

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
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INDEPENDENT AUDITORS' REPORT



CABALLERO FIERMAN
LLERENA + GARCIA LLP
accountants | advisors

INDEPENDENT AUDITORS' REPORT

Board of Trustees
City of Hialeah Employees' Retirement System
Hialeah, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Hialeah Employees' Retirement System (the "Plan") which comprise the statement of fiduciary net position as of September 30, 2020 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 financial position of the Plan as of September 30, 2020, and the changes in its financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements being presented are only for the Plan which is also reported as a pension trust fund in the City of Hialeah's (the City) comprehensive annual financial report. Accordingly, the accompanying financial statements are not intended to present the financial position of the City as of September 30, 2020 or its changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and schedule of changes in City's net pension liability and related ratios, schedule of City contributions, and schedule of investment returns on pages 30 through 32, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2021, 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
Miami, Florida
August 13, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)**

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents the Management Discussion and Analysis (MD&A) of the City of Hialeah Employees' Retirement System (the Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal years ended September 30, 2020 and 2019. Please read it in conjunction with the Plan's financial statements, which immediately follow.

FINANCIAL HIGHLIGHTS

The Plan's net results from operations for fiscal year 2020 reflected the following financial activities:

- ❖ Total plan net position was \$714,595,866 as of September 30, 2020 and was 3.70% higher than the 2019 total plan net position.
- ❖ Total contributions were \$41,212,304 as of September 30, 2020 and were 3.5% higher than the 2019 contributions. The contribution amounts vary from year to year and are actuarially determined.
- ❖ Total additions were \$102,357,651 as of September 30, 2020 and were 77.6% higher than the 2019. The increase in earnings reflects the current economic and market conditions.
- ❖ Net investment income was \$25,525,443 as of September 30, 2020 and was 249.8% higher than the 2019 investments. The increase reflects the increase in appreciation of the fair value of investments.
- ❖ Total pension benefits payments and refunds were \$76,832,208 as of September 30, 2020 and were 2.5% more than 2019. This reflects an increase in refunds for the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, notes to the financial statements and other required supplemental information.

The financial statements provide both long-term and short-term information about the Plan's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of other supplementary information that further explains and supports the information in the financial statements.

The Plan's financial statements are prepared in conformity with Accounting Principles Generally Accepted in the United States of America (GAAP) as applied to governmental units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and appreciation of assets is recognized in the Statement of Changes in Plan Net position. All assets and liabilities associated with the operation of the Plan are included in the Statement of Net position.

The Statement of Net position reports net position and how they have changed. A net asset is the difference between the assets and liabilities, and it is one way to measure the financial health or current position of the Plan.

Pursuant to Governmental Accounting Standards Board (GASB) requirements, the management of the City of Hialeah Employees' Retirement System herewith provides a discussion and analysis of its financial activities for the fiscal year ended September 30, 2020.

The City of Hialeah Employees' Retirement System was established January 1, 1956 to provide retirement allowances, disability and death benefits for the employees of the City, as defined in Chapter 70 of the Hialeah Code. The City of Hialeah is the administrator of this system. There is a board of trustees in whom the general administration, management and responsibility for the proper operation of the system is vested.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

PLAN HIGHLIGHTS

- ❖ Employer contributions for the year were \$33,184,511 were 4.42% more than the 2019 contributions. The amount of employer contribution varies from year to year and is actuarially determined.
- ❖ Plan member contributions were \$7,565,916 as of September 30, 2020 and were 0.10% higher than the 2019 contributions. Annuity contributions are equal to 7%, 6%, 5%, 4%, 3%, 2%, 1% or 0 of straight payroll. Contributions will vary from year to year and are dependent upon several factors such as salary levels and number of active members in the system.

STATEMENT OF PLAN NET POSITION

The following condensed comparative Statements of Plan Net positions are 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 financial statement date. The resulting net asset value, or assets minus liabilities, represents the value of assets held in trust for pension benefits.

The Plan continues to be soundly funded. It is important to remember that retirement system funding is based on a long-term perspective, and that temporary ups and downs in the market are to be expected.

City of Hialeah
Employees' Retirement System
 Summary Statement of Net Position

	2020	2019	Percent
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Cash and short term investments	\$ 34,728,767	\$ 30,954,582	12.19%
Securities lending cash collateral	75,125,598	20,556,137	265.47%
Receivables	1,827,492	1,869,472	-2.25%
Investments at fair value	685,756,704	658,578,493	4.13%
Loans to members	<u>7,748,416</u>	<u>8,065,702</u>	-3.93%
Total assets	805,186,977	720,024,386	11.83%
Total liabilities	80,591,111	20,953,963	284.61%
Deffered inflows of resources	<u>10,000,000</u>	<u>10,000,000</u>	100.00%
Total net position	<u>\$ 714,595,866</u>	<u>\$ 689,070,423</u>	3.70%

Total net position at September 30, 2020 was \$714,595,866 a 3.70% increase over total net position at September 30, 2019. Total assets were \$805,186,977, an increase of 11.80% over 2019 and total liabilities were \$80,591,111 an increase of 283.76% from 2019.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

STATEMENT OF CHANGES IN PLAN NET POSITION

The Statement of Changes in Plan Net position, present the effect of pension fund transactions that occurred during the fiscal year, where additions minus deductions equal net increase (or decrease) in net position.

The following table shows a condensed comparative summary of the changes in net position and reflects the activities of the Plan. The funding objective is to meet long-term obligations and fund all pension benefits.

Employees' Retirement System
Summary Statement of Changes In Plan Net Position

	Fiscal Year <u>2020</u>	Fiscal Year <u>2019</u>	Percent <u>Change</u>
Total contributions	\$ 41,212,304	\$ 39,799,531	3.5%
Net investment gains	<u>61,145,347</u>	<u>16,060,676</u>	280.7%
Total increase (decrease)	102,357,651	55,860,207	83.2%
Total deductions	<u>76,832,208</u>	<u>72,902,914</u>	5.4%
Net increase (decrease)	25,525,443	(17,042,707)	-249.8%
Net position, beginning	<u>689,070,423</u>	<u>706,113,130</u>	-2.4%
Net position, ending	<u>\$ 714,595,866</u>	<u>\$ 689,070,423</u>	3.7%

Revenues (additions to the plan net position) for the Plan were \$102.3 million, which includes member, State and employer contributions of \$41.2 million and net investment gains from investment activities of \$61.1 million. Expenses (deductions to the plan net position) increase from \$74 million during 2019 to \$76 million in 2020 or about 2.5%.

ASSET ALLOCATION

The table below indicates the Plan's investment policy target asset allocation for September 30, 2020.

City of Hialeah Employees' Retirement System
Summary of Asset Allocation

	<u>Policy Guidelines</u>	Actual Allocation <u>September 30, 2020</u>
US Intern Agg Fixed Inc - Boyd	18.75%	19.24%
US Intern Agg Fixed Inc - Taplin	22.50%	22.72%
Domestic Large Cap Core - RhumbLine	15.00%	15.60%
Domestic Large Cap Growth - GAMCO	5.00%	5.55%
Domestic Large Cap Value – Diamond	5.00%	4.93%
Russell Midcap Value - Fisher	6.00%	6.43%
Russell Midcap Core – RhumbLine	5.00%	4.77%
Russell Midcap Growth - RhumbLine	5.00%	5.19%
Small Cap Core – RhumbLine	5.00%	4.38%
Small Cap Value - Fisher	2.00%	2.09%
Small Cap Growth - Franklin	2.00%	2.16%
International Equity - Lazard	5.00%	4.86%
Alternatives- Entrust DIV, RICI PAM, Entrust SP Opp, BlackRock	3.75%	2.08%
Total	<u>100.00%</u>	<u>100.00%</u>

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

ASSET ALLOCATION (Continued)

The table below indicates the Plan's investment policy target asset allocation for September 30, 2020:

	<u>Policy Guidelines</u>	<u>Actual Allocation</u> <u>September 30,</u> <u>2020</u>
Domestic Equity	50.00%	51.10%
International Equity	5.00%	4.86%
US Fixed Income	40.00%	41.96%
Alternatives	<u>5.00%</u>	<u>2.08%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

Under policy guidelines: 5% cash maximum allowed in equities (small capitalization managers may, from time to time hold more than 5% cash or money markets, but never in excess of 10%) / 10% cash maximum allowed in fixed accounts.

