

City of South Miami Pension Plan
A Pension Trust Fund of the
City of South Miami, Florida

Financial Statements and
Additional Information
For the Year Ended September 30, 2017

**City of South Miami Pension Plan
A Pension Trust Fund of the
City of South Miami, Florida**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Trustees
City of South Miami Pension Plan
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We have audited the accompanying financial statements of the City of South Miami Pension Plan (the "Plan"), which comprise the statement of plan net position as of September 30, 2017, and the related statement of changes in plan 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 the 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 statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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 presents fairly, in all material respects, the net position of the Plan as of September 30, 2017, and the changes in net position for the year the ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, identified 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 regarding 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Plan as a whole. The other supplementary information section, identified 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 financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards 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 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 July 25, 2018 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is 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 and opinion on 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 Plan's internal control over financial reporting and compliance.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
July 25, 2018

**City of South Miami Pension Plan
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Management's Discussion and Analysis
September 30, 2017**

As management of the City of South Miami Pension Plan (the "Plan"), we offer readers of the Plan's financial statements this narrative overview of the financial activities of the Plan for the year ended September 30, 2017 and 2016. This narrative is intended to supplement the Plan's financial statements, and we encourage readers to consider the information presented here in conjunction with these statements, which begin on page 8.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. The basic financial statements section includes the following:

- Statement of Plan Net Position
- Statement of Changes in Plan Net Position
- Notes to Financial Statements

This report also contains the following "Required Supplementary Information" to the financial statements:

- Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
- Schedule of Contributions and Employer's Net Pension Liability (Asset)
- Schedule of Investment Returns
- Notes to Required Supplementary Information

The contents of the basic financial statements section contained in the report are described below:

- The Statement of Plan Net Position is a point-in-time snapshot of account balances at fiscal year-end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the statement date. The resulting Net Position value (Assets - Liabilities = Net Position) represents the value of assets held in trust for pension benefits.
- The Statement of Changes in Plan Net Position displays the effect of pension fund transactions that occurred during the fiscal year, where Additions – Deductions = Net Increase (Decrease) in Net Position. This Net Increase (Decrease) in Net Position reflects the change in the net asset value of the Statement of Plan Net Position from the prior year to the current year. Both statements are in compliance with Governmental Accounting Standards Board (GASB) Pronouncements.
- The Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is essential to the comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Plan operates and provide additional levels of detail for select financial statement items (See Notes to Financial Statements on pages 10 to 19 of this report).

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Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this financial report includes various additional "Required Supplementary Information" schedules with historical trend information.

- The Schedule of Changes in Net Pension Liability (Asset) and Related Ratios (page 20) includes information about the sources of changes to the net pension liability (asset) and to the changes in Plan fiduciary net position. It also provides information regarding the fiduciary net position as a percentage of the total pension liability (asset) and the net pension liability (asset) as a percentage of covered employee payroll.
- The Schedule of Contributions (page 21) presents information regarding the value of total annual contributions required to be paid by the City and the actual performance of the City in meeting this requirement.
- The Schedule of Investment Returns (page 22) provides information regarding the Plan's rate of return.
- The Notes to the Required Supplementary Information (page 23-24) provide background information and explanatory detail to aid in understanding the required supplementary schedules.

Financial Highlights

- The net position of the Plan exceeded its liabilities at the close of the fiscal years ended September 30, 2017 and 2016 with \$ 39,449,361 and \$ 35,049,134 in net position restricted for pension benefits, respectively.
- Net position increased by \$ 4,400,227 or approximately 13% during 2017, primarily due to the current year's net investment income.
- For the year ended September 30, 2017, Plan fiduciary net position was 105.16% of the total pension liability of \$ 37,515,052. Net pension liability (asset) was \$ (1,934,309) which was (30.37)% of covered employee payroll.
- Additions to fiduciary net position for the year ended September 30, 2017 were \$ 6,134,533 which includes member, employer, and state contributions of \$ 1,591,840 and net income from investment activities totaling \$ 4,542,693.
- Deductions from fiduciary net position increased to \$ 1,734,306 in 2017. Most of the increase relates to increases in benefits paid, refunds of participant contributions, and actuary fees in 2017.

Analysis of Financial Activities

The Plan's funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits.

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Contributions from the City of South Miami are made at levels determined by the Plan's actuary. Because of expected payroll growth along with Plan changes resulting in the addition of formally un-eligible employees, the City's contribution requirement has increased slightly. The Plan's investment portfolio produced higher returns in 2017 compared to 2016. Net position restricted for pension benefits increased by \$ 4,400,227 in 2017, compared to an increase of \$ 2,946,370 in 2016.

