In the current year, cash totaling \$739.3 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 0.7 percent for the year ended June 30, 2021. By contrast, the City's investments outside of the City returned 10.3 percent since inception, and 24.7 percent for the year ended June 30, 2021. For the Community College, the investments outside of the City returned 10.0 percent since inception, and 24.8 percent for the year ended June 30, 2021. These rates of return are calculated on a time-weighted basis.

Highlights of Changes in Fiduciary Net Position – Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Additions:		
Employee contributions	\$ 64,586,965	\$ 61,588,438
Employer contributions	256,381,693	248,780,048
Investment Income		
Net appreciation in fair value of investments	127,603,988	18,006,478
Investment Income	7,954,171	6,365,393
Investment expenses	(332,052)	(305,883)
Net investment income	<u>135,226,107</u>	<u>24,065,988</u>
Total additions	<u>456,194,765</u>	<u>334,434,474</u>
Deductions:		
Benefit payments	227,042,226	206,738,055
Administrative expenses	<u>264,943</u>	<u>113,934</u>
Total deductions	<u>227,307,169</u>	<u>206,851,989</u>
Change in net position	228,887,596	127,582,485
Fiduciary net position - beginning of the year	<u>518,220,331</u>	<u>390,637,846</u>
Fiduciary net position - end of the year	<u>\$ 747,107,927</u>	<u>\$ 518,220,331</u>

Employee contributions increased by \$3.0 million, or 4.9 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. In the year ended June 30, 2021, direct payments of insurance premiums increased by \$10.1 million, whereas matching employer contributions decreased by \$2.5 million because the Community College did not make matching employer contributions to RHCTF. The net result of the changes is employer contributions increased by \$7.6 million, or 3.1 percent.

CITY AND COUNTY OF SAN FRANCISCO
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Management's Discussion and Analysis (Unaudited)
June 30, 2021

Total investment income was \$135.2 million, which was \$111.2 million, or 461.9 percent, higher than the prior year due mostly to the net appreciation in fair value of investments outside of the City investment pool and to the favorable returns on those investments.

Benefit payments increased by \$20.3 million, or 9.8 percent. This year's benefit payments comprise the participating employers' direct payments of insurance premiums to the insurers, and a disbursement to the Community College as a result of resolution declaring an extraordinary financial circumstance. The participating employers' direct payments of insurance premiums to the insurers increased by \$10.1 million. The disbursement of \$10.2 million to the Community College, approved by the RHCTF Board, was to pay for its Retiree Medical Benefits.

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, 2021. 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, 2021

Assets

Receivables		
Employee Contributions	\$	3,237,244
Employer Contributions		2,063,624
Interest and Dividends		847,528
Interest from City Investments		4,451
Cash and Investments with City Treasury		2,537,894
Cash and Investments outside City Treasury		
Short-term Investments		8,878,060
Debt Securities		217,653,143
Equity Securities:		
Domestic		243,911,033
International		223,373,689
Private Equity		9,824,529
Risk Mitigating Strategies		35,672,426
Total Investments		<u>741,850,774</u>
Total Assets		<u>748,003,621</u>

Liabilities

Accounts Payable		48,200
Investment Purchases and Other		847,494
Total Liabilities		<u>895,694</u>

Net Position

Fiduciary Net Position Restricted for Postemployment Healthcare Benefits		<u>\$ 747,107,927</u>
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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, 2021

Additions

Employee Contributions	\$ 64,586,965
Employer Contributions	256,381,693
Investment Income:	
Net Appreciation in Fair Value of Investments	127,603,988
Interest and Dividend Income	7,954,171
Less: Investment Expenses	<u>(332,052)</u>
Net Investment Income	<u>135,226,107</u>
Total Additions	<u>456,194,765</u>

Deductions

Benefit Payments	227,042,226
Administrative Expenses	<u>264,943</u>
Total Deductions	<u>227,307,169</u>

Change in Fiduciary Net Position	228,887,596
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Fiduciary Net Position Restricted for Postemployment Healthcare Benefits	
Beginning of Year	<u>518,220,331</u>
End of Year	<u><u>\$ 747,107,927</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, 2021

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, 2021, there were 33,046 active members, 24,924 retirees and beneficiaries, and 2,566 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, 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. 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
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Notes to the Financial Statements
Year Ended June 30, 2021

(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, 2021.

