

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
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INDEPENDENT AUDITORS' REPORT



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, 2018 and the related statement of changes in fiduciary net position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of September 30, 2018, 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 City of Hialeah Employees' Retirement System which is also reported as a pension trust fund in the City of Hialeah's comprehensive annual financial report. Accordingly, the accompanying financial statements are not intended to present the financial position of the City of Hialeah, Florida as of September 30, 2018 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 net pension liability and related ratios, schedule of City contributions, and schedule of investment returns on pages 28 through 30, 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 14, 2019, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Caballero Fierman Llerena & Garcia, LLP

Caballero Fierman Llerena & Garcia, LLP
Coral Gables, Florida
August 14, 2019

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

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2018

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 year ended September 30, 2018. 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 2018 reflected the following financial activities:

- ❖ Total plan net position was \$706,113,130 as of September 30, 2018 and was 3.8% higher than the 2017 total plan net position.
- ❖ Total contributions were \$40,744,757 as of September 30, 2018 and were 7.3% higher than the 2017 contributions. The contribution amounts vary from year to year and are actuarially determined.
- ❖ Total additions were \$101,928,817 as of September 30, 2018 and were 5.7% lower than the 2017. The decrease reflects the net effect of higher contributions and market conditions.
- ❖ Net investment income was \$61,184,060 as of September 30, 2018 and was 12.7% lower than the 2017 investments. The decrease reflects the decrease in appreciation of the fair value of investments.
- ❖ Total pension benefits payments and refunds were \$75,802,254 as of September 30, 2018 and were 12.5% more than 2017. 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, deferred outflows of resources, liabilities and deferred inflows of resources 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. The increase in the net position during 2018 is one indicator of the volatility in the current financial markets.

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, 2018.

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, 2018

PLAN HIGHLIGHTS

- ❖ Employer contributions for the year were \$30,432,760 were 4.2% more than the 2017 contributions. The amount of employer contribution varies from year to year and is actuarially determined.
- ❖ Plan member contributions were \$9,850,120 as of September 30, 2018 and were 18.44% higher than the 2017 contributions. Annuity contributions are equal to 7%, 6%, 5%, 4%, 3%, 2%, 1% or 0 of straight payroll and member contribution to the system equals 9% 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.

Total net position at September 30, 2018 was \$706,113,130 a 3.8% increase over total net position at September 30, 2017. Total assets were \$735,231,835, an increase of 4.5% over 2017 and total liabilities plus deferred inflows of resources were \$29,118,705 an increase of 24.4% from 2017.

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

Net Position

	2018	2017	Percent
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Cash and short term investments	\$ 20,918,998	\$ 27,182,010	-23.04%
Securities lending cash collateral	19,034,899	20,263,583	-6.06%
Receivables	2,142,755	3,767,914	-43.13%
Investments at fair value	684,271,594	642,743,839	6.46%
Loans to members	<u>8,863,589</u>	<u>9,442,631</u>	-6.13%
Total assets	735,231,835	703,399,977	4.53%
Total liabilities	19,118,705	23,413,410	-18.34%
Deferred inflows of resources	<u>10,000,000</u>	-	100.00%
Total net position	<u>\$ 706,113,130</u>	<u>\$ 679,986,567</u>	3.84%

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2018

STATEMENT OF CHANGES IN PLAN NET POSITION (CONTINUED)

Employees' Retirement System
Statement of Changes In Plan Net position

	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
Total contributions	\$ 40,744,757	\$ 37,975,956	7.3%
Net investment gains	<u>61,184,060</u>	<u>70,077,870</u>	-12.7%
Total increase (decrease)	101,928,817	108,053,826	-5.7%
Total deductions	<u>75,802,254</u>	<u>67,397,153</u>	12.5%
Net increase (decrease)	26,126,563	40,656,673	-35.7%
Net position, beginning as previously stated	679,986,567	591,081,423	15.0%
Prior period adjustment	<u>-</u>	<u>48,248,471</u>	-100.0%
Beginning of year as restated	679,986,567	639,329,894	
Net position, ending	<u>\$ 706,113,130</u>	<u>\$ 679,986,567</u>	3.8%

Revenues (additions to the plan net position) for the Plan were \$101 million, which includes member, State and employer contributions of \$40.7 million and net investment gains from investment activities of \$61.1 million. Expenses (deductions to the plan net position) increase from \$67 million during 2017 to \$77 million in 2018 or about 15.3%. Most of the increase is due to refunds and increase in retirees.

