

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
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SEPTEMBER 30, 2017

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INDEPENDENT AUDITORS' REPORT



CABALLERO FIERMAN
LLERENA + GARCIA LLP
accountants | advisors

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Hialeah Employees' Retirement System (the "Plan") which comprise the statement of fiduciary net position as of September 30, 2017 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, 2017, 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, 2017 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 25 through 27, 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 June 26, 2018, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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
June 26, 2018

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

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the annual financial report presents the Management Discussion and Analysis (MD&A) of the City of Hialeah Employees' Retirement System (the Plan) financial performance. This analysis provides an overview of the financial activities and funding conditions for fiscal years ended September 30, 2017 and 2016. 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 2017 reflected the following financial activities:

- Total plan net position was \$679,986,567 as of September 30, 2017 and was 15% higher than the 2016 total plan net position. This increase was mainly due to the valuation of investments at fair market value as well as a prior period adjustment that is further described in note 10 to the financial statement .
- Total contributions were \$37,975,596 as of September 30, 2017 and were 11.2% higher than the 2016 contributions.
- Total additions were \$108,053,826 as of September 30, 2017 and were 30.4% higher than the 2016. The increase in earnings reflects the current economic conditions and market.
- Net investment income was \$70,077,870 as of September 30, 2017 and was 44% higher than the 2016 net investment income. The increase reflects the increase in appreciation of the fair value of investments.
- Total pension benefits payments and refunds were \$67,397,153 as of September 30, 2017 and were 9.1% less than 2016. This reflects a decrease in refunds for the current year.

Overview of the Financial Statements

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

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

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

The Statement of Net position reports net position and how they have changed. A net asset is the difference between the assets and liabilities, and it is one way to measure the financial health or current position of the Plan. The decrease in the net position during 2017 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, 2017.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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.

Plan Highlights

- Employer contributions for the year were \$29,197,532 were 10.90% more than the 2016 contributions. The amount of employer contribution varies from year to year and is actuarially determined.
- Plan member contributions were \$8,316,547 as of September 30, 2017 and were 12.79% higher than the 2016 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 4% 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.

**Employees' Retirement System
Net Position**

	2017	2016	Percent
	<u>Activities</u>	<u>Activities</u>	<u>Change</u>
Cash and short term investments	\$ 27,182,010	\$ 23,204,946	17.14%
Securities lending cash collateral	20,263,583	18,416,084	10.03%
Receivables	3,767,914	2,815,956	33.81%
Investments at fair value	642,743,839	603,465,058	6.51%
Loans to members	<u>9,442,631</u>	<u>10,116,315</u>	-6.66%
Total assets	703,399,977	658,018,359	6.90%
Total liabilities	<u>23,413,410</u>	<u>66,936,936</u>	-65.02%
Total net position	<u>\$ 679,986,567</u>	<u>\$ 591,081,423</u>	15.04%

Total net position at September 30, 2017 was \$679,986,567 a 15% increase over total net position at September 30, 2016. Total assets were \$703,399,977, an increase of 6.90% over 2016 and total liabilities were \$23,413,410 a decrease of 65.02% from 2016.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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
Statement of Changes In Plan Net position**

	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>	Percent <u>Change</u>
Total contributions	\$ 37,975,956	\$ 34,162,861	11.2%
Net investment gains	<u>70,077,870</u>	<u>48,674,393</u>	44.0%
Total increase (decrease)	108,053,826	82,837,254	30.4%
Total deductions	<u>67,397,153</u>	<u>61,753,388</u>	9.1%
Net increase (decrease)	40,656,673	21,083,866	92.8%
Net position, beginning as previously stated	591,081,423	569,997,557	3.7%
Prior period adjustment (See note 8)	<u>48,248,471</u>	-	
Beginning of year as restated	<u>639,329,894</u>	-	
Net position, ending	<u>\$ 679,986,567</u>	<u>\$ 591,081,423</u>	15.0%

Revenues (additions to the plan net position) for the Plan were \$108 million, which includes member, State and employer contributions of \$37.9 million and net investment gains from investment activities of \$70.1 million. Expenses (deductions to the plan net position) increase from \$61 million during 2016 to \$67 million in 2017 or about 9.1%. 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, 2017.