Schedule of Plan Net Position (Table 1)

	<u>2017</u>	<u>2016</u>
Assets:		
Current and other assets	\$ 181,860	\$ 171,514
Investments, at fair value	<u>39,341,740</u>	<u>34,957,043</u>
Total assets	<u>39,523,600</u>	<u>35,128,557</u>
Liabilities:	<u>74,239</u>	<u>79,423</u>
Net position restricted for pension benefits	\$ <u><u>39,449,361</u></u>	\$ <u><u>35,049,134</u></u>

As the years roll forward and total assets and liabilities grow, investment income will continue to play an important role in funding future retirement benefits. Therefore, investment return over the long term is critical to the funding status of the retirement Plan.

During 2017, the Plan's investment portfolio returned income of approximately 4.6%. It is important to remember that a retirement Plan's funding is based on a long-time horizon, where temporary ups and downs in the market are expected. The more critical factor is that the Plan be able to meet an expected earnings yield of 7.375% annual return on investments.

Based on the latest actuarial analysis for the year ended September 30, 2017, the Plan's total pension liability is less than its Plan net position by \$ (1,934,309), producing a plan fiduciary net position as a percent of the total pension liability of 105.16%.

Financial Analysis - Summary

As previously noted, net position viewed over time may serve as a useful indication of the Plan's financial position (see Table 1 above). At the close of fiscal years 2017 and 2016, the assets of the Plan exceeded its current liabilities by \$ 39,449,361 and \$ 35,049,134, respectively, shown as net position restricted for pension benefits. The net position is available to meet the Plan's ongoing obligation to Plan members and their beneficiaries.

Net Position

The Plan's net position is established from employer, member, and state contributions; the accumulation of investment income, net of investment and administrative expenses; and benefit payments.

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Additions to Plan Net Position

As noted above, net position needed to finance retirement benefits are accumulated through collecting employer and member contributions and through investment earnings (net of investment expenses.) The additions totaled \$ 6,134,533 for the year ended September 30, 2017. This was \$ 1,765,090 more than the prior year, primarily due to increased investment returns. The additions totaled \$ 4,369,443 for the year ended September 30, 2016.

	<u>2017</u>	<u>2016</u>
Additions:		
Employer contributions	\$ 643,933	\$ 532,374
Member contributions	910,127	490,452
State of Florida contributions (185)	37,780	37,780
Net investment income and other	<u>4,542,693</u>	<u>3,308,837</u>
 Total additions	 \$ <u><u>6,134,533</u></u>	 \$ <u><u>4,369,443</u></u>

Deductions from Plan Net Position

The Plan was created to provide retirement, survivor and disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refunds of contributions to employees who terminate employment, and the cost of administering the Plan.

	<u>2017</u>	<u>2016</u>
Deductions:		
Benefit payments	\$ 1,372,611	\$ 1,210,301
Refunds of contributions	198,140	83,481
Administrative expenses	<u>163,555</u>	<u>129,291</u>
 Total deductions	 <u>1,734,306</u>	 <u>1,423,073</u>
 Net increase	 \$ <u><u>4,400,227</u></u>	 \$ <u><u>2,946,370</u></u>

Deductions for the year ended September 30, 2017 totaled \$ 1,734,306, an increase of 21.9% from 2016. The increase was primarily due to an increase in benefit payments and refunds of contributions in 2017. Deductions for the year ended September 30, 2016 totaled \$ 1,423,073.

The net of deductions from plan net position of \$ 1,734,306 and additions to plan net position of \$ 6,134,533 resulted in an overall increase of \$ 4,400,227 in net position restricted for pension benefits for the year ended September 30, 2017. The deductions from plan net position of \$ 1,423,073 and additions to plan net position of \$ 4,369,443 resulted in an overall increase of \$ 2,946,370 in net position restricted for pension benefits for the year ended September 30, 2016.

Fiduciary Responsibilities

The Board of Trustees is the fiduciary of the pension trust fund. Fiduciaries are charged with the responsibility of assuring that the assets of the Plan are used exclusively for the benefit of Plan members and their beneficiaries and defraying reasonable expenses of administering the Plan.

Requests for Information

This financial report is designed to provide the Board of Trustees, our membership, and taxpayers with an overview of the Plan's finances and accountability for the money received. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: City of South Miami, Finance Department, 6130 Sunset Drive, South Miami, FL 33143.

FINANCIAL STATEMENTS

City of South Miami Pension Plan
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Statement of Plan Net Position
September 30, 2017

Assets:

Receivables:

Employee contribution	\$ 26,871
Dividends and interest	105,329
Section 185 contribution	37,780
Pending trades	<u>10,071</u>

Total receivables	<u>180,051</u>
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Investments, at fair value:

Money market funds	528,573
U.S. Government and agency securities	3,873,048
Corporate obligations	6,787,770
Real estate holdings	671,614
Common stocks:	
Domestic equity	5,516,305
International equity	510,552
Mutual funds:	
Equity	15,013,995
International equity	<u>6,439,883</u>

Total investments	<u>39,341,740</u>
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Other assets:

Prepaid expenses	<u>1,809</u>
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Total assets	<u>39,523,600</u>
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Liabilities:

Accounts payable	47,791
Pending trades payable	<u>26,448</u>

Total liabilities	<u>74,239</u>
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Net Position:

Restricted for pension benefits	\$ <u><u>39,449,361</u></u>
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The accompanying notes to the financial statements are an integral part of these statements.