ASSET ALLOCATION

The table below indicates the Plan's investment policy target asset allocation for September 30, 2018.

City of Hialeah Employees' Retirement System
Summary of Asset Allocation

	<u>Policy Guidelines</u>	<u>Actual Allocation September 30, 2018</u>
US Interm Agg Fixed Inc - Boyd	17.50%	15.76%
US Interm Agg Fixed Inc - Taplin	22.50%	20.14%
Domestic Large Cap Core - RhumbLine	15.00%	16.38%
Domestic Large Cap Growth - GAMCO	5.00%	5.73%
Domestic Large Cap Value – Diamond	5.00%	5.23%
Russell Midcap Value - Fisher	6.00%	6.33%
Russell Midcap Core – RhumbLine	5.00%	5.27%
Russell Midcap Growth - RhumbLine	5.00%	5.48%
Small Cap Core – RhumbLine	5.00%	5.49%
Small Cap Value - Fisher	2.00%	2.23%
Small Cap Growth - Franklin	2.00%	2.32%
International Equity - Franklin	5.00%	4.98%
Alternatives- Entrust DIV, RICI PAM, Entrust SP Opp, BlackRock	<u>5.00%</u>	<u>4.66%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2018

ASSET ALLOCATION (CONTINUED)

The table below indicates the Plan's investment policy target asset allocation for September 30, 2018:

	<u>Policy Guidelines</u>	<u>Actual Allocation September 30, 2018</u>
Domestic Equity	50.00%	54.46%
International Equity	5.00%	4.98%
US Fixed Income	40.00%	35.90%
Alternatives	<u>5.00%</u>	<u>4.66%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

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, 2018 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, 2018

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)	\$ 140,625,362	0.33%	-0.47%	1.33%	5.22%
Barclays Interm Agg		0.11%	-0.93%	0.95%	5.06%
Intermediate Aggregate (Boyd)	110,015,329	0.44%	-0.61%	0.91%	4.30%
Barclays Interm Agg		0.11%	-0.93%	0.95%	4.39%
Large Cap Core (Rhumbline)	114,364,828	7.78%	18.20%	17.49%	10.23%
S&P 500		7.71%	17.91%	17.31%	9.92%
Large Cap Value (Diamond Hill)	36,482,677	7.81%	10.88%	15.51%	8.95%
Russell 1000V		5.70%	9.45%	13.55%	7.94%
Large Cap Growth (GAMCO)	39,998,638	10.66%	33.88%	22.64%	17.82%
Russell 1000G		9.17%	26.30%	20.55%	18.00%
Midcap Core (Rhumbline)	36,783,801	3.85%	14.43%	15.99%	11.14%
S&P 400		3.86%	14.21%	15.68%	11.00%
Midcap Value (Fisher)	44,186,127	5.38%	14.73%	17.31%	12.25%
Russell Midcap Value		3.30%	8.81%	13.09%	10.47%
Midcap Growth (Rhumbline)	38,286,010	7.51%	20.95%	16.95%	10.97%
Russell Midcap Growth		7.57%	21.10%	16.65%	10.97%
Small Cap Core (Rhumbline)	38,300,452	4.42%	19.02%	19.42%	12.19%
S&P 600		4.71%	19.08%	19.41%	12.10%
Small Cap Value (Fisher)	15,573,939	2.83%	14.18%	17.31%	11.66%
Russell 2000 Value		1.60%	9.33%	16.12%	8.51%
Small Cap Growth (Franklin)	16,217,440	6.89%	27.70%	19.18%	10.47%
Russell 2000 Growth		5.52%	21.06%	17.98%	9.17%
International Equity (Franklin)	34,764,105	-0.29%	-0.75%	7.37%	2.51%
MSCI EAFE		1.35%	2.74%	9.23%	2.49%
Short Fixed Income	-	NA	NA	NA	NA
BC 1-3 yr Gov/Cr		NA	NA	NA	NA
Short Fixed Income	-	NA	NA	NA	NA
BC 1-3yr Gov/Cr		NA	NA	NA	NA
Alternatives Diversified (Entrust)	7,991,279	-0.17%	0.56%	-0.60%	-1.60%
HFRI FOF: Diversified Index		0.61%	3.47%	3.00%	2.72%
Alternatives Opportunity (Entrust)	10,369,894	2.60%	3.11%	9.13%	7.35%
HFRI FOF: Diversified Index		0.61%	3.47%	3.00%	1.78%
Alternatives (BlackRock)	7,143,574	1.57%	2.45%	6.78%	3.85%
60%MSCI World /40% Barclays					
Global Agg Bond		2.59%	6.16%	8.94%	6.07%
Alternatives (Rici Pam)	7,036,725	-1.62%	9.15%	1.62%	-7.93%
Bloomberg Commodity Index TR		-2.02%	2.60%	-0.12%	-7.02%
Total	\$ 698,140,180	3.70%	9.21%	9.91%	7.83%
Policy Benchmark		3.15%	7.87%	9.12%	8.05%