The investment guidelines provide for the appropriate diversification of the portfolio. Investments have been diversified to the extent practicable to control risk of loss resulting from over-concentration of a specific maturity, issuer, instrument, dealer or bank through which financial instruments are bought and sold. The Board recognizes the difficulty of achieving the Plan's investment objectives in light of uncertainties and complexities of contemporary investment markets.

The Board also recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's strong financial condition enables the Board to adopt a long-term investment perspective. Asset allocation for fiscal year ended September 30, 2020 was within the limits defined by the investment policy guidelines.

INVESTMENT ACTIVITIES

Investment income is vital to the Plan for current and future financial stability. Therefore, the Trustees have a fiduciary responsibility to act prudently and discretely when making plan investment decisions. To assist the Board of Trustees in this area, the Board employs the services of an investment consultant to periodically review and update the investment policy. There were no changes to the Investment Policy Statement and Asset Allocation during the fiscal year.

The Board and its investment consultant review portfolio performance quarterly. Performance is evaluated both individually by money manager style and collectively by investment type, and for the aggregate portfolio.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

INVESTMENT ACTIVITIES (continued)

Overall performance results for the Plan can be viewed in the table below:

City of Hialeah Employees' Retirement System
Asset Allocation Summary

	Market Value (Thousands)	Quarter	Trailing 1 Year	Trailing 3 Year	Inception
Intermediate Aggregate (Taplin)	159,040,639	0.78%	6.13%	4.40%	5.34%
Barclays Intern Agg		0.48%	5.66%	2.39%	5.19%
Intermediate Aggregate (Boyd)	134,657,988	0.42%	5.91%	4.27%	4.52%
Barclays Intern Agg		0.48%	5.66%	4.20%	4.61%
Large Cap Core (Rhumbline)	109,155,474	8.91%	15.49%	12.52%	10.19%
S&P 500		8.93%	15.15%	12.28%	9.90%
Large Cap Value (Diamond Hill)	34,531,973	9.65%	2.59%	6.36%	8.18%
Russell 1000V		5.59%	-5.03%	2.63%	6.53%
Large Cap Growth (GAMCO)	38,836,099	11.95%	35.95%	23.65%	18.02%
Russell 1000G		1.49%	37.53%	21.67%	18.28%
Midcap Core (Rhumbline)	33,419,945	4.79%	-2.08%	3.23%	8.95%
S&P 400		4.77%	-2.16%	2.90%	8.77%
Midcap Value (Fisher)	45,013,929	11.74%	12.26%	7.35%	9.84%
Russell Midcap Value		6.40%	-7.30%	0.82%	6.55%
Midcap Growth (Rhumbline)	36,307,882	9.15%	22.36%	15.99%	11.39%
Russell Midcap Growth		9.37%	23.23%	16.23%	11.44%
Small Cap Core (Rhumbline)	30,666,434	3.30%	-8.05%	-0.09%	8.62%
S&P 600		3.17%	-8.29%	-0.33%	8.48%
Small Cap Value (Fisher)	14,648,466	8.15%	11.66%	6.03%	10.59%
Russell 2000 Value		2.56%	-14.88%	-5.13%	6.12%
Small Cap Growth (Franklin)	15,130,408	7.60%	18.77%	13.46%	10.08%
Russell 2000 Growth		7.16%	15.71%	8.18%	8.40%
International Equity (Lazard)	33,998,249	8.18%	1.50%	N/A	4.64%
MSCI EAFE		4.80%	0.49%	N/A	4.21%
Alternatives Diversified (Entrust)	1,787,982	4.95%	-11.76%	-6.38%	-4.19%
HFRI FOF: Diversified Index		3.99%	5.74%	3.18%	2.82%
Alternatives Opportunity (Entrust)	4,311,641	8.00%	-5.29%	-5.75%	0.82%
HFRI FOF: Diversified Index		3.99%	5.74%	3.18%	2.23%
Alternatives (BlackRock)	8,416,228	7.63%	14.64%	6.47%	5.54%
60%MSCI World /40% Barclays Global Agg Bond		5.86%	9.25%	6.60%	6.31%
Total	\$699,923,337	5.44%	9.40%	7.08%	7.70%
Policy Benchmark		4.54%	7.99%	6.73%	7.77%

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2020

INVESTMENT ACTIVITIES (continued)

Please note that the schedule on the previous page reflects trailing one-year and three-year including returns since inception. Please also note that the above rates of returns are time weighted, net of fees and based on market rate of return in accordance with AIMR's performance presentation standards.

FINANCIAL ANALYSIS SUMMARY

The investment activities, for the fiscal year ended September 30, 2020, are a function of the underlying market, money managers' performance, and the investment policy's asset allocation model. The Plan had a positive absolute return of 9.40% for the trailing one year. The fund continues to maintain a consistent, high quality, conservative approach and has had an annualized return, net of investment management fees, of 7.08% over the last three fiscal years.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial analysis is designed to provide the Board of Trustees, plan participants and the marketplace credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or you need additional financial information, please contact the City of Hialeah Retirement Office Grisell Aedo, Retirement Director, at 501 Palm Avenue, Hialeah, Florida 33010 or (305) 883-5872.

FINANCIAL STATEMENTS

CITY OF HIALEAH, FLORIDA
EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2020

<u>ASSETS</u>	
Cash and short-term investments	\$ <u>34,728,766</u>
Securities lending cash collateral	<u>75,125,598</u>
Receivables:	
Accrued interest	1,330,642
Accrued dividends	236,944
Other receivables	<u>259,906</u>
Total receivables	<u>1,827,492</u>
Investments, at fair value:	
US. Government	168,808,917
Real estate investment trust	13,924,823
Corporate bonds	114,708,802
Foreign bonds	603,405
Limited partnership	3,992,085
Mutual funds	8,415,944
ADR's	28,361,459
Foreign stock	6,394,852
CIF-equity	1,800,545
Common stocks	<u>338,745,872</u>
Total investments	<u>685,756,704</u>
Loans to members	<u>7,748,416</u>
Total assets	<u>805,186,976</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	
Obligations under securities lending	75,125,598
Investments purchased	5,464,957
Accounts payable and accrued liabilities	<u>553</u>
Total liabilities	<u>80,591,108</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Advance contribution from City	<u>10,000,000</u>
Net position restricted for pensions	<u>\$ 714,595,868</u>

See notes to financial statements.

CITY OF HIALEAH, FLORIDA
EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020

ADDITIONS

Contributions:

Employer	\$ 33,184,511
Plan members	3,685,759
Plan members buyback	434,794
Plan members annuity saving	3,445,364
State	<u>461,877</u>
Total contributions	<u>41,212,305</u>

Investment income:

Investment earnings	14,121,862
Net appreciation in fair value of investments	<u>48,600,416</u>

62,722,278

Less investment expenses

(1,576,931)

Net investment income

61,145,347

Total additions

102,357,652

DEDUCTIONS

Pension benefits	62,779,288
DROP benefits	1,297,212
Refunds	11,860,599
Other expenses	<u>895,108</u>
Total deductions	<u>76,832,207</u>

Net increase

25,525,445

Net Position restricted for pensions:

Beginning of year	<u>689,070,423</u>
End of year	<u>\$ 714,595,868</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements of the City of Hialeah Employees' Retirement System (the "Plan") are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when contractually due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. Securities traded on a national or international exchange are valued at the last reported sales price. Net appreciation/depreciation in fair value includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost. Dividends and interest are recognized as earned. Purchases and sales of investments are recorded on a trade-date basis.

Loans to Members

The Plan permits members to borrow from the Plan assets (subject to the rules of the Internal Revenue Service) at rates determined by the Plan Trustees. Interest charged on loans is between 4.75% and 7.00%. Such loans are limited to and are fully secured by the respective member's annuity savings account. Loan payments are deducted directly from the member's bi-weekly payroll.

Administrative Expenses

Administrative expenses incurred by the Plan are absorbed by the City of Hialeah.

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 the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

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 City of Hialeah Employees' Retirement System Plan document for more complete information.