**City of South Miami Pension Plan
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Additions:

Contributions:

Employer	\$ 643,933
Employees	910,127
Section 185 contribution	<u>37,780</u>

Total contributions	<u>1,591,840</u>
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Investment income:

Net appreciation in fair value of investments	3,885,057
Interest and dividends	<u>783,113</u>

Total investment income	4,668,170
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Less investment expenses	<u>125,477</u>
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Net investment income	<u>4,542,693</u>
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Total additions	<u>6,134,533</u>
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Deductions:

Participant benefit payments	1,372,611
Refunds of participant contributions	198,140
Administrative expenses	<u>163,555</u>

Total deductions	<u>1,734,306</u>
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Change in net position	4,400,227
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Net position restricted for pension benefits, October 1, 2016	<u>35,049,134</u>
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Net position restricted for pension benefits, September 30, 2017	<u>\$ 39,449,361</u>
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The accompanying notes to the financial statements are an integral part of these statements.

Note 1 - Plan Description and Contribution Information

The following description of the Plan is provided for general information purposes only. A more detailed description of the Plan and its provisions appears in the Ordinances constituting the Plan and in the summary plan description.

Plan Description: The Plan is a defined benefit, single-employer public employee, pension plan established by Ordinance No. 528 dated December 7, 1965, effective October 1, 1965. Benefit provisions were established and may be amended by the City of South Miami, FL (the "City"). The Plan covers police officers and other full-time general employees of the City who were eligible to participate in the Plan and who fulfill the prescribed eligibility requirements ("Members"). Through September 30, 2017, the most recent amendment to the Plan occurred on January 17, 2017.

The Plan is sponsored by the City and is included in the City's Comprehensive Annual Financial Report as a fiduciary fund. The most recent actuarial valuation available is as of October 1, 2016.

Eligibility Requirements:

General Employees: The Plan is available to regular full-time employees who were employed prior to October 1, 2011 and had completed six months of credited service and attainment of age 20.

General Employees - Second Tier Members: Second Tier Members are categorized as full-time general employees who are hired on or after October 1, 2016 who elect to join or fail to make any election within the ninety days from the date of hire; and full-time general employees who were hired on or after October 1, 2011 and not participating in the Plan as of October 1, 2016 and who elect to join or fail to make any election within ninety days from the effective date of the ordinance creating this tier.

Administration Management Service Class (AMSC): As of October 1, 2016 and thereafter, AMSC members are offered a one-time irrevocable election to either join the Plan or a defined contribution plan of the City.

Police Officers: Full-time police officers are eligible to participate in the Plan as of date of employment.

Notwithstanding the eligibility requirements detailed above, all persons who join the Plan on or after September 20, 2016 will not be required to have completed six months of service prior to joining and are required to participate immediately upon hire or upon election to join for members who were hired prior to September 20, 2016.

As of October 1, 2016, Plan membership consists of:

	General Employees	Police Officers
Active Plan members	51	46
Terminated vested	3	5
Receiving benefits	27	16
Total membership	<u>78</u>	<u>67</u>

Vesting: Benefits for AMSC members are fully vested after 3 years of credited service. Benefits for all employees except for AMSC members are fully vested after 10 years of credited service.

Note 1 - Plan Description and Contribution Information (continued)

Termination: Plan members who terminate employment with the City after ten or more years of credited service may leave their contributions in the Plan and retain the right to a deferred early or normal retirement amount, which commences on the member's early or normal retirement date. Members who terminate with less than ten years of service are refunded their contributions made to the Plan.

Benefits:

Normal Retirement:

General Employees: Attainment of age 55 and completion of 10 years of credited services for benefits accrued at September 30, 2011. Attainment of age 60 and completion of 10 years of credited services for benefits accrued after September 30, 2011, including increases in the accrued benefit as of September 30, 2011 due to increases in the final average compensation. These General Employees are entitled to retirement benefits ranging from 2.25% to 2.75% of their final monthly compensation ("FMC") based on years of credited service.

General Employees - Second Tier Members: Attainment of age 65 and completion of 10 years of credited service or completion of 33 years of credit services regardless of age. Second Tier Members are categorized as general employees who are hired on or after October 1, 2016 who elect to join the South Miami Pension Plan, and general employees who were hired prior to October 1, 2016 and not participating in the Plan as of October 1, 2016 and have elected to join. Second Tier Members are entitled to retirement benefits of 1.60% of FMC based on years of credited service.

Administration Management Service Class: Attainment of age 65 and completion of 3 years of credited service or completion of 33 years of credit services regardless of age. AMSC Members are select personnel holding administrative/managerial level positions as defined by ordinance including, but not limited to, City Manager, City Attorney, City Clerk, and Chief of Police. The AMSC Members are entitled to retirement benefits of 3.00% of FMC based on years of credited service.