CITY OF HIALEAH EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENTS DISCUSSION ANALYSIS
SEPTEMBER 30, 2018

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, 2018, 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 9.21% 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 9.91% 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, 2018

	<u>ASSETS</u>	
Cash and short-term investments		\$ <u>20,918,998</u>
Securities lending cash collateral		<u>19,034,899</u>
Receivables:		
Accrued interest		1,325,845
Accrued dividends		328,919
Other receivables		215,853
Contributions		259,996
Investments sold		<u>12,142</u>
Total receivables		<u>2,142,755</u>
Investments, at fair value:		
U.S. Treasury bonds and notes		59,077,400
Asset backed securities		11,263,542
Mortgage backed securities		74,210,954
Real estate investment trust		14,191,283
Corporate bonds and notes		95,086,147
Municipal bonds		983,750
Limited partnership		17,424,970
Mutual funds		15,166,362
Common stocks		<u>396,867,186</u>
Total investments		<u>684,271,594</u>
Loans to members		<u>8,863,589</u>
Total assets		<u>735,231,835</u>
	<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	
Obligations under securities lending		19,034,899
Investments purchased		6,483
Accounts payable and accrued liabilities		<u>77,323</u>
Total liabilities		<u>19,118,705</u>
	<u>DEFERRED INFLOWS OF RESOURCES</u>	
Advance contribution from City		<u>10,000,000</u>
Net position restricted for pensions		<u>\$ 706,113,130</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, 2018

ADDITIONS

Contributions:

Employer	\$ 30,432,760
Plan members	2,792,322
Plan members buyback	3,658,284
Plan members annuity saving	3,399,514
State	<u>461,877</u>
Total contributions	<u>40,744,757</u>

Investment income:

Investment earnings	14,777,078
Net appreciation in fair value of investments	<u>48,348,655</u>

63,125,733

Less investment expenses

(1,941,673)

Net investment income

61,184,060

Total additions

101,928,817

DEDUCTIONS

Pension benefits	59,458,722
DROP benefits	640,835
Refunds	14,968,598
Other expenses	<u>734,099</u>
Total deductions	<u>75,802,254</u>

Net Increase

26,126,563

Net Position restricted for pensions:

Beginning of year	<u>679,986,567</u>
End of year	<u>\$ 706,113,130</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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 6.50%. 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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, 2017 consisted of the following:

Inactive plan members:	
Beneficiaries currently receiving benefits	1559
Entitled to benefits but not yet receiving them	204
Active plan members	<u>849</u>
Total	<u><u>2612</u></u>

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.

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

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.

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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

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.

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, 2018.

