

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM**

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INDEPENDENT AUDITORS' REPORT



CABALLERO FIERMAN
LLERENA + GARCIA LLP
accountants | advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Plan Administrator
City of Miami Springs Police and Firefighters' Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Miami Springs Police and Firefighters' Retirement System (the "Plan"), which comprise the statement of fiduciary net position as of September 30, 2018 and the related statement of changes in fiduciary net position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Plan, as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Comparative Information

We have previously audited the Plan's 2017 financial statements, and our report dated April 13, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the fiscal year ended September 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the city's net pension liability and related ratios, schedule of city contributions, and schedule of investment returns on pages 3 to 5 and 17 to 19 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2019 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, 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 an 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.

Caballero Fierman Llerena & Garcia, LLP

Caballero Fierman Llerena & Garcia, LLP
Coral Gables, Florida
May 2, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL ENDED SEPTEMBER 30, 2018**

The discussion and analysis of the City of Miami Springs Police and Firefighters' Retirement System's ("Retirement System" or the "Plan") financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended September 30, 2018 and 2017.

Financial Highlights

The net results from operations for fiscal year 2018 reflected the following financial activities:

- The Plan's net position increased by \$2,714,925 or 8.95% from the prior year.
- The statement of changes in fiduciary net position reflects the financial performance for the year. Employer contributions decreased from \$678,763 in fiscal year 2017 to \$623,984 in fiscal year 2018. The actuary determines the contribution required by the employer each year.
- Employees contributed \$338,943 during fiscal year 2018.
- The Plan experienced a net investment gain of \$3,459,069 for fiscal year 2018, compared to a net investment gain of \$3,326,152 for fiscal year 2017.
- Benefit payments and refunds of member contributions decreased to \$1,751,725 for fiscal year 2018 from \$2,843,509 for the prior fiscal year.

Using the Annual Report

The financial statements which reflect the account balances and activities of the Retirement System are reported in the statement of fiduciary net position (see page 6) and the statement of changes in fiduciary net position (see Page 7). These statements are presented on a full accrual basis and reflect all trust account balances and activities incurred. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see pages 8-16). In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the Plan's methods and assumptions used to determine City contributions, the City's net pension liability and the Plan's historical investment returns.

Statement of Fiduciary Net Position

The statement of the fiduciary net position provides a snapshot of account balances at the end of the fiscal year. The statement reports the assets available for future benefit payments and any liabilities owed as of the financial statement date. The resulting net position value, or assets minus liabilities minus deferred inflows of resources, is the value of net position held in trust for pension benefits. The funding for the Plan is based on long-term assumptions, realizing that the market will experience shorter term gains and losses in the meantime.

The summary of fiduciary net position is presented below:

	As of September 30,		Increase (Decrease)	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>Percent</u>
Total assets	\$ 33,071,679	\$ 30,372,669	\$ 2,699,010	8.89%
Total liabilities	<u>23,761</u>	<u>39,676</u>	<u>(15,915)</u>	-40.11%
Net position restricted for pension benefits	<u>\$ 33,047,918</u>	<u>\$ 30,332,993</u>	<u>\$ 2,714,925</u>	8.95%

Overall assets increased by \$2,399,010 as compared to prior year due to appreciation of fair value of investments. Total liabilities decreased as of September 30, 2018 as compared to September 30, 2017 due to the timing of investments transactions. Due to broker securities reflect securities purchases which were initiated prior to year-end and settled subsequent to year-end.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL ENDED SEPTEMBER 30, 2018

Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position shows the effects of pension fund transactions that occurred during the fiscal year. The net increase or decrease in the fiduciary net position equals the additions minus the deductions.