Plan Administration

The City of Hialeah (the "City") is the administrator of a single-employer Public Employee Retirement System (PERS) established to provide pension, annuity, death, and disability benefits through a defined benefit and defined contribution pension plan, for substantially all of the employees of the City and its Department of Public Works. The PERS is considered to be part of the City's financial reporting entity and is included in the City's financial reports as a pension trust fund.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Plan Administration (Continued)

The plan is administered by a Board of Trustees in whom is vested the general administration, management and responsibility for the proper operation of the retirement system. The Board of Trustees shall consist of seven trustees appointed and elected in the following manner: (1) One trustee shall be appointed by the mayor. This trustee shall be an elector of the city. (2) One trustee shall be appointed by the City council. This trustee shall be an elector of the city. (3) Four trustees shall be appointed, one from each group; management, AFSCME Local, IAFF Local, and PBA. The appointee must be an active member of the retirement system or of the deferred retirement option program (DROP). Term of office for each trustee so elected shall be for a two-year period, and the trustee shall be voted into office and elected as determined by each group. (4) The seventh trustee shall be elected from the membership by majority vote by the trustees appointed pursuant to previous sections (1) through (3) as soon as practicable after their appointment. This appointee shall be an elector of the city. The trustee so appointed shall serve for two years.

All classified employees of the City of Hialeah, Florida participate in the plan, including: (1) all full-time employees (except as provided by law), and (2) those part-time employees working 22 ½ hours or more per week who elect to participate after one year of continuous employment. Membership does not include any person whose services are compensated on a fee or contractual basis, the Board of Trustees' medical committee, elected or appointed officials who are not in classified services, and persons employed on a temporary or provisional basis for less than nine months.

Plan Membership

On May 22, 2012, the City passed Ordinance No. 2012-27, retroactively to April 1, 2012, closing membership to the Plan for all general employees hired after April 1, 2012. New employees will instead participate in a new defined contribution plan.

Membership in the Plan as of October 1, 2019 consisted of the following:

Inactive plan members:	
Beneficiaries currently receiving benefits	1582
Entitled to benefits but not yet receiving them	282
Active plan members	780
Total	2644

Pension Benefits

For Police Officers hired on or after March 2, 2014, the Basic Pension is eliminated, and the Service Pension minimum Age plus Service is changed from 70 points to 76 points to receive the Normal (full) Retirement Benefit and DROP eligibility. Additionally, the Vested or Deferred Benefits payable for these Members is payable at age 59 ½. Lastly, the automatic Cost of Living Adjustments for these Members is reduced from 2.0% per year to 1.0% per year. Ordinance 2020-017 amended benefits for police officers effective June 4, 2020. For those police officers that did not have 16 years of actual service (excluding service purchases) and at least 66 points when age plus years of credited service are combined as of October 1, 2018, compensation shall include specialty pay received by the member, up to 5.0% of the base salary.

For Firefighters hired on or after November 15, 2013, the Basic Pension is eliminated, and the Service Pension minimum Age plus Service is changed from 70 points to 76 points to receive the Normal (full) Retirement Benefit and DROP eligibility. Additionally, the Vested or Deferred Benefits payable for these Members is payable at age 59 ½. Lastly, the automatic Cost of Living Adjustments for these Members is reduced from 2.0% per year to 1.0% per year.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Pension Benefits (Continued)

The Service and age requirements are (1) for employees hired prior to January 27, 1970, 10 years of service, at age 50, or any age upon retirement after 20 years of service, (2) for employees hired after January 27, 1970 but prior to January 1, 1974, 15 years of service, at age 55, or any age upon retirement after 20 years of service, and (3) for all other members, any age with age plus service equal to 70 and with at least 20 years of service.

Employees who have attained the mandatory years of service and age requirements are entitled to the following pension benefits:

1. An annuity which shall be the actuarial equivalent of the member's accumulated contributions standing to the member's credit in the Annuity Savings Fund at the time of retirement;
2. The Basic annual pension, which is equal to \$1,800 (for those participants who have attained their normal retirement age) or \$2,800 (for all other members); and
3. A Service pension, which is equal to three percent (3%) of final average compensation multiplied by service up to twenty five (25) years (for those participants who have at least twenty (20) years of service and whose age plus service equals at least seventy (70) or two percent (2%) of final average compensation multiplied by service up to thirty (30) years (for all other members).
4. An additional benefit equals to 1.5% of Average Final Compensation for each year of Credited Service that exceeds 25 years, up to a maximum additional benefit of 4.5% of Average Final Compensation. It is assumed that this benefit applies only to Normal Retirees (full benefits) and not to Vested or Deferred Retirees who get the 2.0% benefit accrual rate up to 30 years of service.

The following benefit reductions were made for the General Employees of the System effective December 1, 2017:

- 1.) **Fully Grandfathered** – For those Members eligible for Normal Retirement before December 1, 2017, the only change in benefits is that they will be required to make an additional 5.0% of Salary contribution to the retirement plan (this is separate from the contributions to the Annuity Savings Plan) beginning December 1, 2017. If the Member had already been contributing 4.0% of Salary, then their new Member Contribution Rate to the retirement plan will be 9.0% of Salary. If the Member had not been contributing to the retirement plan because they were eligible for Normal Retirement when the original retirement plan Member Contributions were enacted, then their new Member Contribution Rate to the retirement plan will be 5.0% of Salary.
- 2.) **Partially Grandfathered with at least 20 years of service** – Those Members who, as of December 1, 2017, have completed at least 16 years of actual service with the City, have attained 62 points (age plus service equals 62), and have at least 20 years of Credited Service, will have only two changes to benefits. First, their Member Contribution Rate to the retirement plan will increase effective December 1, 2017 from 4.0% to 9.0% of Salary. Second, the benefit accrual rate for the Normal Service Retirement Benefit will be 3.0% for each year of Credited Service earned prior to December 1, 2017 and 2.0% for each year of Credited Service earned on and after that date, with a maximum benefit of 75% of Average Final Compensation.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Pension Benefits (Continued)

- 3.) **Partially Grandfathered with less than 20 years of service** – Those Members who, as of December 1, 2017, have completed at least 16 years of actual service with the City, have attained 62 points (age plus service equals 62), and have less than 20 years of Credited Service, will have only two changes to benefits. First, their Member Contribution Rate to the retirement plan will increase effective December 1, 2017 from 4.0% to 9.0% of Salary. Second, the benefit accrual rate for the Normal Service Retirement Benefit will be 3.0% for each of the first 20 years of Credited Service plus 2.0% for each year of Credited Service earned above 20 years, with a maximum benefit of 75% of Average Final Compensation
- 4.) **Non-Grandfathered** – Those Members who, as of December 1, 2017, were not eligible for Normal Retirement, or had not completed at least 16 years of actual service with the City or had not attained 62 points, will have their Member Contribution Rate to the retirement plan increase effective December 1, 2017 from 4.0% to 9.0% of Salary and have the following benefit changes.
 - A.) All benefits accrued as of November 30, 2017 will be “frozen”. The frozen benefits will be payable under the same terms as were in effect before December 1, 2017 (Normal Retirement at 20 years of Credited Service with age plus service at least 70, Vested Retirement at 55 with 10 years of Credited Service, etc.). The frozen benefits will use Average Final Compensation and Credited Service determined as of November 30, 2017. The frozen benefits cannot commence until a Member terminates employment with the City. All Non-Grandfathered General Employees will be 100% vested in this frozen benefit. This means that the “frozen” benefit will be payable at the later of (1) age 55 with 10 years of service or (2) termination of employment with the City, with no reduction for partial vesting.
 - B.) Benefits earned on and after December 1, 2017 (“future service benefits”) shall accrue in accordance with the provisions of the retirement plan in effect before December 1, 2017, except as follows:
 - 1.) The benefit accrual rate for Credited Service earned on and after December 1, 2017 shall be 2.0% per year, with a maximum benefit of 75% of Average Final Compensation (AFC). The 75% of AFC maximum applies to the Service Pension Benefits accrued both prior to and after December 1, 2017. The 1.5% additional benefit multiplier for service after 25 years shall be eliminated. The 25-year cap is also eliminated.
 - 2.) Average Final Compensation shall be the average of the highest annual Compensation received by a member during the highest 8 years of credited service; provided, in no event shall a Member's Average Final Compensation be less than the highest 3-year average as of December 1, 2017.
 - 3.) The Normal Retirement Date shall be age 62 with 20 years of Credited Service. See the Actuarial Assumptions and Methods pages of this Report for the new assumed retirement rates for these employees.
 - 4.) Compensation shall be base pay only. All other types of compensation shall be excluded for retirement purposes.
 - 5.) There shall be no Cost of Living Adjustments (COLA's) on benefits based on credited service earned on or after December 1, 2017.
 - 6.) Members shall not be eligible to purchase additional Credited Service on or after December 1, 2017.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Pension Benefits (Continued)

- 7.) Members shall become vested in the “future service” benefit upon reaching age 55 with 10 or more years of Credited Service. Once they reach age 55 the vesting per-cent age is 70% at 10 years of service plus 3% for each year between 10 and 20 years of service. However, a Member cannot begin to receive this deferred vested benefit until age 62. Members who do not attain age 55 with 10 years of Credited Service will receive a refund of their Member Contributions made to the retirement plan on and after December 1, 2017.
- 8.) Although not specifically outlined in the proposed ordinance, it is assumed that the Basic Pension will be considered as part of the “frozen” benefit so that it will receive the COLA's and will be paid at age 55 with 10 years of Credited Service with no reduction.