Police Officers: Attainment of age 60 and completion of 10 years of credited services or completion of 25 years of credited services regardless of age. These police officers are entitled to retirement benefits ranging from 2.00% to 3.00% of the FMC based on years of credited service.

Final Monthly Compensation:

Final average compensation is $\frac{1}{36}^{\text{th}}$ of the final 36 consecutive months of compensation. For police officers, not less than $\frac{1}{5}^{\text{th}}$ of the highest 5 years out of the last 10 years of compensation. Compensation shall mean regular wages and salaries, excluding bonuses, vacation, sick leave, and other additional compensation. Effective October 1, 2011, final average compensation for general employees is $\frac{1}{60}^{\text{th}}$ of the final 60 consecutive months of basic compensation, provided it is not less than the final average compensation at September 30, 2011, based on the definition above. Basic compensation shall mean base wages and salaries, excluding commissions, overtime pay, bonuses and any other forms of additional compensation earned outside of base wages. Effective October 1, 2011, final average compensation for members covered under the police officers and sergeants collective bargaining agreements is the best of 5 years of basic compensation, provided is not less than the final average compensation as of September 30, 2011, based on the definition above. Basic compensation shall mean base wages and salaries, including up to 300 hours of overtime in a fiscal year and excluding payments for accrued unused sick or annual leave, extra duty or special detail work, shift differential, assignment pay, bonuses and other forms of additional compensation earned outside of base wages.

Note 1 - Plan Description and Contribution Information (continued)

Effective October 1, 2016, final average compensation for members covered under the Miami-Dade County Police Benevolent Association Upper-Collective Bargaining Union (Lieutenants & Captains), collective bargaining agreements, is the best 5 years of basic compensation, provided it is not less than the final average compensation as of September 30, 2016 based on the definition above.

Final average compensation for Second Tier Members and AMSC members shall be the average of the highest 8 years of credited service.

Supplemental Benefit:

A cost-of-living supplemental benefit based upon the consumer price index is provided upon retirement. The annual increase is limited to 3.00%. For general employees and AMSC members, accrued benefits from October 1, 2011 and thereafter are not subject to the cost-of-living supplemental benefit adjustment. No cost-of-living supplemental benefit is provided to Second Tier Members.

Early Retirement:

Police officers may elect early retirement at age 50 after 15 years of credited service. Benefits shall be based upon FMC and credited service as of early retirement date, reduced by 3% for each year that the benefit commencement date precedes normal retirement. General employees and AMSC members may elect early retirement at age 55 or beyond after 10 years of credited service. Benefits shall be based upon final monthly compensation and credited service as of early retirement date, reduced by 1/15th for each of the first five years and 1/30th for the next five years that the benefit commencement date precedes normal retirement.

Disability Retirement:

Members who become totally and permanently disabled for a six-month period while actively employed are eligible. Benefits for disability retirement will be based upon the FMC and credited service as of the date of disability, actuarially reduced for early retirement.

Pre-Retirement Death:

Death benefits are payable on behalf of members who die prior to retirement. A surviving beneficiary will receive the member's accumulated employee contributions.

Plan Administration: The general administration, management and investment decisions of the Plan and the responsibility for carrying out its provisions is vested with the Board of Trustees (the "Board"), consisting of seven members as follows: two active employees of the City, two citizens electors of the City, two individuals with financial backgrounds and one active employee of the City designated by the City Manager. All trustees are to be appointed as a ministerial act of the City Commission.

Plan Termination: In the event that the Plan is terminated by the City, each Plan Member will become fully vested in their appropriate share amount regardless of length of service.

Note 1 - Plan Description and Contribution Information (continued)

Contributions: The City's annual required contribution is determined annually by an independent third party actuary and is, together with earnings and employee contributions, sufficient to fund the benefits of the Plan. For the year ended September 30, 2017, Plan participant contribution requirements were as follows: 7% for general employees and AMSC; 3% for general employees – second tier members; and 11.40% for police officers. For the year ended September 30, 2016, City contribution requirements were as follows: 4.6% in the aggregate for general employees, general employees – second tier members, and AMSC; and 13.8% for police officers. In accordance with a City ordinance, should the aggregate participants and City's annual contribution be actuarially determined to exceed, not including expenses, 14% and 15%, for general employees (other than general employees – second tier members and AMSC participants) and police officers, respectively, both participants and the City shall share equally in such excess percentage. Notwithstanding the above, the maximum general employees and police officers (lieutenants and captains) contributions is capped at 10% and 12%, respectively, for fiscal years beginning on or after October 1, 2016. In accordance with City ordinance number 30-01-1761, the Plan also receives an annual contribution from the Police Officers Retirement Trust Fund – Section 185 Plan of \$37,780 (Note 5).