The summary of the changes in fiduciary net position is presented below:

	Fiscal Year Ended		Increase (Decrease)	
	September 30,		2017 to 2018	
	<u>2018</u>	<u>2017</u>	<u>Amount</u>	<u>Percent</u>
Additions:				
Employer contributions	623,984	\$ 678,763	\$ (54,779)	-8.07%
Plan member contributions	338,943	381,489	(42,546)	-11.15%
State of Florida	122,822	120,798	2,024	1.68%
Investment income	3,459,069	3,326,152	132,917	4.00%
Other income	5,295	5,837	(542)	100.00%
Total additions	<u>4,550,113</u>	<u>4,513,039</u>	<u>37,074</u>	0.82%
Deductions:				
Pension benefits	1,751,725	2,740,461	(988,736)	-36.08%
Refund of member contributions	-	100,048	(100,048)	-100.00%
Administrative expenses	83,463	76,677	6,786	8.85%
Total deductions	<u>1,835,188</u>	<u>2,917,186</u>	<u>(1,081,998)</u>	-37.09%
Net Increase	<u>2,714,925</u>	<u>1,595,853</u>	<u>1,119,072</u>	70.12%
Net position restricted for pensions, at - beginning of year	<u>30,332,993</u>	<u>28,740,140</u>	<u>1,592,853</u>	5.54%
at end of year	<u>\$ 33,047,918</u>	<u>\$ 30,332,993</u>	<u>\$ 2,714,925</u>	8.95%

The investment activity for the portfolio of invested assets is a function of the underlying marketplace for the period measured and the asset allocation set forth in the Investment Policy for the Plan. The Retirement System experienced a positive return on investments for fiscal years 2018 and 2017, however, overall investments returns were more positive during 2018 as compared to 2017 due to better market conditions.

Overall pension benefits decreased in 2018 as compared to 2017 due to an decreases in nonrecurring deferred retirement option plan (DROP) distributions which occurred during fiscal year 2018. Upon termination of employment, participants in the DROP have the option of receiving the balance of their account either in a lump-sum distribution or in any other form of payment selected by the participant after approval by the Board of Trustees.

A local ordinance of the City of Miami Springs determines the eligibility and amounts for members of the plan to receive benefits. The total for the benefit payments increases or decreases as the number of members and beneficiaries eligible to receive benefits changes each year.

Funding Progress

Of primary concern to most pension plan participants is the amount of money available to pay benefits. A pension plan can become underfunded when the employer fails to make annual actuarially required contributions to that plan. The City has traditionally contributed the annual required contribution to the Retirement System determined by the Plans' actuary. See page 18 for a summary of City contributions to the plan.

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL ENDED SEPTEMBER 30, 2018**

Net Pension Liability

The fiduciary net position as a percentage of the total pension liability in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, as of September 30, 2018 and 2017 was 98.57% and 98.04%, respectively. The notes to the financial statements provide a summary of significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, and inputs to the discount rate, as well as certain information about mortality assumptions.

Plan Membership

The following table reflects the Plan membership as of the end of the fiscal years noted below:

Changes in Plan Membership

	September 30,		Change
	2018	2017	
Inactive plan members and beneficiaries currently receiving benefits	44	46	(2)
Inactive plan members entitled but not yet receiving benefits	3	3	-
Active participants	37	35	2
Total membership	84	84	-

Investment Activities

Investment income is vital to the Retirement System's current and future financial stability. Therefore, the trustees have a fiduciary responsibility to act prudently and discretely when making investment decisions. To assist the Board of Trustees in this endeavor, the Board employs the services of an investment consultant to periodically review and update the investment policy. The Investment Policy Statement was last amended in August 2014, although the Board reviews the Policy Statement quarterly.

The Board and its consultant also review the investment performance of the assets quarterly. Performance is evaluated for each individual investment manager according to the style and asset class for that manager. The performance for each manager portfolio is compared to an internal benchmark established by the Investment Policy, a universe of peers, and a broad financial benchmark (for example, S&P500). Performance for the overall portfolio, on the other hand, is evaluated in comparison to established benchmarks and performance for similar plans. The aggregate investment portfolio includes domestic and foreign equities, fixed income securities, and a core real estate fund.

Contacting the Plan's Financial Management

The financial report is designed to provide citizens, taxpayers, Plan participants and the marketplace's credit analysis with an overview of the plan's finances and prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Board of Trustees, c/o Pension Resource Center LLC, 4360 Northlake Boulevard, Suite 206, Palm Beach Gardens, FL 33410.