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.

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Notes to the Financial Statements
Year Ended June 30, 2021

At its May 2021 Board Meeting, for the Community College District's Sub-Trust, the RHCTF Board anticipated that illiquid investments will not be appropriate given the portfolio liquidity needs. Therefore, the RHCTF Board approved a new separate allocation that offers a higher liquidity, lower risk levels profile for the Community College.

The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

Asset Class	Target Allocation From October 2019 to April 2021
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 Sensitive	
Short-Term Treasury Inflation-Protected Securities (TIPS)	4.0%
Investment Grade Bonds	9.0%
Long-Term Government Bonds	4.0%
Private Markets	
Private Equity	5.0%
Private Core Real Estate	5.0%
Risk Mitigating Strategies	
Global Macro	5.0%
	100.0%

Asset Class	Target Allocation Since May 2021	
	City and County of San Francisco Sub-Trust	Community College District Sub-Trust
Equities		
U.S. Equity Large Cap	28.0%	31.0%
U.S. Equity Small Cap	3.0%	3.0%
Developed Market Equity (Non-U.S.)	15.0%	18.0%
Emerging Market Equity	13.0%	16.0%
Credit		
Bank Loans/ High Yield Bonds	6.0%	6.0%
Emerging Market Bonds	3.0%	3.0%
Rate Sensitive		
Short-Term Treasury Inflation-Protected Securities (TIPS)	4.0%	3.0%
Investment Grade Bonds	9.0%	15.0%
Long-Term Government Bonds	4.0%	5.0%
Private Markets		
Private Equity	5.0%	-
Private Core Real Estate	5.0%	-
Risk Mitigating Strategies		
Global Macro	5.0%	-
	100.0%	100.0%

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

Notes to the Financial Statements

Year Ended June 30, 2021

(a) Fair Value Measurement of Investments

At June 30, 2021, 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, 2021, one debt security investment, valued at \$51.8 million, has quarter-end redemptions with a 90 day advance written notice requirement. In addition, one international equity investment, valued at \$109.3 million, has weekly redemptions with a three-day advance notification requirement. Both investments have 5% holdbacks for a full liquidation. In addition, \$35.7 million of RHCTF's risk mitigating strategies allows redemptions on a weekly basis with four-day notice. There are no redemption restrictions for the remaining commingled funds.

The fair value of the RHCTF's investments in private equity are based on NAV provided by the investment managers and general partners (hereinafter collectively referred to as the "General Partners"). Such value generally represents the RHCTF's proportionate share of the net assets of the limited partnerships. The partnership financial statements are audited annually as of December 31 and the NAV is adjusted by additional contributions to and distributions from the partnership, the RHCTF's share of net earnings and losses, and unrealized gains and losses resulting from changes in fair value, as determined by the General Partners.

The General Partners may use one or more valuation methodologies outlined in FASB ASC 820, *Fair Value Measurement*. For some investments, little market activity may exist. The General Partners' determination of fair value is then based on the best information available in the circumstances and may involve subjective assumptions and estimates, including the General Partners' assessment of the information that market participants would use in valuing the investments. The General Partners may take into consideration a combination of internal and external factors, including but not limit to, appropriate risk adjustments for nonperformance and liquidity. Such fair value estimates involve subjective judgments of unrealized gains and losses.

The values provided by the General Partners may differ significantly from the values that would have been used had a ready market existed for these investments.

<u>As of June 30, 2021</u>	<u>Total</u>
Investments by fair value level	
Cash and Investments outside City Treasury	
Short-term investments	\$ 8,878,060
Debt securities	217,653,143
Equity securities:	
Domestic	243,911,033
International	223,373,689
Private equity	9,824,529
Risk mitigating strategies	<u>35,672,426</u>
Total investments by fair value level	<u>739,312,880</u>
Investments not subject to the fair value hierarchy	
City investment pool	<u>2,537,894</u>
Total investments measured at fair value	<u>\$ 741,850,774</u>

**CITY AND COUNTY OF SAN FRANCISCO
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Notes to the Financial Statements