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting: The financial statements for the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Contributions are recognized when due and the employer is legally required to provide the contributions. Investment income is recognized as net additions when earned. Retirement benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation or depreciation in fair value of investments of the Plan is recorded as an increase or decrease to investment income based on the valuation of investments. Investment earnings are reduced for investment management fees, portfolio evaluation, and custodial services. The Plan utilizes the financial reporting requirements of Governmental Accounting Standards Board Statement No. 34, *“Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments”* and related pronouncements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Tax: The Plan is exempt from Federal income taxes (Note 6) under the Internal Revenue Code and, therefore, no provision for Federal income taxes has been made.

Investments: The Board of Trustees (the "Board") determines the Plan's investment policy. The policy has been designed to maximize the Plan's asset value, while assuming a risk that is consistent with the Board's risk tolerance. As is prudent, the Board has adopted a policy to diversify investment risk among several institutionally acceptable asset classes including mutual funds, bonds, debentures and other corporate obligations, domestic and international equity and U.S. government securities.

Note 2 - Summary of Significant Accounting Policies (continued)

Investments are reported at fair value. Fair value is 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. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. Net appreciation or depreciation in the fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost.

Purchases and sales of securities are recorded on a trade-date basis. Interest and dividends are recorded as earned.

Within certain limitations as specified in the Plan, the investment policy is determined by the Board and is implemented by the Plan's investment managers. The investment managers are monitored by the Board.

Risks and Uncertainties: Contributions to the Plan and the actuarial information included in the required supplementary information ("RSI") are reported based upon certain assumptions including interest rates, inflation rates, member compensation and demographics. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would change and be material to the financial statements.

Date of Management Review: Subsequent events have been evaluated through July 25, 2018, which is the date the financial statements were available to be issued.

Note 3 - Deposits and Investments

Deposits: Florida Statutes require the Plan to maintain its deposits with financial institutions in a qualified public depository, as determined by the Treasurer of the State of Florida. As applicable, the Plan's accounts maintained in qualified public depositories are covered by federal depository insurance for an amount equal to the aggregate of each member's ascertainable, non-contingent interest in the Plan (up to \$ 250,000 per member). Amounts in excess of federal depository insurance are secured by the Public Depository Trust Fund (the "Trust Fund") maintained by the Treasurer. The Trust Fund is a multiple financial institution pool with the ability to assess its member financial institutions for collateral shortfalls if a member fails.

Investments: The Plan has an investment policy that diversifies investment risk in several asset classes while seeking returns equal to various index benchmarks to maximize the Plan's asset value. Investments held by the Plan include primarily obligations of the United States Government and its agencies, corporate debt issuances, mutual funds and other pooled accounts, and domestic and international equity securities. The Plan maintains a master custodian agreement whereby investment securities are held in the Plan's name by a financial institution, acting as the Plan's agent. The Board utilizes the services of various investment managers to initiate the Plan's investment transactions, based on the authority given by the Board. The Plan also invests in pooled accounts through investment managers. The Plan does not own individual securities under this type of arrangement but they own shares of the underlying pools. The Board requires written consent to invest in derivative investment securities; illiquid investments, as described in Florida Statutes Chapter 215.47, are not permitted. At September 30, 2017, there were no derivative investment securities.

Note 3 - Deposits and Investments (continued)

The long-term expected rate of return on investments was determined using a building – block method in which best-estimates ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as provided by the investment monitor are shown in the following table, together with the Board's adopted asset allocation policy as of September 30, 2017:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap	30%	5.6%
Smaller Mid Cap	15%	7.0%
Foreign Equity	15%	3.7%
Real Estate	10%	6.8%
Fixed Income	30%	2.2%
	100%	

Interest Rate Risk: This 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 the sensitivity of its fair value to changes in market interest rates. Although the Plan's investment policy does not provide limitations as to maturities, the Plan minimizes risk of fair value losses in its fixed income portfolio due to rising interest rates by structuring its investment portfolio so that securities mature to meet ongoing cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity; and by investing operating funds primarily in shorter-term securities or by cash flow projections.

As of September 30, 2017, the Plan had fixed income securities with the following maturities:

Investment Type	Fair Value	Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Corporate obligations	\$ 6,787,770	\$ 575,263	\$ 3,575,041	\$ 1,779,250	\$ 858,216
U.S. Government and agency securities	3,873,048	-	1,035,648	763,836	2,073,564
Totals	\$ 10,660,818	\$ 575,263	\$ 4,610,689	\$ 2,543,086	\$ 2,931,780

Credit Risk: This is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization (NSRO), such as Moody's or Standard & Poor's. The Plan's investment policy limits investments in domestic corporate stocks and bonds to those of corporations listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market and, in the case of bonds only, holding ratings in one of the three highest classifications of an NSRO.

Note 3 - Deposits and Investments (continued)

As of September 30, 2017, the Plan's fixed income securities have been rated by Standard & Poor's Investment Services as follows:

Standard & Poor's Investor Services Ratings	
AAA	\$ 101,130
AA	417,124
A	2,526,213
BBB	3,561,773
Not Rated	4,054,578
	<u>\$ 10,660,818</u>

Custodial Credit Risk: This is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The Plan's policy is to maintain its investments in custodial accounts that identify securities held as assets of the Plan by registering securities in the name of the Plan, or in street name or nominee name as the Plan's agent.