FINANCIAL STATEMENTS

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2018
(WITH COMPARATIVE INFORMATION AS OF SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Investments:		
Money market funds	\$ 877,211	\$ 662,599
Equity securities	21,639,321	19,276,217
Corporate bonds	4,076,062	4,566,960
U.S. government agencies	1,560,356	1,930,619
Mortgage pools	336,390	427,688
Municipal obligations	315,695	332,007
Collateralized mortgage obligations	1,665,144	629,657
Real estate fund	<u>2,531,217</u>	<u>2,358,783</u>
Total investments	<u>33,001,396</u>	<u>30,184,530</u>
Receivables:		
State contribution	-	120,798
Accrued interest and dividends	<u>62,745</u>	<u>60,977</u>
Total receivables	<u>62,745</u>	<u>181,775</u>
Other assets:		
Other assets	<u>7,538</u>	<u>6,364</u>
Total assets	<u>33,071,679</u>	<u>30,372,669</u>
<u>LIABILITIES</u>		
Accounts payable	23,761	27,724
Due to broker	-	<u>11,952</u>
Total liabilities	<u>23,761</u>	<u>39,676</u>
Net position restricted for pension benefits	<u>\$ 33,047,918</u>	<u>\$ 30,332,993</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018
(WITH COMPARATIVE INFORMATION FOR THE
FISCAL YEAR ENDED SEPTEMBER 30, 2017)

	<u>2018</u>	<u>2017</u>
Additions:		
Contributions:		
City	\$ 623,984	\$ 678,763
Plan members	338,943	381,489
State of Florida	<u>122,822</u>	<u>120,798</u>
Total contributions	<u>1,085,749</u>	<u>1,181,050</u>
Investment income:		
Net appreciation in fair value of investments	2,983,778	2,892,670
Dividends and interest income	<u>673,555</u>	<u>621,311</u>
Total investment income	3,657,333	3,513,981
Less: investment expenses	<u>198,264</u>	<u>187,829</u>
Net investment income	3,459,069	3,326,152
Other income	<u>5,295</u>	<u>5,837</u>
Total additions	<u>4,550,113</u>	<u>4,513,039</u>
 Deductions:		
Pension benefits	1,751,725	2,740,461
Refund of member contributions	-	103,048
Administrative expenses	<u>83,463</u>	<u>76,677</u>
Total deductions	<u>1,835,188</u>	<u>2,920,186</u>
 Net increase	<u>2,714,925</u>	<u>1,592,853</u>
 Net position restricted for pension benefits		
Beginning of year	<u>30,332,993</u>	<u>28,740,140</u>
End of year	<u>\$ 33,047,918</u>	<u>\$ 30,332,993</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the City of Miami Springs Police and Firefighters' Retirement System (the "Plan") are prepared on the accrual basis of accounting. Plan member (employees) contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments and Investment Income Recognition

Investments are reported at fair value with the exception of money market funds which are at amortized cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Net appreciation in 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 the trade-date basis. Interest and dividends are recorded as earned on the accrual basis. For more detail regarding the methods used to measure the fair value of investments refer to the fair value hierarchy in Note 3.

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

Use of Estimates

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

Comparative Information

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the fiscal year ended September 30, 2017, from which the summarized information was derived.

NOTE 2 - PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

General

The City of Miami Springs (the City) is the administrator of a single-employer defined benefit pension plan established to provide pension benefits for its police officers and firefighters. The latest available actuarial valuation is as of October 1, 2017 (beginning of year valuation date); however, the required employer contribution for the fiscal year ended September 30, 2018 is based on the October 1, 2016 actuarial valuation.

The Plan is administered by a five member Board of Trustees comprised of two members appointed by the City Commission, two members elected by/from the Firefighter members, and one member elected by/from the Police members. Changes to established provisions require a majority vote of the Board. The Plan's Board of Trustees also administers the City of Miami Springs General Employees' Retirement System.