The following benefit reductions were made for the Police Officers of the System effective September 25, 2018:

The benefit reductions are different based upon age and service as of the effective date. Additionally, a police officer member who separates from city employment prior to vesting may obtain a refund of member contributions made on and after October 1, 2018, with interest at the rate of 3.0% per annum, in lieu of receiving any future service benefits from the retirement system.

- 1.) **Tier 1A – Those Members eligible for Normal Retirement as of March 2, 2014** – The only changes are 1.) the maximum DROP participation period is extended from 3 years to 5 years and 2.) they will make the following member contributions to the defined benefit pension plan:
 - October 1, 2018 – September 30, 2019: 2.0% of pensionable Salary
 - October 1, 2019 – September 30, 2020: 4.0% of pensionable Salary
 - October 1, 2020 and forward: 6.0% of pensionable Salary
- 2.) **Tier 1B – Those Members eligible for Normal Retirement as of September 25, 2018** – The only changes are 1.) the maximum DROP participation period is extended from 3 years to 5 years and 2.) they will make the following member contributions to the defined benefit pension plan:
 - October 1, 2018 – September 30, 2019: 6.0% of pensionable Salary
 - October 1, 2019 – September 30, 2020: 8.0% of pensionable Salary
 - October 1, 2020 and forward: 10.0% of pensionable Salary
- 3.) **Tier 1C – Those Members with at least 20 years of service and 66 points as of September 25, 2018** – Those Members who, as of September 25, 2018, have completed at least 16 years of actual service with the City, have attained 66 points (age plus service equals 66), and have at least 20 years of Credited Service, had only four changes. First, they have the same member contribution changes as Tier 1B. Second, the benefit accrual rate for the Normal Service Retirement Benefit will be 3.0% for each year of Credited Service earned prior to September 25, 2018, and 2.75% for each year of Credited Service earned on and after that date, with a maximum benefit of 79.5% of Average Final Compensation. Also, the minimum benefit, regardless of type of retirement, is 2.75% of Average Final Compensation for each year of Credited Service. Lastly, the maximum DROP participation period is extended from 3 years to 5 years.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Pension Benefits (Continued)

- 4.) **Tier 1D – Those Members with 16 to 20 years of service and 66 points as of September 25, 2018** – Those Members who, as of September 25, 2018, had completed at least 16 years of actual service with the City, have attained 66 points (age plus service equals 66), and had less than 20 years of Credited Service, have only four changes. First, they have the same member contribution changes as Tier 1B. Second, the benefit accrual rate for the Normal Service Retirement Benefit will be 3.0% for each year of Credited Service earned up to 20 years, and 2.75% for each year of Credited Service earned above 20 years, with a maximum benefit of 79.5% of Average Final Compensation. Also, the minimum benefit, regardless of type of retirement, is 2.75% of Average Final Compensation for each year of Credited Service. Lastly, the maximum DROP participation period is extended from 3 years to 5 years.
- 5.) **Tier 1E – Those Members with 16 years, but not 66 points as of September 25, 2018** – Those Members who, as of September 25, 2018, completed at least 16 years of actual service with the City, but had not attained 66 points, will have the same member contribution rate changes as Tier 1B and the following benefit changes.
- A.) All benefits accrued as of September 24, 2018 are “frozen”. The frozen benefits will be payable under the same terms as were in effect before September 25, 2018 (Normal Retirement at 20 years of Credited Service with age plus service at least 70 for this group (76 for Tier 2), unreduced Vested Retirement at 55 with 10 years of Credited Service, etc.). The frozen benefits will use Average Final Compensation and Credited Service determined as of September 24, 2018. The frozen benefits cannot commence until a Member terminates employment with the City. All Police Officers are 100% vested in this frozen benefit. This means that even if a Police Officer terminates employment with the City on October 1, 2018 after being hired on September 20, 2018, they would receive an unreduced “frozen” benefit at age 55, albeit that benefit will equal 5 days of Credited Service times 2.75% times their Average Final Compensation at September 24, 2018.
- B.) Benefits earned on and after September 25, 2018 (“future service benefits”) shall accrue in accordance with the provisions of the retirement plan in effect before September 25, 2018, except as follows:
- 1.) The benefit accrual rate for Credited Service earned on and after September 25, 2018 shall be 2.75% per year, with a maximum benefit of 79.5% of Average Final Compensation (AFC). The 79.5% of AFC maximum applies to the Service Pension Benefits accrued both prior to and after September 25, 2018. The 1.5% additional benefit multiplier for service after 25 years shall be eliminated. The 25-year cap is also eliminated. Provided, however, that the minimum benefit (including the basic pension) shall be 2.75% of average final compensation for all years of credited service.
- 2.) Average Final Compensation shall be the average of the highest annual Compensation received by a member during the highest 5 years of credited service; provided, in no event shall a Member’s Average Final Compensation be less than the highest 3-year average as of September 24, 2018.
- 3.) The Normal Retirement Date shall be the earlier of 1.) age 55 with 10 years of Credited Service, 2.) age 52 with 25 years of Credited Service, or 3.) 27 years of Credited Service, regardless of age. See the Actuarial Assumptions and Methods pages of this Report for the new assumed retirement rates for these employees.
- 4.) Compensation shall be base pay only. All other types of compensation shall be excluded for retirement purposes.
- 5.) There shall be no Cost of Living Adjustments (COLA’s) on benefits based on credited service earned on or after September 25, 2018.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Pension Benefits (Continued)

- 6.) Members shall not be eligible to purchase additional Credited Service on or after September 25, 2018, except that upon reaching 25 years of service, this group may purchase up to 2 years of service.
- 7.) Members may enter the DROP upon attaining the earlier of 1.) age 52 with 25 years of credited service, or 2.) 27 years of service, regardless of age, and may participate in the DROP for a maximum of 5 years.
- 8.) Although not specifically outlined in the proposed ordinance, it is assumed that the Basic Pension will be considered as part of the "frozen" benefit so that it will receive the COLA's and will be paid at age 55 with no reduction.
- 6.) **Tier 1F – Those Members with 10 - 16 years, but not 66 points as of September 25, 2018** – Those Members who, as of September 25, 2018, completed at least 10 years of actual service with the City, but had not completed 16 years of actual service and had not attained 66 points, will have the exact same changes as Tier 1E, except that they would not be allowed to purchase any service after September 25, 2018.
- 7.) **Tier 1G – Those Members with less than 10 years of service as of September 25, 2018, who were hired before March 2, 2014** – Those Members who, as of September 25, 2018, completed less than 10 years of actual service with the City, and had not attained 66 points, have the exact same changes as Tier 1F, except that they do not have the normal retirement provision of the completion of 27 years of service, regardless of age mentioned in 5(B)(3) and 5(B)(7) listed above.
- 8.) **Tier 2 – Those Members who were hired on or after March 2, 2014** – These Members have the exact same changes as Tier 1G, except that they have no Basic and the minimum age plus service for the "frozen" benefit is 76 points instead of 70. Additionally, the Vested or Deferred benefits are payable at age 59 ½. Lastly, the COLA on the "frozen" benefit is 1.0% per year, instead of 2.0%. Additionally, the current Police Officer DROP Members at the time the ordinance is adopted had the opportunity to extend their DROP period an additional two years.