Concentration of Credit Risk: The Plan's investment policy limits investments in the stock of any one issuing company to 5% of the Plan's assets at cost and to 5% of the outstanding capital stock of that company. Furthermore, investments in domestic equities shall not exceed 60% of the Plan's assets at market value, and foreign equity investments shall not exceed 20% of the Plan's assets at market value. For fixed income securities, not more than 5% of the Plan's fixed income portfolio at cost shall be invested in the securities of any single corporate issuer. Furthermore, investments in domestic and international fixed income securities of the Plan's assets at market value shall not exceed 40% - 45% and 0% - 10%, respectively.

Fair Value Hierarchy: Various inputs are used in determining the fair value of investments. These inputs to valuation techniques are categorized into a fair value hierarchy consisting of three broad levels for financial statement purposes as follows:

- Level 1 - Unadjusted price quotations in active markets/exchanges for identical assets.
- Level 2 - Observable inputs (including, but not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, loss severities, credit risks and default rates) or other market-corroborated inputs).
- Level 3 - Unobservable inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priorities to unobservable inputs (Level 3 measurements). Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3. The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the fair value hierarchy classification is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The categorization of a value determined for investments is based on the pricing transparency of the investments and is not necessarily an indication of the risks associated with investing in those securities.

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September 30, 2017**

Note 3 - Deposits and Investments (continued)

The Plan categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. Investments are recorded at fair value, and primarily uses the market approach to valuing each security. Security pricing is provided by a third-party, and is reported daily to the Plan by its custodians.

The Plan has the following recurring fair value measurements as of September 30, 2017:

Investment Type	Fair Value at September 30, 2017	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)
Mutual funds	\$ 21,453,878	\$ 21,453,878	\$ -	\$ -
Real estate holdings	671,614	-	-	671,614
Corporate obligations	6,787,770	-	6,787,770	-
Common stocks	5,516,305	5,516,305	-	-
Foreign stocks	510,552	510,552	-	-
U.S. Government and agency securities	3,873,048	2,204,972	1,668,076	-
	38,813,167	\$ 29,685,707	\$ 8,455,846	\$ 671,614
Investments measured at amortized cost:				
Money market funds	528,573			
Total	\$ 39,341,740			

Level 1 assets are valued in accordance with market quotation or valuation methods from services believed by the investment manager to be reliable. Level 2 assets, which are not publicly traded may reflect values from other external sources or special valuations prepared by the investment manager. Level 3 assets are valued at a discounted cash flow analysis provided by management of the fund.

The real estate holdings of the limited partnership have unfunded commitments of \$ 960,000. The final capital call was due by February 26, 2018. The limited partnership is expected to distribute the principal and earnings to the Plan over a period of approximately seven years from the date when substantially all capital commitments are invested, unless extended longer or terminated earlier, as provided in the Limited Partnership Agreement. The changes in investments in real estate holdings measured at fair value for which the Plan has used Level 3 inputs to determine fair value are as follows:

	2017 Real Estate Holdings	2016 Real Estate Holdings
Beginning balance	\$ 390,906	\$ -
Capital contributed during period	240,000	400,000
Investment income from operations	15,378	1,094
Total gains (realized and unrealized) included in changes in net assets available for benefits	41,621	1,175
Management fees and other	(16,291)	(11,363)
Ending balance	\$ 671,614	\$ 390,906

Note 4 - Net Pension Liability (Asset) of the City

The components of the net pension liability of the City at September 30, 2017, were as follows:

Total Pension Liability	\$ 37,515,052
Plan Fiduciary Net Position	<u>39,449,361</u>
City's Net Pension Liability (Asset)	<u>\$ (1,934,309)</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability (Asset)	<u>105.16%</u>

Actuarial assumptions to measure the City's net pension liability (asset) are described below.

Mortality was based on:

- Healthy General Employees: RP-2000 Mortality Table, separate for males and females, with fully generational mortality improvements projected to each future payment date with Scale AA.
- Healthy Police Officers: RP-2000 Combined Healthy Participant Mortality Table with Blue Collar Adjustment, separate for male and female, with fully generational mortality improvements projected to each future payment date with Scale AA.
- Disabled Members: RP-2000 Disabled Mortality Table, separate for males and females, with fully generational mortality improvements projected to each future payment date with Scale AA.

Assumptions for inflation and salary increases were 3% and 3.75% to 5.25%, respectively. The economic and demographic actuarial assumptions used in the October 1, 2016 valuation were based on an experience study which covered the period of October 1, 2005 through May 31, 2013. The actuarial valuation of the liabilities was determined as of October 1, 2016 and roll forward to the measurement date, September 30, 2017.