**City of Hialeah Employees' Retirement System
Summary of Asset Allocation**

	<u>Policy Guidelines</u>	<u>Actual Allocation September 30, 2017</u>
US Intern Agg Fixed Inc - Boyd	17.50%	16.95%
US Intern Agg Fixed Inc - Taplin	22.50%	21.64%
Domestic Large Cap Core - RhumbLine	15.00%	15.25%
Domestic Large Cap Growth - GAMCO	5.00%	4.98%
Domestic Large Cap Value – Diamond	5.00%	5.04%
Russell Midcap Value - Fisher	6.00%	6.04%
Russell Midcap Core – RhumbLine	5.00%	5.07%
Russell Midcap Growth - RhumbLine	5.00%	5.13%
Small Cap Core – RhumbLine	5.00%	5.36%
Small Cap Value - Fisher	2.00%	2.12%
Small Cap Growth - Franklin	2.00%	2.22%
International Equity - Franklin	5.00%	5.36%
Alternatives- Entrust DIV, RICI PAM, Entrust SP Opp, BlackRock	<u>5.00%</u>	<u>4.84%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Asset Allocation (Continued)

The table below indicates the Plan's investment policy target asset allocation for September 30, 2017:

	<u>Policy Guidelines</u>	<u>Actual Allocation September 30, 2017</u>
Domestic Equity	50.00%	51.21%
International Equity	5.00%	5.36%
US Fixed Income	40.00%	38.59%
Alternatives	<u>5.00%</u>	<u>4.84%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

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

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

The Board also recognizes that some risk must be assumed to achieve the Plan's long-term investment objectives. In establishing the risk tolerances, the Plan's ability to withstand short and intermediate term variability has been considered. However, the Plan's strong financial condition enables the Board to adopt a long-term investment perspective. Asset allocation for fiscal year ended September 30, 2017 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.

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

CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

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	\$ 141,285,644	0.86%	0.60%	2.38%	5.46%
Barclays Interm Agg		0.72%	0.25%	2.25%	5.31%
Intermediate Aggregate	110,684,991	0.84%	0.15%	2.11%	4.56%
Barclays Interm Agg		0.72%	0.25%	2.25%	4.68%
Large Cap Core	99,579,818	4.53%	18.65%	10.93%	9.89%
S&P 500		4.48%	18.61%	10.81%	9.59%
Large Cap Value	32,903,734	4.70%	21.97%	11.36%	8.76%
Russell 1000V		3.11%	15.12%	8.53%	7.78%
Large Cap Growth	32,525,191	4.89%	19.62%	11.64%	15.71%
Russell 1000G		5.90%	21.94%	12.69%	16.87%
Midcap Core	33,093,601	3.26%	17.63%	11.46%	10.80%
S&P 400		3.22%	17.52%	11.18%	10.67%
Midcap Value	39,447,307	3.86%	24.85%	11.72%	11.67%
Russell Midcap Value		2.14%	13.37%	9.19%	10.87%
Midcap Growth	33,501,726	5.28%	18.05%	10.32%	9.94%
Russell Midcap Growth		5.28%	17.82%	9.96%	9.93%
Small Cap Core	35,022,617	6.11%	21.39%	14.22%	11.50%
S&P 600		5.96%	21.05%	14.07%	11.40%
Small Cap Value	13,830,573	3.76%	22.70%	12.78%	11.50%
Russell 2000 Value		5.11%	20.55%	12.12%	8.46%
Small Cap Growth	14,493,659	5.72%	13.85%	9.02%	9.44%
Russell 2000 Growth		6.22%	20.98%	12.17%	8.45%
International Equity	35,026,965	5.57%	21.51%	3.65%	2.85%
MSCI EAFE		5.40%	19.10%	5.04%	2.47%
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	7,946,784	-0.37%	1.71%	-2.93%	-2.22%
HFRI FOF: Diversified Index		2.36%	5.87%	1.98%	2.50%
Alternatives Opportunity	10,249,239	1.30%	11.02%	NA	9.04%
HFRI FOF: Diversified Index		2.36%	5.87%	NA	1.12%
Alternatives	6,972,433	2.98%	10.82%	NA	4.42%
60%MSCI World/40% Barclays Global Agg Bond		3.62%	10.07%	NA	6.03%
Alternatives	<u>6,446,688</u>	4.23%	0.65%	-12.81%	-11.84%
Bloomberg Commodity Index TR		2.52%	-0.30%	-10.42%	-9.32%
Total	<u>\$ 653,010,970</u>	3.08%	11.43%	6.80%	7.78%
Policy Benchmark		2.88%	10.07%	6.56%	8.06%

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.