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

NOTE 2 - PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

General (Continued)

Membership in the Plan as of October 1, 2017 was as follows:

Inactive plan members and beneficiaries currently receiving benefits	44
Inactive plan members entitled but not yet receiving benefits	3
Active participants	37
Total membership	84

Pension Benefits

All full time police officers are eligible to participate in the Plan. Employees hired before October 12, 2014 attaining age 55 who have completed 10 or more years of service or 20 years of service regardless of age are entitled to benefits of 3.50% of their average monthly earnings for up to twenty years and 3.0% of the average monthly earnings for each year thereafter. The maximum benefit is 85% of their average monthly earnings. The average monthly earnings are determined by the three consecutive years that produce the highest average.

For members hired on or after October 12, 2014 attaining age 55 who have completed 10 or more years of service or age 52 who have completed 25 years of service are entitled to benefits of 2.5% of their average monthly earnings per year of credited service. The maximum benefit is 70% of average monthly earnings. The minimum benefit is 2.0% per year of service. For benefits earned on or after October 12, 2014, the average of earnings are determined by the five consecutive years that produce the highest average.

The Plan also provides for disability and death benefits. Active employees who become disabled receive 66.7% of their earnings less workmen's compensation and Social Security, if the disability is service related. Disability benefits are paid until the earlier of death or recovery from disability. If an active employee dies, his or her spouse receives 25% of the employees' earnings until the spouse either dies or remarries. Each unmarried child receives 7½% of the employee's earnings until age 18 (or 22 if a fulltime student). The maximum family benefit is 30% of the employee's earnings.

Participants immediately vest 100% in their contributions and related interest. There is no vesting on City contributions until participants have attained 5 years of credited service.

The Plan provides post-retirement benefits to retirees that include life insurance up to age 70. Upon retiring, retirees have the option to receive health benefits and higher limits of life insurance at their expense.

Vesting

Members who terminate employment with fewer than 5 years of credited service receive refunds of their own contributions with interest. Those who terminate with 5 or more years may either receive their accrued pension benefit beginning at the date which would have been their normal retirement date had they remained in full-time employment or a refund of their own contributions with interest.

Funding Policy

The Plan is funded by contributions received from the State of Florida under the provisions of Chapter 185 of the Florida Statutes, by member contributions, City contributions and by investment earnings.

The regular member contribution for both bargaining unit employees and non-bargaining unit managerial employees in that capacity after September 27, 1993 rate is 9% of earnings. If the combined City and member contributions required for a year are less than 14% of covered payroll, the difference under 14% shall be rounded to the nearest 0.1% of budgeted payroll. The resulting difference shall be divided in two, with Plan members reducing their contribution rates by half the difference, and the City reducing its contribution by the remaining half

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

NOTE 2 - PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Funding Policy (Continued)

for that fiscal year. However, if the combined City and member contributions for any one fiscal year exceed 18% of the budgeted payroll for police officers, the excess rate over 18% will be divided by two with Plan members paying half of the excess and the City paying the other half for that fiscal year. The City is required to ensure that the actuarially determined requirement is met.

For the fiscal year ended September 30, 2018, the employees' contribution rate was 12.5% of compensation.

Employer contribution requirements for the fiscal year ended September 30, 2018 were based on the October 1, 2016 actuarial valuation. For the fiscal year ended September 30, 2018, the City's contribution rate as a percentage of annual covered payroll was 27.54%.

NOTE 3 - INVESTMENTS

All investments made or held by the Plan shall be limited to the following as per the Plan's investment policy:

1. Time, savings and money market deposit accounts of a national bank, a state bank or a savings and loan association insured by the Federal Deposit Insurance Corporation provided the amount deposited does not exceed the insured amount.
2. Obligations issued by the U.S. government or an agency or instrumentality of the U.S. government, including mortgage-related securities.
3. Domestic and international equities.
4. Fixed income investments defined as preferred issues and fixed income securities.
5. Money market funds, defined as fixed income securities having a maturity of less than one year.
6. Bonds issued by the State of Israel.
7. Domestic commercial real estate property holdings.

The Board of Trustees has developed certain investment guidelines and has retained an investment consultant. The investment consultant is expected to maximize the return on the investment portfolio and may make transactions consistent with that expectation within the Board's guidelines. The investment consultant is compensated based on a percentage of the portfolio's market value.