Plan Changes

- I. Chapter 2019-21, Laws of Florida was signed into effect granting certain disability benefits to firefighters participating in an employer-sponsored retirement plan. Effective July 1, 2019, "the retirement plan must consider the firefighter totally and permanently disabled in the line of duty if he or she meets the retirement plan's definition of totally and permanently disabled due to the diagnosis of cancer or circumstances that arise out of the treatment of cancer." For this purpose, "cancer" is as defined in Section 112.1816(1), Florida Statutes. Please note that the benefit changes only relate to the disability benefits for the Pension Fund and do not provide for other additional benefits that are provided for in Florida Statutes Section 112.1816.
- II. Ordinance 2019-090 amended benefits for Firefighters effective November 12, 2019.

The following benefit amendments were approved via Ordinance 2019-090 for Firefighters effective November 12, 2019.
 1. **Members eligible for Normal Retirement as of November 12, 2019** - Members who are retirement eligible as of November 12, 2019 will have no change to the benefits provided under the plan. Normal retirement eligibility is defined as follows:
 - a. 20 years of service with 70 points for those hired before November 15, 2013.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Plan Changes (continued)

1. **Members eligible for Normal Retirement as of November 12, 2019 (continued)**
 - b. 20 years of service with 76 points for those hired on after November 15, 2013.
 - c. Age 55 with 10 years of service
 - d. Age 52 with 25 years of service
2. **Members not eligible for Normal Retirement as of November 12, 2019** - Accrued benefits are frozen as of November 12, 2019 and members are 100% vested in their frozen benefit. Frozen benefits shall be payable upon reaching Normal Retirement eligibility as defined in item 1 above. Benefits will accrue after the November 12, 2019 as follows:
 - a. The benefit accrual rate will be 2.75% for each year of Credited Service earned on and after November 12, 2019.
 - b. Final average compensation will be the average highest annual compensation during highest 5 years of credited service, but no less than the 3-year average as of November 12, 2019.
 - c. Compensation after November 12, 2019 will be base pay only.
 - d. The maximum benefit is 79.5% of Average Final Compensation. However, the minimum benefit, regardless of type of retirement, will be 2.75% of final average compensation for all years of Credited Service.
 - e. Benefits earned after November 12, 2019 shall be payable upon reaching the earlier age 55 with 10 years of service and age 52 with 25 years of service.
3. As of November 12, 2019, Firefighters are prohibited from purchasing membership credit service time. Any purchase made prior to the November 12, 2019 shall be irrevocable, and any previous purchase of membership credit service time cannot be sold back to the retirement plan.
4. The eligibility to enter DROP is age 52 with 25 years of service and the maximum DROP participation period is limited to 3 years for those entering DROP after November 12, 2019.
5. Firefighters who entered the DROP on or after February 28, 2016 and prior to November 12, 2019 may extend DROP participation for up to two additional years for a total of 5 years.
6. Firefighter member contributions may be made in lieu of or in addition to annuity fund contributions.
- III. Ordinance 2020-016 amended benefits for Firefighters effective June 4 2020. The benefit changes apply to those firefighters that have not reached Normal Retirement date as of November 12, 2019 unless otherwise noted.

The following amendments were approved June 4, 2020 via Ordinance 2020-016 for Firefighters that have not reached Normal Retirement date as of November 12, 2019.

1. As of the June 4, 2020, compensation for firefighters shall include specialty pay received by the member, up to 5.0% of the base salary.
2. As of the June 4, 2020, members who separate from the City prior to vesting may obtain a refund of member contributions made on and after June 4, 2020, with interest at 3.0% per year, in lieu of receiving benefits accrued after November 12, 2019 from the Plan.
3. Firefighters who entered the DROP on or after February 28, 2016 and prior to November 12, 2019 may extend DROP participation for up to 2 additional years for a total of 5 years.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Plan Changes (continued)

2. **Members not eligible for Normal Retirement as of November 12, 2019 (continued)**
 4. The maximum DROP participation period shall be 60 months for members who enter the DROP on and after February 28, 2016.
1. **Members eligible for full retirement benefit as of November 15, 2013 (i.e., members who have 20 years of credited service and 70 points when age plus years of credited service are combined)**

Member contributions shall be as follows:

 - i. June 4, 2020 - September 30, 2020: 2.0% of compensation
 - ii. October 1, 2020 - September 30, 2021: 4.0% of compensation
 - iii. Beginning on October 1, 2021: 6.0% of compensation
2. **Members not eligible for full retirement benefit as of November 15, 2013 (i.e., members who do not have 20 years of credited service and 70 points when age plus years of credited service are combined)**

Member contributions shall be as follows:

 - i. June 4, 2020 - September 30, 2020: 6.0% of compensation
 - ii. October 1, 2020 - September 30, 2021: 8.0% of compensation
 - iii. Beginning on October 1, 2021: 10.0% of compensation
3. **Members with 16 years of actual service (excluding service purchases), less than 20 years of credited service and at least 66 points on November 12, 2019**
 - b. The benefit accrual rate shall be 2.75% for each year of Credited service earned after attaining 20 years of service.
 - c. The maximum benefit is 79.5% of Average Final Compensation. However, the minimum benefit, regardless of type of retirement, will be 2.75% of final average compensation for all years of Credited Service.
 - d. Members shall be eligible to participate in the DROP for a maximum of five years.
4. **Members with 16 years of actual service (excluding service purchases), less than 20 years of credited service and at least 66 points on November 12, 2019**
 - a. The benefit accrual rate shall be 3.0% for each year of Credited Service as of November 12, 2019, and 2.75% for each year of Credited Service earned after November 12, 2019.
 - b. The maximum benefit is 79.5% of Average Final Compensation. However, the minimum benefit, regardless of type of retirement, will be 2.75% of final average compensation for all years of Credited Service.
 - c. Members shall be eligible to participate in the DROP for a maximum of five years.
5. **Members with 16 years of actual service (excluding purchased service) and less than 66 points on November 12, 2019.**
 - a. Members shall be eligible for Normal Retirement upon reaching 27 years of Credited Service, regardless of age.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Plan Changes (continued)

5. **Members with 16 years of actual service (excluding purchased service) and less than 66 points on November 12, 2019 (continued)**
 - b. Upon reaching 25 years of actual service, members shall be eligible to purchase up to 2 years of membership credited service time (not to exceed the maximum of 4 years of purchased service)
 - c. Members shall be eligible to participant in the DROP for a maximum of five years upon completion of 27 years of actual service

6. **Members with 10 years of actual service (excluding purchased service), but less than 16 years of actual service (excluding purchased service) on November 12, 2019**
 - a. Members shall be eligible for Normal Retirement upon reaching 27 years of Credited Service, regardless of age
 - b. Members shall be eligible to participant in the DROP for a maximum of five years upon completion of 27 years of actual service.

Pre-Retirement Termination

Employees terminated before qualifying for retirement receive a lump sum payment representing their annuity contributions and any interest credited to their annuity savings account.

Early Retirement Pension Benefit

Employees who have at least 10 years of credited service upon reaching age 55 are eligible for their annuity plus the Basic and Service pensions multiplied by the participant's vested interest.

Death and Disability Payments

In the case of the death of a general employee Member prior to retirement, their beneficiary will receive a five-year certain and life annuity. In lieu of this five-year certain annuity, the beneficiary of the general employee may elect to receive 1/2 of the same amount payable over a ten-year period. For firefighters and police officers, the Member's vested accrued benefit deferred to early (reduced) or normal retirement and payable for a minimum of 10 years.

Upon retirement for total and permanent disability, the member shall receive pension benefits whether or not the member has attained eligible retirement age.

Funding Requirements

City Contribution

On August 25, 2009, the City passed Ordinance 09-54, which established a minimum City contribution ("floor") to the Plan equal to 22% of the member payroll. Once every five years, the City may increase or decrease the floor up to 2% of member payroll, if supported by an actuarial study. The floor shall not be less than 16% or more than 28% of member payroll. The new provisions also indicate that the floor is subject to Section 70-168(b) which specifies the contribution shall be computed as a level percent of payroll in accordance with generally recognized actuarial principles and the provisions of Chapter 112 of the Florida Statutes. Provisions under Chapter 112 of the Florida Statutes will take precedence in the event the required City contribution calculated under Chapter 112 exceeds the 28% of member payroll.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

Funding Requirements (continued)

The City contributes at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. Effective May 30, 2012, the Division of Retirement mandated that local governments confer with the Plan's actuary to select and maintain contribution method (percentage of payroll or fixed dollar contributions) that best fits the funding requirements of the Plan. The Plan determined to use the "percentage of payroll contribution" method for the fiscal year ended September 30, 2020.