**CITY OF HIALEAH
EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Financial Analysis Summary

The investment activities, for the fiscal year ended September 30, 2017, 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 11.43% 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 6.80% 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, 2017

<u>ASSETS</u>	
Cash and short-term investments	\$ 27,182,010
Securities lending cash collateral	<u>20,263,583</u>
Receivables:	
Accrued interest	1,273,790
Accrued dividends	315,430
Contributions	730,428
Investments sold	1,241,571
Other receivables	<u>206,695</u>
Total receivables	<u>3,767,914</u>
Investments, at fair value:	
U.S. Treasury bonds and notes	56,627,379
Asset backed securities	8,493,121
Mortgage backed securities	80,087,652
Real estate investment trust	15,141,941
Corporate bonds and notes	98,939,860
Municipal bonds	1,007,125
Limited partnership	24,514,980
Mutual funds	7,257,456
Common stocks	<u>350,674,325</u>
Total investments	<u>642,743,839</u>
Loans to members	<u>9,442,631</u>
Total assets	<u>703,399,977</u>
<u>LIABILITIES AND NET POSITION</u>	
Obligations under securities lending	20,263,583
Due to retired participants	121,571
Investments purchased	3,008,366
Accounts payable and accrued liabilities	<u>19,890</u>
Total liabilities	<u>23,413,410</u>
Net position restricted for pensions	<u>\$ 679,986,567</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, 2017

ADDITIONS

Contributions:

Employer	\$ 29,197,532
Plan members	2,152,895
Plan members buyback	2,569,143
Plan members annuity saving	3,594,509
State	<u>461,877</u>
Total contributions	<u>37,975,956</u>

Investment income:

Investment earnings	14,481,072
Net appreciation in fair value of investments	<u>56,675,216</u>

71,156,288

Less investment expenses (1,078,418)

Net investment income 70,077,870

Total additions 108,053,826

DEDUCTIONS

Pension benefits	56,611,939
DROP benefits	2,156,091
Refunds	<u>8,629,123</u>
Total deductions	<u>67,397,153</u>

Net Increase 40,656,673

Net Position restricted for pensions:

Beginning of year as previously reported	591,081,423
Prior period adjustment (See note 8)	<u>48,248,471</u>
Beginning of year as restated	<u>639,329,894</u>
End of year	<u>\$ 679,986,567</u>

See notes to financial statements.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 6.75%. 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, 2017

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, 2016 consisted of the following:

Inactive plan members:	
Beneficiaries currently receiving benefits	1482
Entitled to benefits but not yet receiving them	145
Active plan members	<u>939</u>
Total	<u><u>2566</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, 2017

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.

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, 2017

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, 2017.

The actual contribution from the City for active members were actuarially determined using the actuarial valuation as of October 1, 2016 for the year ended September 30, 2017. The contributions consisted of the following at September 30, 2017:

	Actual Contribution	Percentage of Covered Payroll
City	\$ 29,197,532	53%
State of Florida	461,877	0.83%
Total contribution from City and State of Florida	\$ 29,659,409	53%
Members	2,152,895	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, 2017

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, 2017, there were forty-four (44) DROP participants and their fair value of DROP investment was \$3,742,546 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, 2017

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%

Rate of Return

For the year ended September 30, 2017 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.22%. 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 2017:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u> <u>year</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>More than 10</u> <u>years</u>
<u>City of Hialeah Employees' Retirement System</u>					
U.S. Treasury bonds and notes	56,627,379	32,188,913	18,258,555	6,179,911	-
Corporate bonds and notes	98,939,860	5,452,576	35,270,133	58,217,151	-
Municipals	1,007,125	-	500,205	506,920	-
Mortgage backed securities	80,087,652	10,599	812,130	3,994,301	75,270,622
Asset backed securities	8,493,121	-	6,535,747	1,957,374	-
Sub-total	<u>245,155,137</u>	<u>37,652,088</u>	<u>61,376,770</u>	<u>70,855,657</u>	<u>75,270,622</u>
Real Estate Investment Trust	15,141,941				
Limited Partnership	24,514,980				
Mutual Funds	7,257,456				
Common stocks	350,674,325				
Total Fair Value	<u>642,743,839</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, 2017

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, 2017, 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>
U.S. Treasury Bonds and Notes	56,627,379	Aaa
Asset backed securities	1,592,139	Aa2
Asset backed securities	1,409,087	Aa3
Asset backed securities	2,301,548	Aaa
Asset backed securities	3,190,347	NR
Mortgage Backed Securities	1,462,769	Aa3
Mortgage Backed Securities	4,202,344	Aaa
Mortgage Backed Securities	74,422,538	NR
Municipals	506,920	A1
Municipals	500,205	Aa2
Corporate bonds and notes	12,617,294	A1
Corporate bonds and notes	17,295,450	A2
Corporate bonds and notes	14,222,831	A3
Corporate bonds and notes	1,628,001	Aa1
Corporate bonds and notes	3,353,974	Aa2
Corporate bonds and notes	1,945,550	Aa3
Corporate bonds and notes	3,915,070	Aaa
Corporate bonds and notes	1,369,025	Ba1
Corporate bonds and notes	672,916	Ba2
Corporate bonds and notes	11,796,685	Baa1
Corporate bonds and notes	13,865,589	Baa2
Corporate bonds and notes	15,370,891	Baa3
Corporate bonds and notes	886,585	NR
	<u>245,155,137</u>	

Concentration Credit Risk

GASB Statement No. 40 requires 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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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.