The actual contribution from the City for active members were actuarially determined using the actuarial valuation as of October 1, 2017 for the year ended September 30, 2018. The contributions consisted of the following at September 30, 2018:

	Actual Contribution	Percentage of Covered Payroll
City	\$ 30,432,760	55%
State of Florida	461,877	0.83%
Total contribution from City and State of Florida	\$ 30,894,637	56%
 Members	 2,792,322	 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

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 2 - PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

DROP Plan (Continued)

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, 2018, there were forty-four (46) DROP participants and their fair value of DROP investment was \$6,035,088 which is included in the Plan's net position.

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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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%
International Equity	5%
Domestic Bonds	40%
Other	5%
Total	100%

Rate of Return

For the year ended September 30, 2018 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.17%. 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.

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, 2018:

	<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>
<u>City of Hialeah Employees' Retirement System</u>					
U.S. Treasury bonds and notes	59,077,400	28,030,400	23,980,095	7,066,905	-
Corporate bonds and notes	95,086,147	1,375,449	45,225,063	48,485,635	-
Municipals	983,750	496,660	487,090	-	-
Mortgage backed securities	74,210,954	1,106	722,068	1,754,948	71,732,832
Asset backed securities	11,263,542	-	11,263,542	-	-
Sub-total	<u>240,621,793</u>	<u>29,903,615</u>	<u>81,677,858</u>	<u>57,307,488</u>	<u>71,732,832</u>
Real Estate Investment Trust	14,191,283				
Limited Partnership	17,424,970				
Mutual Funds	15,166,362				
Common stocks	396,867,186				
Total Fair Value	<u>684,271,595</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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 (NRSPO) – (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 NRSPO. 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.

As of September 30, 2018, the Plan's fixed income investments with credit ratings consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Rating</u>
CORPORATE BONDS	11,371,095	A1
MUNICIPALS	487,089	A1
CORPORATE BONDS	17,695,073	A2
CORPORATE BONDS	17,996,286	A3
AUTO LOAN RECEIVABLE	1,591,005	Aa2
MUNICIPALS	496,662	Aa2
CMO	1,419,824	Aa3
CORPORATE BONDS	1,776,773	Aa3
AUTO LOAN RECEIVABLE	3,024,302	Aaa
CMO	6,741,295	Aaa
CORPORATE BONDS	1,711,745	Aaa
GOVERNMENT ISSUES	59,077,400	Aaa
CORPORATE BONDS	2,453,166	Ba1
CORPORATE BONDS	11,934,777	Baa1
CORPORATE BONDS	13,454,521	Baa2
CORPORATE BONDS	15,872,656	Baa3
MORTGAGE BACKED SECURITIES	73,518,124	NR
	240,621,793	

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, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Foreign Currency Risk

Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of the investment or a deposit. The Plan has exposure to foreign currency fluctuations as follows:

Holdings Valued in U.S. Dollars

<u>Currency</u>	<u>International Equities</u>
CANADIAN DOLLAR	1,113,756
DANISH KRONE	617,331
EURO CURRENCY	12,131,325
HONG KONG DOLLAR	2,695,461
JAPANESE YEN	6,125,716
NORWEGIAN KRONE	382,359
POUND STERLING	5,103,222
SINGAPORE DOLLAR	462,163
SWEDISH KRONA	108,293
SWISS FRANC	1,664,411
	30,404,037

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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

As of September 30, 2018, 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>
Common Stock	396,867,186	396,867,186	-
U.S. Treasuries	59,077,400	-	59,077,400
Corporate Bonds	95,086,147	-	95,086,147
Municipal Bonds	983,750	-	983,750
Mortgage Backed Securities	74,210,954	-	74,210,954
Asset Backed Securities	11,263,542	-	11,263,542
Mutual Funds	15,166,362	-	15,166,362
Real Estate Investment Trusts	14,191,283	14,191,283	-
Sub total investment by fair value level	<u>666,846,624</u>	<u>411,058,469</u>	<u>255,788,154</u>
 <u>Investments measured at the net assets value (NAV)*</u>			
Limited Partnership	17,424,970		
Money market funds (exempt)	<u>19,719,122</u>		
Total investment by fair value level	<u>703,990,716</u>		