The actual contribution from the City for active members were actuarially determined using the actuarial valuation as of October 1, 2019 for the year ended September 30, 2020. The contributions consisted of the following at September 30, 2020:

	Actual Contribution	Percentage of Covered Payroll
City	\$ 33,184,511	66%
State of Florida	461,877	0.92%
Total contribution from City and State of Florida	\$ 33,646,388	67%
Members	3,685,759	N/A

DROP Plan

The City established a deferred retirement option plan (DROP) for General Employees on February 19, 2008, and for Police and Firefighters on March 1, 2007. An active participant of the City's retirement system may enter into the DROP, on the first day of the month following completion of 25 years of membership service credit, provided that the sum of the member's age and years of service is 70 points or more.

Upon entry into the DROP, a member's monthly retirement benefits (basic plus service pension), based on final average earnings and service upon entering the DROP, which would have been payable had the member elected to cease employment and receive a normal retirement benefit, shall be paid into the member's DROP account. At the end of each fiscal year, interest will be credited to the DROP account at the same rate credited to the annuity savings account. Member contributions cease upon entering the DROP and the member shall be ineligible for disability benefits provided by the Plan. Upon termination of employment or death, the DROP account balance will be paid in a cash lump sum. The maximum duration for participation in the DROP shall not exceed thirty-six (36) months and members cannot buy service in order to be eligible for the DROP.

General employees who are members of the retirement system are prohibited from entering the DROP on or after April 2, 2012. As of September 30, 2020, there were forty-seven (47) DROP participants, and their fair value of DROP investment was \$9,754,511 which is included in the Plan's net position.

Effective October 1, 2018, the DROP participation period for Police Officers was extended from 3 to 5 Years. Police Officers who do not have 16 years of service with 66 points and have 10 or more years of services as of October 1, 2018 may enter the DROP upon attaining age 52 with 25 years of service or 27 years of service regardless of age. Police Officers with less than 10 years of service on October 1, 2018 may enter the DROP upon attaining age 52 with 25 years of service.

Effective November 1, 2019, the DROP participation period for Firefighters was extended from 3 to 5 Years. Firefighters who do not have 16 years of service with 66 points and have 10 or more years of services as of November 1, 2019 may enter the DROP upon attaining age 52 with 25 years of service or 27 years of service regardless of age. Firefighters with less than 10 years of service on November 1, 2019 may enter the DROP upon attaining age 52 with 25 years of service.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Deposit Insurance Corporation, all deposits, which include cash on hand, are held in qualified public depositories pursuant to State of Florida Statutes Chapter 280, Florida Security for Public Deposits Act. Under the Act, all qualified public depositories are required to pledge eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

Therefore, all deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name.

Investments

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

The Plan's investment policy is determined by the Board who is responsible for directing the investment of the assets of the Plan to ensure that there will be adequate monies for future benefits. The policy has been identified by the Board to conduct the operations of the Plan in a manner so that the assets will provide the pension and other benefits provided under applicable laws, including City ordinances, preserving principal while maximizing the rate of return.

Investment in all equity securities shall be limited to those listed on a major U.S stock exchange or traded over-the-counter. The equity position in any one company shall not exceed 5% of the total cost of equity investments. Investments in stocks of foreign companies shall be limited to 10% of the manager's portfolio.

Fixed income securities must be rated "BBB" or higher by a major rating agency. The average quality rating of the fixed income portfolio shall be "A" or better by a major rating agency.

Types of Investments

Florida statutes and Plan investment policy authorize the Board to invest funds in various investments. The current target allocation of these investments at fair value is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic Equity	50.00%
International Equity	5.00%
Domestic Bonds	41.00%
Other	4.00%
Total	100%

Rate of Return

For the year ended September 30, 2020 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.88%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculations are determined on a monthly basis.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following tables that show the distribution of the Plan's investments by maturity at September 30, 2020:

<u>City of Hialeah Employees' Retirement System</u>	<u>Investment Maturities (in Years)</u>				
	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10 years</u>
Fixed Income					
Corporate					
Asset Backed	14,386,103	-	10,839,188	3,546,915	-
Bonds	90,132,408	7,507,418	41,053,968	37,575,052	3,995,970
Collateralized Mortgage Obligations	10,190,291	-	-	-	10,190,291
Foreign Bonds					
Bonds	603,405	-	-	603,405	-
U S Government					
Collateralized Mortgage Obligations	6,351,351	215,507	1,076,339	3,239,580	1,819,925
Mortgage Backed	78,047,382	-	10,405	752,830	77,284,147
U.S. Treasury Inflation Protected Securities	4,160,100	-	-	4,160,100	-
Treasuries, Notes and Bonds	<u>80,250,083</u>	<u>14,731,108</u>	<u>37,290,900</u>	<u>28,228,075</u>	<u>-</u>
Sub-total	<u>284,121,123</u>	<u>22,454,033</u>	<u>90,270,800</u>	<u>78,105,957</u>	<u>93,290,333</u>
Real Estate Investment Trust	13,924,823				
Limited Partnership	3,992,085				
Equities	10,216,489				
American Depositary Receipts	28,361,459				
Foreign Stock	6,394,852				
Common stocks	<u>338,745,872</u>				
Total Fair Value	<u>685,756,704</u>				

Interest Rate Risk

Interest rate risk exists when there is possibility that changes in interest rates could adversely affect an investment's fair value. In accordance with its investment policy, the Plan places no limit on the amount that may be invested in securities of the U.S. Government or its agencies. Interest rate risk disclosures are required for all debt investments as well as investments in mutual funds, external investment pools, and other pooled investments that do not meet the definition of a 2a7-like pool.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Plan's investment policy limits investments to the highest ratings by nationally recognized statistical rating organizations (NRSP) – (Standard and Poor's, Moody's Investors Services and Fitch Ratings). Fixed income investments must be direct issues of the United States Treasury, United States Government Agencies, or Instrumentalities including Mortgage Backed Securities and their derivative products. Mortgage and Asset backed securities not issued by an agency of the Federal Government must be rated "A" or better by a NRSP. Other than securities of the U.S. Government or its agencies the fixed income portfolio shall not exceed 5% of any one issuer. Any idle cash not invested by the investment manager shall be invested daily through an automatic, interest bearing, sweep vehicle managed by the custodian.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

As of September 30, 2020, the Plan's fixed income investments with credit ratings consisted of the following:

Investment Type	2020	
	Fair Value	Percentage of Portfolio
U.S. government guaranteed*	100,127,172	35.24%
	Quality rating of credit risk debt securities	
Asset Backed	A1	1,985,210
Bonds	A1	13,335,915
Bonds	A2	15,749,573
Bonds	A3	14,239,984
Asset Backed	Aa1	2,633,280
Bonds	Aa1	1,020,129
Bonds	Aa2	373,841
Collateralized Mortgage Obligations	Aa3	1,462,605
Asset Backed	Aaa	2,022,374
Bonds	Aaa	2,665,048
Collateralized Mortgage Obligations	Aaa	7,853,374
Treasuries, Notes and Bonds	Aaa	80,250,083
Bonds	Ba1	1,408,160
Bonds	Ba2	1,619,752
Bonds	Baa1	14,979,122
Bonds	Baa2	13,718,870
Bonds	Baa3	8,676,631
	Total credit risk debt securities	183,993,951
	Total fixed income securities	284,121,123
		64.76%
		100.00%

*Obligations of the U.S. government or obligations explicitly or implicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Concentration Credit Risk

Accounting Standards for Governmental Entities require disclosure of investments in any one issuer that represents 5% or more of the total of the Plan's investments. Conversely, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools are excluded from the concentration of credit risk disclosure requirement.

The Plan did not hold investments in any one organization that represent 5% or more of the Pension Plan's fiduciary net position.

Custodial Credit Risk

Custodial credit risk 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 in the possession of an outside party. Consistent with the Plan's investment policy, the investments are held by the Plan's custodial bank and registered in the Plan's name.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Risks 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 statements of plan fiduciary net position and the statements of changes in plan fiduciary net position. The Plan, through its investment advisors, monitors the Plan's investments and the risks associated therewith on a regular basis, which the Plan believes minimizes these risks.