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(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, 2021, 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	8.4
Government Bond Index Fund	24.5
Inflation Protected Debt Index Fund	2.7
Emerging Markets Debt Fund	12.4
Multi-Sector Debt Fund	6.9
City Investment Pool	1.1
Treasury Money Market Fund	0.1

(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 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, 2021, 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

**CITY AND COUNTY OF SAN FRANCISCO
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Notes to the Financial Statements

Year Ended June 30, 2021

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, 2021, 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 custodian bank's trust department or agent. 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, 2021, the annual money-weighted rate of return on investments, net of investment expense, was 24.7 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(h) Unfunded Investments Commitments

The RHCTF has unfunded commitments to contribute capital for real estate in the amount of \$32,000,000, and private equity in the amount of \$23,386,256 totaling \$55,386,256 as of June 30, 2021.

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

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Notes to the Financial Statements
Year Ended June 30, 2021

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, 2021

Schedule of Investment Returns

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u>
2021	24.7%
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.

**CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND**
Other Supplementary Information
Year Ended June 30, 2021

**RETIREE HEALTH CARE TRUST FUND
OTHER POSTEMPLOYMENT BENEFITS TRUST FUND**
Combining Statement of Fiduciary Net Position
June 30, 2021

	<u>CITY</u>	<u>COMMUNITY COLLEGE</u>	<u>TOTAL</u>
Assets			
Receivables			
Employee Contributions	\$ 3,237,244	\$ -	\$ 3,237,244
Employer Contributions	2,063,624	-	2,063,624
Interest and Dividends	816,670	30,858	847,528
Interest from City Investments	4,154	297	4,451
Cash and Investments with City Treasury	2,451,633	86,261	2,537,894
Cash and Investments outside City Treasury			
Short-term Investments	8,143,240	734,820	8,878,060
Debt Securities	209,060,224	8,592,919	217,653,143
Equity Securities:			
Domestic	234,190,405	9,720,628	243,911,033
International	214,177,624	9,196,065	223,373,689
Private Equity	9,824,529	-	9,824,529
Risk Mitigating Strategies	35,672,426	-	35,672,426
Total Investments	<u>713,520,081</u>	<u>28,330,693</u>	<u>741,850,774</u>
Total Assets	<u>719,641,773</u>	<u>28,361,848</u>	<u>748,003,621</u>
Liabilities			
Accounts Payable	48,200	-	48,200
Investment Purchases and Other	816,639	30,855	847,494
Total Liabilities	<u>864,839</u>	<u>30,855</u>	<u>895,694</u>
Net Position			
Fiduciary Net Position Restricted for Postemployment Healthcare Benefits	<u>\$ 718,776,934</u>	<u>\$ 28,330,993</u>	<u>\$ 747,107,927</u>

CITY AND COUNTY OF SAN FRANCISCO
RETIREE HEALTH CARE TRUST FUND
Other Supplementary Information
Year Ended June 30, 2021

RETIREE HEALTH CARE TRUST FUND
OTHER POSTEMPLOYMENT BENEFITS TRUST FUND
Combining Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

	CITY	COMMUNITY COLLEGE	TOTAL
Additions			
Employee Contributions	\$ 61,582,038	\$ 3,004,927	\$ 64,586,965
Employer Contributions	245,993,790	10,387,903	256,381,693
Investment Income:			
Net Appreciation in Fair Value of Investments	121,654,769	5,949,219	127,603,988
Interest and Dividend Income	7,593,223	360,948	7,954,171
Less: Investment Expenses	(331,977)	(75)	(332,052)
Net Investment Income	128,916,015	6,310,092	135,226,107
 Total Additions	 436,491,843	 19,702,922	 456,194,765
Deductions			
Benefit Payments	206,438,812	20,603,414	227,042,226
Administrative Expenses	264,943	-	264,943
 Total Deductions	 206,703,755	 20,603,414	 227,307,169
 Change in Fiduciary Net Position	 229,788,088	 (900,492)	 228,887,596
 Fiduciary Net Position Restricted for Postemployment Healthcare Benefits			
Beginning of Year	488,988,846	29,231,485	518,220,331
 End of Year	 \$ 718,776,934	 \$ 28,330,993	 \$ 747,107,927



**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, 2021, and the related notes to the financial statements, and have issued our report thereon dated January 10, 2022.

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, flowing style.

San Francisco, California
January 10, 2022