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

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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

Investments measured at the NAV

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Limited Partnerships (1)	\$ 10,106,457	6,648,150	Quarterly	95 Days
Limited Partnerships (2)	7,036,721	-	Monthly	5 Days
Limited Partnerships (3)	<u>281,792</u>	-	Quarterly	95 Days
Total investments measured at NAV	<u>\$ 17,424,970</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

(2) *Limited Partnerships* . Aims to invest in highly attractive, select investment opportunities by maintaining investments through private investment entities and/or separately managed accounts with investment management professionals specializing in various alternative investment strategies.

(3) *Limited Partnerships* . Aims to invest in highly attractive, select investment opportunities by maintaining investments through private investment entities and/or separately managed accounts with investment management professionals specializing in various alternative investment strategies.

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 State Street Bank and Trust Company ("State Street") to act as the Plan's agent in lending the Plan's securities to approved borrowers. State Street, as agent enters into Securities Loan Agreements with borrowers. Cash collateral received in respect to the Plan's securities lent to approve borrowers was invested at the direction of the Plan, in the Quality D Duration and Quality Investment Fund D (the "Fund") which are comprised of liquidity pools and duration pools. 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) Policy for Utilizing Amortized Cost Method. As the Fund is not a mutual fund and does not otherwise meet the requirements of the Investment Company Act of 1940 pursuant to which amortized cost accounting may be permissible, State Street has valued the Fund's investments at fair value for reporting purposes.
- c) Regulatory Oversight. The Fund is not registered with the Securities and Exchange Commission. State Street and the investment vehicles it sponsors (including the Fund) are subject to oversight by the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the Plan's position in the Fund is equal to the value of the Fund shares.
- d) Involuntary Participation. There was no involuntary participation in an external investment pool by the Plan for the Fiscal Year.
- e) Necessary Information. Not Applicable.
- f) Income Assignment. No income from one fund was assigned to another fund by State Street during the fiscal year.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 5 - SECURITIES LENDING TRANSACTIONS (CONTINUED)

During the fiscal year, State Street lent, on behalf of the Plan, certain securities of the Plan held by State Street as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. State Street 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, State Street had an obligation to 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. As of September 30, 2018, such investment pool had an average duration of 3 days and an average weighted final maturity of 182 days for USD collateral. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral.

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, 2018, 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, 2018 was \$19,034,899. The \$19,034,899 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 \$19,034,899 for obligations under security lending.

NOTE 6 - NET PENSION LIABILITY

Total pension liability	\$	978,102,042
Plan fiduciary net position	\$	716,113,130
Net pension liability	\$	<u>261,988,912</u>
Plan fiduciary net position as a percentage of total pension liability		73.21%

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6 - NET PENSION LIABILITY (CONTINUED)

Significant Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2017 updated to September 30, 2018, using the following actuarial assumptions:

Interest rates:	
Single discount rate	7.80%
Inflation	2.30%
Salary Increases	Service Based
Long-term expected rate of return	7.80%
Mortality Rate Healthy Lives:	<i>Female:</i> RP2000 Generational, 100% Annuitant White Collar, Scale BB. <i>Male:</i> RP2000 Generational, 10% Annuitant White Collar/90% Annuitant Blue Collar, Scale BB.
Mortality Rate Disabled Lives:	<i>Female:</i> 60% RP2000 Disabled Female set forward two years / 40% Annuitant White Collar with no setback, no projection scale. <i>Male:</i> RP2000 Disabled Male setback four years / 40% Annuitant White Collar with no setback, no projection scale.

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.