Plan contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. 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 could be material to the financial statements.

NOTE 4 – FAIR VALUE MEASUREMENTS

The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan does not have any investments that are categorized as Level 3.

As of September 30, 2020, the Plan had the following investments within the fair value hierarchy:

<u>Investment by fair value level</u>	<u>Total</u>	Quoted Prices in	Significant Other
		Active Markets for Identical Assets	Observation Inputs
		<u>Level 1</u>	<u>Level 2</u>
American Depository Receipts	28,361,459	28,361,459	-
Common Stock	338,745,872	338,745,872	-
Foreign Stocks	6,394,852	6,394,852	-
U.S. Treasuries	80,250,082	80,250,082	-
Corporate Bonds	90,132,408	-	90,132,408
Equities	10,216,489	10,216,489	-
Collateralized Mortgage Obligations	16,541,644	-	16,541,644
Foreign Bonds	603,405	-	603,405
Mortgage Backed Securities	78,047,382	-	78,047,382
U.S. Treasury Inflation Protected Securities	4,160,100	-	4,160,100
Asset Backed Securities	14,386,103	-	14,386,103
Real Estate Investment Trusts	13,924,823	13,924,823	-
Sub total investment by fair value level	<u>681,764,619</u>	<u>477,893,577</u>	<u>203,871,042</u>
<u>Investments measured at the net assets value (NAV)*</u>			
Limited Partnership	<u>3,992,085</u>		
Total investment by fair value level	<u>685,756,704</u>		

*As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

Short-term investments, which consist of money market funds, are reported at cost which is fair value.

Equity securities traded on national or international exchanges are valued at the last reported sales price or current exchange rates (Level 1). This included common stock, mutual funds, and REITs.

Debt securities 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 (Level 2). This includes U.S. Treasuries, mortgage backed and collateralized securities, municipal bonds and corporate obligations.

The Plan has investments in limited partnerships that are considered an alternative asset class which hold a variety of investment vehicles that do not have readily available market quotations. These investments are measured at net asset value based on their proportionate share of the value of the investments as determined by the fund managers and are valued according to methodologies which include pricing models, discounted cash flow model and similar techniques.

The fair value amounts presented in the table below are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the Statement of Fiduciary Net Position.

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.

Investments measured at the NAV

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Limited Partnerships (1)	<u>3,992,085</u>	-	Quarterly	95 Days
Total investments measured at NAV	<u>\$ 3,992,085</u>			

(1) *Limited Partnerships*. Aims to provide long-term total return by investing in (a) a portfolio of commodity-linked futures contracts traded on U.S. and foreign exchanges and (b) a fixed-income portfolio containing U.S. Government securities, money market instruments, and other high-quality short-term debt securities

NOTE 5 – SECURITIES LENDING TRANSACTIONS

State statutes do not prohibit the Plan from participating in securities lending transactions. The City of Hialeah Employees' Retirement System (the "Plan"), pursuant to a Securities Lending Authorization Agreement, has authorized Comerica Bank ("Comerica") to act as the Plan's agent in lending the Plan's securities to approved borrowers. Comerica, as agent enters into Securities Loan Agreements with borrowers. Cash collateral received in respect to the Plan's securities lent to approved borrowers was invested at the direction of the Plan. Please note the following:

- a) **Method for Determining Fair Value.** The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service.
- b) **Involuntary Participation.** There was no involuntary participation in an external investment pool by the Plan for the Fiscal Year.
- c) **Necessary Information.** Not Applicable.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 5 – SECURITIES LENDING TRANSACTIONS (continued)

d) Income Assignment. No income from one fund was assigned to another fund by Comerica during the fiscal year.

During the fiscal year, Comerica lent, on behalf of the Plan, certain securities of the Plan held by Comerica as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. Comerica does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, Comerica does not indemnify the Plan in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration and notice of Default of the Borrower.

During the fiscal year, the Plan and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool.

GASB Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions, establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets unless the entity did not have the ability to pledge or sell collateral securities absent a borrower default as the case with the Plan. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them. On September 30, 2020, the Plan had no credit risk exposure to borrowers. The market values of collateral held and the market value (USD) of securities on loan for the Plan as of September 30, 2020 was \$75,125,598. The \$75,125,598 was cash and securities collateral and has been reported in the statement of fiduciary net position as an asset of the Plan along with the liability of \$75,125,598 for obligations under security lending.

NOTE 6 – NET PENSION LIABILITY

Total pension liability	\$ 1,026,243,287
Plan fiduciary net position	\$ 714,595,868
Net pension liability	\$ 311,647,419
 Plan fiduciary net position as a percentatge of total pension liability	 69.63%

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6 – NET PENSION LIABILITY (CONTINUED)

Significant Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2019 updated to September 30, 2020, using the following actuarial assumptions:

Interest rates:	
Single discount rate	7.60%
Inflation	2.30%
Salary Increases	Service Based
Long-term expected rate of return	7.60%

Mortality Rate Police Officers and Firefighters:

Healthy Active Lives:

Female: PubS .H-2010 (Below Median) for Employees, set forward one year, Scale MP-2018.

Male: PubS.H-2010 (Below Median) for Employees, set forward one year, Scale MP-2018.

Healthy Retiree Lives:

Female: PubS.H-2010 (Above Median) for Healthy Retirees, set forward one year, Scale MP-2018.

Male: PubS .H-20 10 (Above Median) for Healthy Retirees, set forward one year, Scale MP-2018.

Beneficiary Lives:

Female: PubG.H-2010 (Above Median) for Healthy Retirees, Scale MP-2018.

Male: Pub G.H-2010 (Above Median) for Healthy Retirees, set back one year, Scale MP-2018.

Disabled Lives:

Female: 80% PubG.H-2010 for Disabled Retirees / 20% PubS.H-2010 for Disabled Retirees, Scale MP-2018.

Male: 80% PubG.H-2010 for Disabled Retirees/ 20% PubS.H-2010 for Disabled Retirees, Scale MP-2018.

General Employees:

Healthy Active Lives:

Female: PubG.H-2010 for Employees, Scale MP-2018.

Male: PubG.H-2010 for Employees, Scale MP-2018.

Healthy Retiree Lives:

Female: PubG.H-2010 (Above Median) for Healthy Retirees, set forward one year, Scale MP-2018.

Male: Pub G.H-2010 for Healthy Retirees, set forward one year, Scale MP-2018.

Beneficiary Lives:

Female: PubG.H-2010 (Above Median) for Healthy Retirees, Scale MP-2018.

Male: PubG.H-2010 (Above Median) for Healthy Retirees, set back one year, Scale MP-2018

Disabled Lives:

Female: PubG.H-2010 for Disabled Retirees, set forward three years, Scale MP-2018.

Male: PubG.H-2010 for Disabled Retirees, set forward three years, Scale MP-2018.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE 6 – NET PENSION LIABILITY (CONTINUED)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>2020</u>
Domestic Equity	50.00%	7.42%
International Equity	5.00%	7.38%
Domestic Bonds	41.00%	2.67%
Other	4.00%	4.25%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.60 %. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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 was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Plan's net pension liability, calculated using a discount rate of 7.60%, 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:

	Current Discount Rate	1% Increase
6.60%	7.60%	8.60%
\$ 392,078,331	\$ 301,647,421	\$ 225,370,896