The Plan's asset management structure established by the investment policy is as follows:

<u>Type</u>	<u>Target</u>
Domestic Equity	50%
International Equity	10%
Real Estate	7.50%
Fixed Income	32.50%
Cash	0%

The Plan maintains a Master Custodian Agreement, whereby the investment securities are held in the Plan's name by a financial institution acting as the Plan's agent.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 - INVESTMENTS (CONTINUED)

Maturity Risk

Neither state law nor Plan investment policy limit maturity term on fixed income holdings. As of September 30, 2018, the Plan had the following investments and maturities of fixed income instruments:

<u>Investment</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Corporate bonds	4,076,062	\$ -	\$ 2,082,105	\$ 1,087,023	\$ 906,934
U.S. Government agencies	1,560,356	-	1,188,846	60,530	310,980
Mortgage pools	336,390	1,012	-	-	335,378
Collateralized mortgage obligations	1,665,144	-	-	571,651	1,093,493
Municipal obligations	315,695	-	-	-	315,695
Total	<u>\$ 7,953,647</u>	<u>\$ 1,012</u>	<u>\$ 3,270,951</u>	<u>\$ 1,719,204</u>	<u>\$ 2,962,480</u>

Interest Rate Risk

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to market value losses arising from increasing interest rates.

Rate of Return

For the fiscal year ended September 30, 2018, the annual-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.21%. The money-weighted rate of return expresses investment performance, net of investment manager and consultant expenses adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculation are determined on a monthly basis.

Credit Risk

State law and the Plan's investment policy limits investments in bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia, provided the corporation is listed on any one or more of the recognized national stock exchanges or on the National Market System of the NASDAQ Stock Market and in the case of bonds only, holds a rating in one of the three highest classifications by a major rating service. The Plan's investment policy limits fixed income investments to a rating no lower than Standard & Poor's BBB or Moody's Baa.

<u>Standard & Poor's Quality ratings of credit risk debt securities</u>	<u>Fair Value</u>	<u>Percentage of Fixed Income Portfolio</u>
AAA	311,480	3.92%
AA	126,409	1.59%
AA-	336,034	4.22%
AA+	1,456,766	18.32%
A-	559,160	7.03%
A+	326,828	4.11%
A	555,975	6.99%
BBB+	1,178,696	14.82%
BBB	594,617	7.48%
BBB-	79,504	1.00%
BB+	84,472	1.06%
NR	2,343,706	29.47%
	<u>\$ 7,953,647</u>	<u>100.00%</u>

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 - INVESTMENTS (CONTINUED)

Credit Risk (Continued)

The Plan's corporate bonds and agency bonds were all rated "BBB" or better under Standard & Poor's ratings and at least "A" under Moody's ratings.

Concentration of Credit Risk

The Plan's investment policy stipulates that not more than 5% of the fiduciary net position can be invested in the common stock of any one issuing company nor can the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of any company. As of September 30, 2018, the value of each position held by the Plan portfolio comprised less than 5% of the fiduciary net position and less than 5% of the value of the outstanding capital stock of the respective company.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the master custodian, the Plan will not be able to recover the value of its investments that are in the possession of the outside party. All of the Plan's investments are in the name of the Plan.

Risk and Uncertainties

The Plan has investments in a combination of stocks, bonds, government securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect balances and the amounts reported in the statement of fiduciary net position and the statement of changes in fiduciary net position. The Plan, through its investment consultant, monitors the Plan's investments and the risks associated therewith on a regular basis, which the Plan believes minimizes these risks.