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, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>2018</u>
Domestic Equity	50%	7.25%
International Equity	5%	7.25%
Domestic Bonds	40%	3.25%
Other	5%	4.50%
Total	100%	

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018

NOTE 6 - NET PENSION LIABILITY (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.80 %. 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 7.80%, 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:

1% Decrease	Current Discount Rate	1% Increase
6.80%	7.80%	8.80%
\$ 348,929,249	\$ 261,988,912	\$ 188,705,326

REQUIRED SUPPLEMENTARY INFORMATION

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

Fiscal year ending September 30,	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability					
Service cost	\$ 7,202,768	\$ 8,302,554	\$ 8,887,641	\$ 9,104,164	\$ 8,982,779
Interest	70,617,995	65,295,454	62,786,218	61,082,848	60,285,831
Change in annuity savings fund	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	(6,194,034)	(15,079,464)	-	-	-
Difference between expected & actual experience	21,250,857	17,047,994	13,256,782	10,359,527	-
Changes of assumptions	33,984,415	-	21,734,473	-	-
Contributions - buy back	3,658,285	2,569,143	907,919	975,579	1,182,367
Benefit payments, including refunds of employee contributions	<u>(75,067,920)</u>	<u>(67,397,153)</u>	<u>(61,753,388)</u>	<u>(66,047,848)</u>	<u>(63,299,504)</u>
Net change in total pension liability	58,851,880	62,581,505	49,851,880	19,361,421	11,215,501
Total pension liability - beginning	<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>\$ 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	\$ 40,432,760	\$ 29,197,532	\$ 26,327,799	\$ 27,382,906	\$ 25,769,253
Contributions - state	461,877	461,877	461,877	461,877	461,877
Contributions - member	2,792,321	2,152,895	2,433,031	2,132,259	1,587,095
Contributions - buy back	3,658,285	2,569,143	907,919	975,579	1,182,367
Contributions - annuity savings fund	3,399,514	3,594,508	4,032,235	3,887,151	4,064,028
Net investment income	61,184,032	70,077,666	48,674,393	2,881,487	58,702,102
Benefit payments, including refunds of employee contributions	(75,067,920)	(67,397,153)	(61,753,388)	(66,047,848)	(63,299,504)
Other expense	(734,099)	-	-	-	-
Revision in methodology to include annuity reserve fund	-	48,248,469	-	-	-
Net change in plan fiduciary net position	36,126,770	88,904,937	21,083,866	(28,326,589)	28,467,218
Plan fiduciary net position - beginning	<u>679,986,360</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>\$ 716,113,130</u>	<u>\$ 679,986,360</u>	<u>\$ 591,081,423</u>	<u>\$ 569,997,557</u>	<u>\$ 598,324,146</u>
Net pension liability - ending (a) - (b)	\$ 261,988,912	\$ 239,263,802	\$ 265,587,234	\$ 236,819,220	\$ 189,131,210
Plan fiduciary net position as a percentage of total pension liability	73.21%	73.97%	69.00%	70.65%	75.98%
Covered payroll (1)	\$ 51,863,912	\$ 55,447,024	\$ 54,783,012	\$ 57,948,210	N/A
Net pension liability as a percentage of covered payroll	505.15%	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%

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

Notes to the Schedule of Contributions

Valuation Date 10/1/2016
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 10/01/2016)
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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	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, 2018, and the related notes to the financial statements, and have issued our report thereon dated August 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

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 weaknesses and significant deficiencies.

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 deficiencies described in the accompanying schedule of findings and responses as items 2017-02, 2018-02, and 2018-03 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and responses as items 2017-01, and 2018-01 to be significant deficiencies.

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 Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Caballero Fierman Llerena & Garcia, LLP

Caballero Fierman Llerena & Garcia, LLP
Coral Gables, Florida
August 14, 2019

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

PRIOR YEAR FINDINGS AND STATUS

Financial Statements

The following addresses the status of financial statement findings reported in the fiscal year ended September 30, 2017 schedule of findings and responses:

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

- **2017-01 No evidence of review of journal entries (Modified and Repeated)**
- **2017-02 Untimely preparation of bank reconciliations (Modified and Repeated)**

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

CURRENT YEAR FINDINGS AND RESPONSES

Material Weaknesses:

2017-02 Untimely preparation of bank reconciliations

Criteria

Best practices dictate that modular bank reconciliations are preferably prepared within 30 days from period ends with the appropriate review and sign off as evidence of the completeness, the accuracy and timeliness of the reconciliation. Timeliness of the monthly bank reconciliations reduces the risk that errors, fraud or misuse of funds could go undetected and/or uncorrected.