NOTE 7 – RISKS AND UNCERTAINTIES

During March 2020, the COVID-19 virus was declared a global pandemic as it continued to spread rapidly. Business continuity, including supply chains and consumer demand across a broad range of industries and counties, could continue to be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. Management is carefully monitoring the situation and is continuously evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HIALEAH, FLORIDA
EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Fiscal year ending September 30,	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability							
Service cost	\$ 7,021,824	\$ 7,371,026	\$ 7,202,768	\$ 8,302,554	\$ 8,887,641	\$ 9,104,164	\$ 8,982,779
Interest	74,884,189	74,095,607	70,617,995	65,295,454	62,786,218	61,082,848	60,285,831
Change in annuity savings fund	3,445,364	3,435,022	3,399,514	3,594,508	4,032,235	3,887,151	4,064,028
Change in annuity reserve fund	-	-	-	48,248,469	-	-	-
Change in benefit terms	1,920,804	-	(6,194,034)	(15,079,464)	-	-	-
Difference between expected & actual experience	(9,206,862)	546,364	21,250,857	17,047,994	13,256,782	10,359,527	-
Changes of assumptions	22,132,420	8,141,313	33,984,415	-	21,734,473	-	-
Contributions - buy back	434,794	915,261	3,658,285	2,569,143	907,919	975,579	1,182,367
Benefit payments, including refunds of employee contributions	(75,937,099)	(71,058,782)	(75,067,920)	(67,397,153)	(61,753,388)	(66,047,848)	(63,299,504)
Net change in total pension liability	24,695,434	23,445,811	58,851,880	62,581,505	49,851,880	19,361,421	11,215,501
Total pension liability - beginning	<u>1,001,547,853</u>	<u>978,102,042</u>	<u>919,250,162</u>	<u>856,668,657</u>	<u>806,816,777</u>	<u>787,455,356</u>	<u>776,239,855</u>
Total pension liability - ending (a)	<u>\$ 1,026,243,287</u>	<u>\$ 1,001,547,853</u>	<u>\$ 978,102,042</u>	<u>\$ 919,250,162</u>	<u>\$ 856,668,657</u>	<u>\$ 806,816,777</u>	<u>\$ 787,455,356</u>
Plan fiduciary net position							
Contributions - employer	\$ 33,184,511	\$ 31,778,947	\$ 30,432,760	\$ 29,197,532	\$ 26,327,799	\$ 27,382,906	\$ 25,769,253
Contributions - state	461,877	461,877	461,877	461,877	461,877	461,877	461,877
Contributions - member	3,685,760	3,208,424	2,792,322	2,152,895	2,433,031	2,132,259	1,587,095
Contributions - buy back	434,794	915,261	3,658,284	2,569,143	907,919	975,579	1,182,367
Contributions - annuity savings fund	3,445,364	3,435,022	3,399,514	3,594,509	4,032,235	3,887,151	4,064,028
Net investment income	61,145,347	16,060,676	61,184,060	70,077,870	48,674,393	2,881,487	58,702,102
Benefit payments, including refunds of employee contributions	(76,578,192)	(72,226,290)	(75,067,920)	(67,397,153)	(61,753,388)	(66,047,848)	(63,299,504)
Other expense	(254,016)	(676,624)	(734,661)	-	-	-	-
Revision in methodology to include annuity reserve fund	-	-	-	48,248,471	-	-	-
Net change in plan fiduciary net position	25,525,445	(17,042,707)	26,126,236	88,905,144	21,083,866	(28,326,589)	28,467,218
Plan fiduciary net position - beginning	<u>689,070,423</u>	<u>706,113,130</u>	<u>679,986,894</u>	<u>591,081,423</u>	<u>569,997,557</u>	<u>598,324,146</u>	<u>569,856,928</u>
Plan fiduciary net position - ending (b)	<u>\$ 714,595,868</u>	<u>\$ 689,070,423</u>	<u>\$ 706,113,130</u>	<u>\$ 679,986,894</u>	<u>\$ 591,081,423</u>	<u>\$ 569,997,557</u>	<u>\$ 598,324,146</u>
Net pension liability - ending (a) - (b)	\$ 311,647,419	\$ 312,477,430	\$ 271,988,912	\$ 239,263,268	\$ 265,587,234	\$ 236,819,220	\$ 189,131,210
Plan fiduciary net position as a percentage of total pension liability	69.63%	68.80%	72.19%	73.97%	69.00%	70.65%	75.98%
Covered payroll (1)	\$ 50,199,563	\$ 50,993,205	\$ 51,863,912	\$ 55,447,024	\$ 54,783,012	\$ 57,948,210	N/A
Net pension liability as a percentage of covered payroll	620.82%	612.78%	524.43%	431.52%	484.80%	408.67%	N/A

(1) The covered payroll numbers shown above are in compliance with GASB 82.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

CITY OF HIALEAH, FLORIDA
EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CITY CONTRIBUTIONS

Fiscal Year Ending <u>September 30,</u>	Actuarially Determined <u>Contribution</u>	Actual <u>Contribution</u>	Contribution Deficiency <u>(Excess)</u>	Covered Employee <u>Payroll*</u>	Actual Contribution as a % of <u>Covered Payroll</u>
2014	\$ 26,231,130	\$ 26,231,130	\$ -	N/A	N/A
2015	26,210,070	27,844,783	(1,634,713)	57,948,210	48.05%
2016	26,477,463	26,789,676	(312,213)	54,783,012	48.90%
2017	29,659,409	29,659,409	-	55,447,024	53.49%
2018	30,894,637	40,894,637	(10,000,000)	51,863,886	78.85%
2019	32,240,824	32,240,824	-	50,993,205	63.23%
2020	33,646,385	33,646,388	(3)	50,199,563	67.03%

* The covered employee payroll numbers shown here are in compliance with GASB 82.

Notes to the Schedule of Contributions

Valuation Date 10/1/2018
Notes Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method The entry age normal cost method was used to determine all liabilities, except that the liability associated with member contributions has been assumed to be equal to those contributions

Amortization Method Beginning October 1, 2016, the method of amortizing all outstanding unfunded liability bases was changed to an increasing amortization based on a level percent of payroll where the aggregate payroll is assumed to increase at 1.00% per year.

Remaining Amortization Period 30 years (as of 10/01/2017)
Actuarial Value of Assets The actuarial value of assets (AVA) is equal to the market value of assets adjusted to reflect a five year phase-in of the difference between the expected versus actual return on the AVA. The AVA is limited to an 80%-120% corridor of the market value of assets.

Inflation 2.3% per year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

CITY OF HIALEAH, FLORIDA
EMPLOYEES' RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF INVESTMENT RETURNS

	<u>2020</u>	<u>2019</u>	<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	8.88%	2.13%	9.17%	11.22%	8.08%	0.46%	10.22%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is 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**

Board of Trustees
City of Hialeah Employees' Retirement System
Hialeah, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of City of Hialeah Employees' Retirement System (the "Plan"), as of and for the fiscal year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2021.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2018-03 to be a material weaknesses.

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, and contracts, 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*.

Plan's Responses to Finding

The Plan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Plan's response were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
Miami, Florida
August 13, 2021

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2020

PRIOR YEAR FINDINGS AND STATUS

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2019 schedule of findings and responses:

Matters that are repeated in the accompanying schedule of findings and responses:

- **2018-03 Internal Control over Benefit Payments (Modified and Repeated)**

Matters that are not repeated in the accompanying schedule of findings and responses:

- **2017-02 Untimely preparation of bank reconciliations**
- **2018-02 Internal Control over Financial Reporting**

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
SEPTEMBER 30, 2020**

CURRENT YEAR FINDINGS AND RESPONSES

Material weakness

2018-03 Internal Control over Benefit Payments

Criteria

Accurate calculation of benefit payments is crucial to ensure the proper use of Plan assets.

Condition

During the course of our benefit payment testing we identified the following conditions:

- Certain participants were receiving a benefit that was overstated.
- The Plan has not recovered the temporary overstatements identified in the preceding bullet point.
- The average salary utilized for retirement calculations included pay periods that contained retroactive adjustments which would result in higher benefit payments.

Cause

Improper controls over the processing of benefit payments.

Effect

Benefit payments are potentially overstated resulting in improper use of Plan assets.

Recommendation

We recommend that a detailed review be performed of benefit payments to ensure accurate calculation. In addition, management should review the system report generated to provide the top pay periods utilized for benefit calculation as pay periods including additional compensation above regular salary should be adjusted to exclude the additional compensation.

View of responsible officials and planned corrective actions.

Due to the nature of this matter as previously noted, our Department and the Retirement Board are working along with all the other involved departments in order to solve this issue. See response from previous year below.

Previous response:

The system issues the reports with the participant's salary (78 highest pay periods) in order for a benefit calculation to be completed. If an employee has had merit step adjustments, special checks and or any other retro payment; the system should be set up in order to just allow those that are payroll related and spread those payments out in order to provide the correct report. This is not something that can be done manually; it gives room for error and irreconcilable differences. If a retro payment is issued to due merit step adjustment, in which the employee has paid annuity and annuity contribution it is to be included in the benefit received, it is pensionable. Once again, consistency is key and the benefit calculation is being done as it has always.