Fair Value Hierarchy

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

- Level 1
Investments' fair values based on prices quoted in active markets for identical assets.
- Level 2
Investments' fair values based on observable inputs for the assets either directly or indirectly, other than those considered Level 1 inputs, which may include quoted prices for identical assets in markets that are not considered to be active, and quoted prices of similar assets in active or inactive markets.
- Level 3
Investments' fair values based upon unobservable inputs.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 - INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

The following is a description of the fair value techniques for the Plan's investments. Level 1 and Level 2 prices are obtained from various pricing sources by the Plan's custodian bank:

- Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. This includes U.S. government agencies, common stock, foreign stock, and mutual fund equities.
- Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using pricing inputs that reflect the assumptions market participants would use to price an asset or liability and are developed based on market data obtained from sources independent of the reporting entity. This includes mortgage pools, municipal bonds, collateralized mortgage obligations, corporate bonds, and common stock.
- The Plan invests in a core real estate fund which holds a variety of investment vehicles that do not have readily available market quotations. This investment is measured at net asset value based on its proportionate share of the value of the investments as determined by the fund manager and is valued according to methodologies which include pricing models, property valuations (appraisals), discounted cash flow models, and similar techniques.

The following is a summary of the fair value hierarchy of investments as of September 30, 2018:

	Fair Value Measurements Using			
	9/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. government agencies	\$ 1,560,356	\$ 1,560,356	\$ -	\$ -
Mortgage pools	336,390	-	336,390	-
Municipal bonds	315,695	-	315,695	-
Collateralized mortgage obligations	1,665,144	-	1,665,144	-
Corporate bonds	<u>4,076,062</u>	<u>-</u>	<u>4,076,062</u>	<u>-</u>
Total debt securities	<u>7,953,647</u>	<u>1,560,356</u>	<u>6,393,291</u>	<u>-</u>
Equity securities:				
Common stock	16,976,644	16,678,039	298,605	-
Foreign stock	688,065	688,065	-	-
Unit investment trusts	198,132	198,132	-	-
Mutual fund equities	<u>3,776,480</u>	<u>3,776,480</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>21,639,321</u>	<u>21,340,716</u>	<u>298,605</u>	<u>-</u>
Total investments at fair value	<u>29,592,968</u>	<u>\$ 22,901,072</u>	<u>\$ 6,691,896</u>	<u>\$ -</u>
Investment Measured at Net Asset Value (NAV)*				
Core real estate fund	<u>2,531,217</u>			
Money market funds (exempt)	<u>877,211</u>			
Total investments	<u>\$ 33,001,396</u>			

* As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the statement of fiduciary net position.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
 NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

NOTE 3 - INVESTMENTS (CONTINUED)

Fair Value Hierarchy (Continued)

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient, including their related unfunded commitments and redemption restrictions.

Investment Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Core Real Estate Fund*	\$ 2,531,217	\$ 1,680,000	Quarterly	10 business days

* *Core real estate fund.* This fund is an open-end diversified core commingled real estate fund that invests primarily in core stable institutional offices, retail, industrial, and multi-family residential properties.

NOTE 4 - DEFERRED RETIREMENT OPTION PROGRAM

On February 9, 1998, the Plan adopted a Deferred Retirement Option Program (DROP) for participants who are eligible to receive normal retirement and have either obtained age 55 with ten years of continuous service, or have completed 20 years of service. Eligible members may apply to participate by applying to the Board. Plan members with at least 20 years of service but less than 27 years of service at the date of entry into the DROP may participate in the DROP for a maximum of 5 years. Plan members with 27 or more years of service but less than 35 years of service at the date of entry into the DROP may participate in the DROP for a maximum of 3 years. Plan members with 35 or more years of service at the date of entry into the DROP may participate in the DROP for a maximum of 2 years. Upon a member's election to participate in the DROP, that member shall cease to be a member of the Plan and shall be precluded from any additional benefits under the Plan; accordingly, that member shall be considered retired. Monthly retirement benefits that would have been payable had the member retired and elected to receive monthly pension payments will be paid into the DROP and credited to the retired member. Payments into the DROP are made monthly for the period the retired member participates in the DROP, up to a maximum of 60 months. Payments into the DROP will earn the same return as earned by the remainder of the Plan assets.

Upon termination of employment, participants in the DROP have the option of receiving the balance of their account either in a lump-sum distribution or in any other form of payment selected by the participant, approved by the Board and conforming to applicable laws.

At September 30, 2018, there were four members enrolled in the DROP and the fair value of the DROP investments was \$952,320. This amount is included in investments in the accompanying statement of fiduciary net position.