A discount rate of 7.375% was used to measure the total pension liability. This discount rate was based on the expected rate of return on Plan investments. The projection of cash flows used to determine this discount rate assumed member contributions will be made at the current contribution rate and employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member contribution rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future expected benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments.

Sensitivity of Net Pension Liability (Asset) to Changes in the Discount Rate: The following presents the net pension liability (asset) of the City, calculated using the discount rate of 7.375%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.375%) or 1-percentage higher (8.375% percent) than the current rate:

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Note 4 - Net Pension Liability (Asset) of the City (continued)

1% Decrease 6.375%	Current Single Discount Rate Assumption 7.375%	1% Increase 8.375%
\$ <u>3,156,524</u>	\$ <u>(1,934,309)</u>	\$ <u>(6,308,390)</u>

Note 5 - Section 185 Contribution Receivable

In accordance with ordinance 30-01-1761, the City of South Miami Police Officers' Retirement Trust Fund - Section 185 Plan (the "Fund") is required to pay the Plan a minimum of \$ 12,498 per year, regardless of the growth or diminution in future Florida State contributions under Section 185, to partially fund additional benefits. On March 15, 2005, the City adopted Ordinance 06-05-1828, effective upon adoption, which allowed police officers to participate in the Fund from their date of employment, provided that the police officer began participation in the Plan when first eligible. The adoption of this ordinance resulted in an increase in the minimum annual payment by an additional \$ 25,282, actuarially determined. Therefore, the annual payment required in accordance with Ordinance 30-01-1761 is currently \$ 37,780 and is included in the Plan's total receivables at September 30, 2017.

Note 6 - Income Taxes

Management believes that the Plan is designed and is currently being operated in compliance with applicable requirements of the Internal Revenue Code and that, therefore, the Plan continues to qualify under Section 401(a) as a tax-exempt as of September 30, 2017. Therefore, no provision for income taxes is included in the Plan's financial statements.

REQUIRED SUPPLEMENTARY
INFORMATION

City of South Miami Pension Plan
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City of South Miami, Florida
Required Supplementary Information
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service cost	\$ 846,884	\$ 697,537	\$ 686,435	\$ 669,181
Interest	2,630,646	2,460,415	2,381,731	2,299,340
Benefit changes	(20,122)	-	-	-
Differences between actual and expected experience	(112,807)	(656,677)	(502,259)	(598,374)
Assumption changes	566,118	-	-	-
Benefit payments, including refunds of employee contributions	<u>(1,570,751)</u>	<u>(1,293,782)</u>	<u>(1,417,586)</u>	<u>(1,315,113)</u>
Net change in total pension liability	2,339,968	1,207,493	1,148,321	1,055,034
Total pension liability - beginning	<u>35,175,084</u>	<u>33,967,591</u>	<u>32,819,270</u>	<u>31,764,236</u>
Total pension liability - ending (a)	<u>\$ 37,515,052</u>	<u>\$ 35,175,084</u>	<u>\$ 33,967,591</u>	<u>\$ 32,819,270</u>
Plan Fiduciary Net Position:				
Contributions - employer and state	\$ 681,713	\$ 570,154	\$ 834,251	\$ 878,217
Contributions - employees	910,127	490,452	562,835	593,396
Net investment income and other	4,542,693	3,308,837	21,204	3,060,948
Benefit payments, including refunds of employee contributions	(1,570,751)	(1,293,782)	(1,417,586)	(1,315,113)
Administrative expense	<u>(163,555)</u>	<u>(129,291)</u>	<u>(135,093)</u>	<u>(100,780)</u>
Net changes in plan fiduciary net position	4,400,227	2,946,370	(134,389)	3,116,668
Plan fiduciary net position - beginning	<u>35,049,134</u>	<u>32,102,764</u>	<u>32,237,153</u>	<u>29,120,485</u>
Plan fiduciary net position - ending (b)	<u>\$ 39,449,361</u>	<u>\$ 35,049,134</u>	<u>\$ 32,102,764</u>	<u>\$ 32,237,153</u>
Net pension liability (asset) ending (a) - (b)	<u>\$ (1,934,309)</u>	<u>\$ 125,950</u>	<u>\$ 1,864,827</u>	<u>\$ 582,117</u>
Plan fiduciary net position as a percentage of the total pension liability (asset)	105.16%	99.64%	94.51%	98.23%
Covered-employee payroll	\$ 6,368,739	\$ 4,861,991	\$ 4,086,300	\$ 4,902,128
Net pension liability (asset) as a percentage of covered-employee payroll	(30.37)%	2.59%	45.64%	11.87%

See Notes to Required Supplementary Information

**City of South Miami Pension Plan
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Required Supplementary Information
Schedule of Contributions and Employer's Net Pension Liability (Asset)
(Unaudited)**