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	766,697
DANISH KRONE	233,166
EURO CURRENCY	11,178,873
HONG KONG DOLLAR	2,969,380
JAPANESE YEN	5,526,317
NORWEGIAN KRONE	1,157,401
POUND STERLING	5,722,547
SINGAPORE DOLLAR	1,180,479
SWEDISH KRONA	175,772
SWISS FRANCO	1,455,580
	30,366,212

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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 4 - FAIR VALUE MEASUREMENTS

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

As of September 30, 2017, 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	350,674,325	350,674,325	-
U.S. Treasuries	56,627,379	-	56,627,379
Corporate Bonds	98,939,860	-	98,939,860
Municipal Bonds	1,007,125	-	1,007,125
Mortgage Backed Securities	80,087,652	-	80,087,652
Asset Backed Securities	8,493,121	-	8,493,121
Mutual Funds	7,257,456	309,869	6,947,587
Real Estate Investment Trusts	15,141,941	15,141,941	-
Sub total investment by fair value level	<u>618,228,859</u>	<u>366,126,135</u>	<u>252,102,724</u>
 <u>Investments measured at the net assets value (NAV)*</u>			
Limited Partnership	24,514,980		
Money market funds (exempt)	<u>22,868,947</u>		
Total investment by fair value level	<u>665,612,786</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, 2017

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 <u>Value</u>	Unfunded <u>Commitments</u>	Redemption Frequency (if <u>Currently Eligible</u>)	Redemption Notice <u>Period</u>
Limited Partnerships (1)	\$ 6,446,688	-	Monthly	5 Days
Limited Partnerships (2)	10,124,259	-	Quarterly up to 50% of the NAV	90 Days
Limited Partnerships (3)	<u>7,944,033</u>	1,021,972	Quarterly up to 50% of the NAV	95 Days
Total investments measured at NAV	<u>\$ 24,514,980</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 approved 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.

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5 - SECURITIES LENDING TRANSACTIONS (Continued)

- f) Income Assignment. No income from one fund was assigned to another fund by State Street during the fiscal year.

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, 2017, 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, 2017, 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, 2017 was \$20,263,583. The \$20,263,583 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 \$20,263,583 for obligations under security lending.

NOTE 6 - NET PENSION LIABILITY

Total pension liability	\$ 919,250,162
Plan fiduciary net position	<u>\$ 679,986,360</u>
Net pension liability	<u>\$ 239,263,802</u>
 Plan fiduciary net position as a percentatge of total pension liability	 73.97%

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 - NET PENSION LIABILITY (Continued)

Significant Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of October 1, 2016 updated to September 30, 2017, using the following actuarial assumptions:

Interest rates:	
Single discount rate	8.0%
Inflation	2.3%
Salary Increases	3.0-9.0%
Long-term expected rate of return	8.0%
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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>2017</u>
Domestic Equity	50%	7.10%
International Equity	5%	7.40%
Domestic Bonds	40%	2.10%
Other	5%	4.20%
Total	100%	

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6 - NET PENSION LIABILITY (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.00 %. 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 8.0%, 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 7.00%	Current Discount Rate 8.00%	1% Increase 9.00%
\$ 321,464,874	\$ 239,263,802	\$ 169,830,548

NOTE 7 - ACTUARIAL ASSUMPTIONS AND METHOD CHANGES

Effective October 1, 2016,

- a) As negotiated between the Board and the Division of Retirement, the payroll growth assumption utilized in amortizing the Unfunded Actuarial Accrued Liability was changed from 2% to 1% in the October 1, 2016 funding valuation. It will change to 0.0% in the October 1, 2017 report and beyond.
- b) Additionally, the mortality assumption was amended because each year it is assumed that mortality improves. Additionally, as a result of Chapter 2015-157, Laws of Florida, the assumed rates of mortality were changed to the assumptions used by the Florida Retirement System.