NOTE 5 - NET PENSION LIABILITY OF THE CITY

The components of the net pension liability as of October 1, 2017 and rolled forward to September 30, 2018, were as follows:

Total pension liability	\$ 33,527,777
Plan fiduciary net position	<u>(33,047,918)</u>
Net pension liability	<u>\$ 479,859</u>
Plan fiduciary net position as a percentage of the total pension liability	98.57%

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5 - NET PENSION LIABILITY OF THE CITY (CONTINUED)

Significant Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2017, rolled forward to September 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	3.25% - 9.50% depending on service, including inflation
Investment rate of return	7.0%
Retirement Age	Experienced - based table of rates that are specified to the type of eligibility condition

Mortality rates were based on the RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates currently in use for Special Risk Class members of the Florida Retirement System (FRS), as mandated by Florida Statutes Chapter 112.63.

Long-term Expected Rate of Return

The long-term expected rate of return of each pension plan asset class is based upon the historical average or mean returns. This historical data reveals a tendency for the returns of various asset classes to fall within a range, but the expected returns are based upon the average returns during these past periods. In order to determine the real rates of return, it is necessary to subtract the expected inflation rate from the nominal investment return. The long-term expected rate of return for the pension plan was calculated by weighing the expected future rates of return of each asset class by the corresponding target allocation percentages. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	7.50%
International Equity	8.50%
Domestic Fixed Income	2.50%
International Fixed Income	3.50%
Real Estate	4.50%
Alternative Assets	6.24%

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments (7.00%) was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

NOTE 5 - NET PENSION LIABILITY OF THE CITY (CONTINUED)

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

Below is a table providing the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate of 7.00%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	1% Decrease	Single Discount Rate Assumption	1% Increase
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Net pension liability (asset)	\$ 4,098,069	\$ 479,859	\$ (2,542,822)

NOTE 6 - TAX STATUS

The Internal Revenue Service has determined and informed the Plan by a letter dated November 17, 2014, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. Although the Plan has been amended since receiving the determination letter, the Plan administrator and tax counsel believe that the Plan is currently being operated in compliance with the applicable requirements of the IRC.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S
NET PENSION LIABILITY AND RELATED RATIOS

	<u>2018</u>	<u>2017</u>	September 30, <u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:					
Service cost	\$ 590,707	\$ 590,908	\$ 517,936	\$ 516,880	\$ 606,975
Interest	2,299,169	2,262,208	2,265,414	2,257,652	2,216,416
Changes of benefit terms	-	-	-	-	(614,240)
Differences between expected and actual experience	110,907	(56,808)	(103,859)	(155,933)	54,518
Changes of assumptions	1,341,696	(11,268)	-	-	-
Benefit payments	(1,751,725)	(2,740,461)	(2,737,349)	(2,031,499)	(1,319,688)
Refunds	-	(103,048)	(9,940)	(122,349)	(47,832)
Other (adjustments to excess state contribution reserve)	(3,717)	5,585	189	(65,584)	(101,254)
Net change in total pension liability	<u>2,587,037</u>	<u>(52,884)</u>	<u>(67,609)</u>	<u>399,167</u>	<u>794,895</u>
Total pension liability - beginning	<u>30,940,740</u>	<u>30,993,624</u>	<u>31,061,233</u>	<u>30,662,066</u>	<u>29,867,171</u>
Total pension liability - ending (a)	<u>\$ 33,527,777</u>	<u>\$ 30,940,740</u>	<u>\$ 30,993,624</u>	<u>\$ 31,061,233</u>	<u>\$ 30,662,066</u>
Plan fiduciary net position:					
Contributions - Employer (from city)	\$ 623,984	\$ 678,763	\$ 703,169	\$ 631,120	\$ 633,156
Contribution - Employer (from state)	122,822	120,798	120,954	115,213	112,118
Contributions - non-employer contributing entity	-	-	-	-	-
Contributions - member	338,943	381,489	353,736	309,304	336,297
Net investment income	3,464,364	3,331,989	2,753,012	1,252,928	2,968,350
Benefit payments	(1,751,725)	(2,740,461)	(2,737,349)	(2,031,499)	(1,319,688)
Refunds	-	(103,048)	(9,940)	(122,349)	(47,832)
Administrative expense	(83,463)	(76,677)	(114,442)	(108,988)	(110,599)
Net change in plan fiduciary net position	<u>2,714,925</u>	<u>1,592,853</u>	<u>1,069,140</u>	<u>45,729</u>	<u>2,571,802</u>
Plan fiduciary net position - beginning	<u>30,332,993</u>	<u>28,740,140</u>	<u>27,671,000</u>	<u>27,625,271</u>	<u>25,053,469</u>
Plan fiduciary net position - ending (b)	<u>\$ 33,047,918</u>	<u>\$ 30,332,993</u>	<u>\$ 28,740,140</u>	<u>\$ 27,671,000</u>	<u>\$ 27,625,271</u>
Net pension liability - ending (a) - (b)	\$ 479,859	\$ 607,747	\$ 2,253,484	\$ 3,390,233	\$ 3,036,795
Plan fiduciary net position as a percentage of the total pension liability	98.57%	98.04%	92.73%	89.09%	90.10%
Covered payroll	\$ 2,711,544	\$ 2,543,260	\$ 2,358,240	\$ 1,995,510	\$ 2,111,573
Net pension liability as a percentage of covered-payroll	17.70%	23.90%	95.56%	169.89%	143.82%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CITY CONTRIBUTIONS