Condition

During our audit planning procedures for the fiscal year ended September 30, 2018, we reviewed the bank reconciliation for the month of October 2017 for the City's Pension bank accounts. The planning disclosed that the bank reconciliations were prepared on March 13, 2018 and reviewed on April 9, 2018. In addition, CFLG further reviewed the City's Pension bank accounts reconciliations for the months of January 2018, March 2018 and May 2018 and noted the following;

- Bank Reconciliations for the months of January, March and May 2018 were prepared more than 30 days after month end on June 4, 2018, June 20, 2018 and June 26, 2018, respectively.
- As of August 17, 2018, the SunTrust bank reconciliation for the month of June was not prepared

Cause

Insufficient supervision conducted over the bank reconciliation process that should emphasize a deadline and a time that each reconciliation needs to be completed.

Effect

Without bank reconciliations being prepared timely for accuracy and completeness, the Plan would not know if the cash position at a point in time is accurate and whether or not there were errors, fraud or misuse of funds. In addition, unreconciled transactions could cause accounts to be either over/understated.

Recommendation

We recommend the Plan implement internal controls associated with the review of bank reconciliations that will ensure reconciliations are prepared and reviewed within 30 days on a monthly basis to ensure accuracy and completeness of cash balances reported by the Plan.

View of responsible officials and planned corrective actions

As previously discussed, our department processes fifteen hundred retirees on a monthly basis, handles about fifteen hundred active employees, processes public records request, attorneys, actuaries and auditor's request s. Our department has gone through many changes and unusual situations in the period being audited. It is correct to say that work had to be prioritized and there was internal work impacted mentioned in this note. The bank reconciliations were prepared at a later date for reasons previously mentioned. It is redundant to say that the person performing this task, is no longer with the City and our office. I, as management, addressed the situation with this employee following the rules and regulations of The City of Hialeah in order to ensure the work was being done on a timely manner. Additionally; these entries were reviewed once I returned from my approved Maternity Leave on April 9, 2018. During this phase, our department went through a transitioning period and affected every field of work within our office responsibilities in addition to being short staffed.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)

Material Weaknesses: (Continued)

2018-02 Internal Control over Financial Reporting

Criteria

Timeliness of closing procedures is crucial to proving accurate accounting data and financial information including interim and year-end financial statements.

Condition

During the course of our audit procedures 13 journal entries were provided by management to adjust balances provided at the start of the fieldwork.

Cause

Improper controls over the financial close and reporting procedures of the Plan.

Effect

Certain account balances were not properly stated which impacts the Plan's ability to provide accurate information.

Recommendation

We recommend a detailed general ledger account analysis be performed on a monthly or quarterly basis in a timely manner including reconciling the accounting data with the custodian statements. In addition, we recommend the performance of an analytical review of account balances with the prior year balances to determine if there are any needed adjustments.

View of responsible officials and planned corrective actions

As previously discussed, during this time there were contract negotiations and our office was highly impacted with employees requesting estimates and others requesting to go through the process of retiring. Nonetheless, it is important to state that our office was short staffed, and our office had to prioritize the workload. The entries are done and reviewed on a monthly basis. Adjustments are made if needed as recommended on this note.

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.
- Some retiree files did not contain all paperwork supporting payments received by the plan for the purchase of time.
- The average salary utilized for retirement calculations included pay periods that contained retroactive adjustments which would result in higher benefit payments.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)

Material Weaknesses: (continued)

2018-03 Internal Control over Benefit Payments (Continued)

Cause

Improper controls over the processing of benefit payments.

Effect

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

Recommendation

We recommend that a detailed review is 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.