Schedule of Contributions

Fiscal Year Ended 9/30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contribution as a Percentage of Covered-Employee Payroll
2008	\$ 769,186	\$ 769,186	\$ -	\$ 6,365,269	12.08%
2009	843,731	843,731	-	6,204,089	13.60%
2010	1,257,246	1,257,246	-	7,619,762	16.50%
2011	1,266,587	1,273,320	(6,733)	6,830,908	18.64%
2012	1,021,975	1,021,975	-	5,423,152	18.84%
2013	860,190	860,190	-	4,861,701	17.69%
2014	878,217	878,217	-	4,902,128	17.92%
2015	834,251	834,251	-	4,086,300	20.42%
2016	570,154	570,154	-	4,861,991	11.73%
2017	680,568	681,713	(1,145)	6,368,739	10.70%

Schedule of Employer's Net Pension Liability (Asset)*

Fiscal Year Ended 9/30	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)	Plan Net Position as a % of Total Pension Liability (Asset)	Covered Payroll	Net Pension Liability (Asset) as a % of Covered Employee Payroll
2017	\$ 37,515,052	\$ 39,449,361	\$ (1,934,309)	105.16%	\$ 6,368,739	(30.37)%
2016	\$ 35,175,084	\$ 35,049,134	\$ 125,950	99.64%	\$ 4,861,991	2.59%
2015	\$ 33,967,591	\$ 32,102,764	\$ 1,864,827	94.51%	\$ 4,086,300	45.64%
2014	\$ 32,819,270	\$ 32,237,153	\$ 582,117	98.23%	\$ 4,902,128	11.87%

* This schedule is intended to present information for ten years. However, until a full ten-year trend is compiled, the pension plan will present information for those years for which the information is available.

See Notes to Required Supplementary Information

**City of South Miami Pension Plan
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Required Supplementary Information
Schedule of Investment Returns
(Unaudited)**

Year Ended September 30,	Annual Money-Weighted Rate of Return Net of Investment Expense
2017	13.1%
2016	10.4%
2015	0.0%
2014	11.4%

NOTE: This schedule is intended to present information for ten years. However, until a full ten-year trend is compiled, the pension plan will present information for those years for which the information is available.

**City of South Miami Pension Plan
A Pension Trust Fund of the
City of South Miami, Florida
Required Supplementary Information
Notes to Required Supplementary Information
(Unaudited)**

Valuation date October 1, 2016
Measurement Date September 30, 2017
Note: Actuarially determined contribution rates are calculated as of October 1, which is 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	Entry Age Normal
Amortization method	Level percent of payroll, closed
Amortization method	25 years for General and AMSC, 30 years for Police Officers
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	3.75% - 5.25%
Investment rate of return	7.375%
Payroll growth assumption	4% per year, but limited to average annual increase over most recent ten years (0.7%) for Police. None for General Employees or AMSC.
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	<u>Healthy General Employees and AMSC</u> : RP-2000 Mortality separate for male and female, with fully generational mortality improvements projected to each future payment date with Scale AA. <u>Healthy Police Officers</u> : RP-2000 Combined Mortality Table with Blue Collar Adjustment, separate for male and female, with fully generational mortality improvements projected to each payment date with Scale AA. <u>Disabled Members</u> : RP-2000 Disabled Mortality Table, separate for male and female, with fully generational mortality improvements projected to each future payment date with Scale AA
Cost of living increases	3.0% / 0.0%

**City of South Miami Pension Plan
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Notes to Required Supplementary Information (continued)
(Unaudited)**

**Changes from most recent actuarial
valuation:**

Re-opened Plan to General Employees effective October 1, 2016 with a new class of benefits (Tier 2); created new class of benefits for employees who hold management positions effective October 1, 2016 (AMSC); added a 10% cap on employee contributions for Tier 1 General Employees; added a 12% cap on employee contributions for Police Lieutenants and Captains; Final Average Compensation updated to the average of the best five years for Police Lieutenants and Captains; caps overtime hours at 300 hours per fiscal year for Police Lieutenants and Captains.

OTHER SUPPLEMENTARY
INFORMATION

**City of South Miami Pension Plan
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Schedule of Administrative and Investment Expenses
For the Year Ended September 30, 2017**

Administrative Expenses:		
Legal services	\$	59,661
Administrative services		41,261
Actuarial services		58,247
Fiduciary liability insurance		4,341
Annual membership fees and postage		<u>45</u>
Total administrative expenses	\$	<u><u>163,555</u></u>
Investment Expenses:		
Investment management fees	\$	84,777
Performance monitoring fees		25,650
Custodial fees		<u>15,050</u>
Total investment expenses	\$	<u><u>125,477</u></u>

**OTHER REPORT OF
INDEPENDENT AUDITORS**

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*

To the Members of the Board of Trustees
City of South Miami Pension Plan
A Pension Trust Fund of the
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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 accompanying financial statements of the City of South Miami Pension Plan (the "Plan"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements and have issued our report thereon dated July 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the 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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 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. However, material weaknesses may exist that may have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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 determination of financial statement amounts. 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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KEEFE McCULLOUGH

Fort Lauderdale, Florida
July 25, 2018