Fiscal Year Ending <u>September 30,</u>	Actuarilly Determined <u>Contribution</u>	Actual <u>Contribution</u>	Contribution Deficiency <u>(Excess)</u>	Covered <u>Payroll</u>	Actual Contributions as a % of <u>Covered Payroll</u>
2014	\$ 650,366	\$ 682,583	\$ (32,217)	\$ 2,111,573	32.33%
2015	712,370	680,547	31,823 *	1,995,510	34.10%
2016	752,596	752,596	-	2,358,240	31.91%
2017	728,190	728,190	-	2,543,260	28.63%
2018	750,523	750,523	-	2,711,544	27.68%

*A prepaid contribution of \$32,217 was established as of September 30, 2014 resulting from the employer contribution overpayment received during fiscal year 2014. This prepaid contribution was utilized during fiscal year 2015 to cover a portion of the actuarially determined contribution for the year.

Notes to Schedule of Contributions

Valuation date: October 1, 2016

Note: Actuarially determined contribution rates are calculated as of October 1, one year prior to the expected contribution date and the beginning of the fiscal year in which the contribution is due.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar, Closed
Remaining amortization period	17 years (single equivalent period)
Asset valuation method	5-year smoothed market
Inflation	3.00%
Salary increases	4.0% to 10.0% depending on service, including inflation
Investment rate of return	7.50%
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for postretirement mortality), with mortality improvements projected to all future years after 200 using BB. For males, the base mortality rates include a 90% blue collar adjustment and a 10% white collar adjustment. For females, the base mortality rates include a 100% white collar adjustment. These are the same rates currently in use for Special Risk Class members of the Florida Retirement System (FRS), as mandated by Florida Statutes Chapter 122.63.

Other Information

Notes See Discussion of Valuation Results in the October 1, 2016 Actuarial Valuation Report and the Actuarial Impact Statement dated September 25, 2017.

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

CITY OF MIAMI SPRINGS
POLICE AND FIREFIGHTERS' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	11.21%	11.51%	9.64%	4.71%	11.81%

This schedule is presented as required by accounting principles generally accepted in the United States of America, however, until a full 10-year trend is compiled, information is presented for those years available.

COMPLIANCE SECTION

INDEPENDENT AUDITORS' 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 Board of Trustees and Plan Administrator
City of Miami Springs Police and Firefighters' Retirement System

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 of Miami Springs Police and Firefighters' Retirement System (the "Plan") as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated May 2, 2019.

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 opinions 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 Plan'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 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.

Caballero Fierman Llerena & Garcia, LLP

Caballero Fierman Llerena & Garcia, LLP
Coral Gables, Florida
May 2, 2019