Consistency is key. As previously discussed, at the time the member is retiring, they are advised that as per section 70-102 in the City of Hialeah Employees' Retirement System if there is an over payment or under payment their benefit is adjusted. Benefit is adjusted when needed. Any participant that annuitizes, their annuity is prorated and that is reflected in the spread sheet in their file.

All retiree files have the supporting documents pertaining to their retirement. The Buying Service Time documentation is located in the left of the inside of the file; unless the employee has had the time deducted from their Annuity Savings Fund. If that is the case, documentation with the calculation is part of the retiree file. The entry in the system and the journal entry are seen in the system. From here on forward, for auditing purposes, I am implementing for a hard copy of the Buying Service Time (when deducted from the Annuity) to be added to the left side of the retiree file.

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.

Significant Deficiencies:

2017-01 Timely and accurate preparation of journal entries:

Criteria

Best practices dictate that Journal Entries be prepared in a timely manner with the appropriate description and support.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)

Significant Deficiencies: (Continued)

2017-01 Timely and accurate preparation of journal entries: (Continued)

Condition

During our audit planning procedures for the fiscal year ended September 30, 2018, we reviewed the Journal Entries for the months of January, March and May 2018 for the City's Pension accounts. The procedure disclosed that the Journal Entries were all entered in the system in the month of June 2018 and the description of the journal entries did not provide sufficient information to identify the purpose of the journal entry. Also, the amounts in the supporting documentation for some of the entries did not agree to the amount recorded in the general ledger.

Cause

Improper internal controls over the review and approval of journal entries.

Effect

Without Journal Entries being reviewed timely for accuracy, the Plan would not know in a timely basis if the account balances are accurate and whether there were any errors or fraud.

Recommendation

We recommend the Plan implement internal controls to include the review of Journal Entries in a timely basis that will ensure Journal Entries are reviewed before they are recorded into the Plan's general ledger.

View of responsible officials and planned corrective actions

The description of the journal entries was always done in the way it was reflected. As previously discussed, the descriptions of the journal entries were changed as per auditor's request in a previous auditing year. When documentation prints, the information printed is limited. Also, the account name per se, is related to the entry being performed. The recommendation on the note is being implemented.

2018-01 DROP payments:

Criteria

Per Ord. No. 2007-25, § 1, 2-27-2007 and Ord. No. 2007-59, § 1, 6-26-2007, payouts are to be made on or before January 31 of the year following the member's termination of employment or death, the member's entire DROP account shall be distributed to the member (or in the event of the death, to the member's designated beneficiary or estate) in a cash lump sum, unless the member elects to have all or any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the member.

Condition

During our audit we identified two individuals that were not paid their DROP balance in accordance with the Plan's policy. One individual exited the DROP on June 1, 2016 and was paid out on November 3, 2017 (more than 9 months after January 31). The other individual exited the DROP on February 2, 2018 and was paid out on April 12, 2019 (a month and a half after January 31).

Cause

Improper internal controls over the processing and payout of DROP balances.

Effect

Untimely payouts of DROP participant account balances could result in interest amounts being incorrectly applied to the account balance.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES**

CURRENT YEAR FINDINGS AND RESPONSES (CONTINUED)

Significant Deficiencies: (Continued)

2018-01 DROP payments: (Continued)

Recommendation

We recommend the City's Retirement Office implement internal controls over the processing and payout of DROP participant account balances to ensure compliance with the Plan's policies and procedures.

View of responsible officials and planned corrective actions

Consistency is key. As previously discussed, all accounts DROP and Annuity Savings Fund gain interest up to the date the account is closed. For the DROP accounts the ordinance in place states to withdraw by January 31st following the year of separation. At the time of entering the DROP as well as at the time when the DROP is completed, the participant is advised by staff when the monies should be withdrawn. A letter is also mailed to the participant advising to withdraw funds. It is the member's responsibility to request the transaction. There is no policy in place suggesting how to pay out the interest of such account. One participant that was paid out until January 31, 2019 was addressed and advised by the board attorney. As per section 70-269, the retirement office along with the chairman have been working on having a more detailed policy in writing in regards to this matter. Before implementing this policy, the board attorney will review and advise.