NOTE 8 - RESTATEMENT

During the current year, it was determined by the City that the September 30, 2017 beginning net position/fund balance (as applicable) for the Employee Retirement System was to be restated to correct the beginning net position due to a revision in methodology to include annuity reserve fund and remove it as a liability from the fund financial statements.

The following presents the impact in the net position/fund balance (as applicable) as of October 1, 2016:

Net Position - Beginning of Year, as previously reported.	\$ 591,081,423
Revision in methodology to include annuity reserve fund	48,248,471
Net Position - Beginning of Year, as restated	\$ 639,329,894

CITY OF HIALEAH, FLORIDA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9 – SUBSEQUENT EVENTS

Based on the mutual agreement between the City and AFSCME, as of December 1, 2017, pension benefits accrued by general employees who are plan members and are not grandfathered in, as determined by the new plan provisions, have changed to include a lower benefit multiplier, increased normal retirement age, elimination of cost of living adjustment, base pay as the only type of pay to be considered pensionable pay, and an average final compensation calculated based on the average of eight years. In addition, all plan members must contribute a higher percentage of pay to the plan. All plan members who are not grandfathered in were 100% vested in the accrued benefit earned prior to December 1, 2017 and eligible to receive the frozen benefit upon reaching normal retirement in effect prior to the freeze. Please refer to the applicable provisions of Chapter 70 of the Code of Ordinances of the City of Hialeah for a complete description of the plan changes.

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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 8,302,554	\$ 8,887,641	\$ 9,104,164	\$ 8,982,779
Interest	65,295,454	62,786,218	61,082,848	60,285,831
Change in annuity savings fund	3,594,508	4,032,235	3,887,151	4,064,028
Change in annuity reserve fund	48,248,469	-	-	-
Change in benefit terms	(15,079,464)	-	-	-
Difference between expected & actual experience	17,047,994	13,256,782	10,359,527	-
Changes of assumptions	-	21,734,473	-	-
Contributions - buy back	2,569,143	907,919	975,579	1,182,367
Benefit payments, including refunds of employee contributions	<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	62,581,505	49,851,880	19,361,421	11,215,501
Total pension liability - beginning	<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>\$ 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	\$ 29,197,532	\$ 26,327,799	\$ 27,382,906	\$ 25,769,253
Contributions - state	461,877	461,877	461,877	461,877
Contributions - member	2,152,895	2,433,031	2,132,259	1,587,095
Contributions - buy back	2,569,143	907,919	975,579	1,182,367
Contributions - annuity savings fund	3,594,508	4,032,235	3,887,151	4,064,028
Net investment income	70,077,666	48,674,393	2,881,487	58,702,102
Benefit payments, including refunds of employee contributions	<u>(67,397,153)</u>	<u>(61,753,388)</u>	<u>(66,047,848)</u>	<u>(63,299,504)</u>
Revision in methodology to include annuity reserve fund	48,248,469	-	-	-
Net change in plan fiduciary net position	88,904,937	21,083,866	(28,326,589)	28,467,218
Plan fiduciary net position - beginning	<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>\$ 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)	\$ 239,263,802	\$ 265,587,234	\$ 236,819,220	\$ 189,131,210
Plan fiduciary net position as a percentage of total pension liability	73.97%	69.00%	70.65%	75.98%
Covered payroll (1)	\$ 55,447,024	\$ 54,783,012	\$ 57,948,210	N/A
Net pension liability as a percentage of covered payroll	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%

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

Notes to the Schedule of Contributions

Valuation Date 10/1/2015
Notes Actuarially determined contribution rates are calculated as of October 1, which is two years prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method 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, 2011, 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 3.5% per year.

Remaining Amortization Period 30 years (as of 10/01/2015)

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 3.5% 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>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	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, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-01 and 2017-02 that we consider 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 Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity'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
June 26, 2018

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

PRIOR YEAR COMMENTS 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:

None

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

- 2015-01 Internal Control over Financial Reporting.

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

CURRENT YEAR FINDINGS AND RESPONSES

Significant Deficiencies:

2017-01 No evidence of review of journal entries.

Criteria

Based on best practices adjusting Journal Entries are preferably prepared with the appropriate review and sign off as evidence of the completeness and accuracy of the Journal Entries.

Condition

During our audit planning procedures for the fiscal year ended September 30, 2017, we reviewed the Journal Entries for the months of January, March and May 2017 for the Plan's accounts. Our procedures revealed that the Journal Entries were prepared but were not reviewed by a supervisor.

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 if the account balances are accurate and whether there were any errors or fraud.

Recommendation

We recommend the Plan implements internal controls associated with the review of Journal Entries 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

Management agrees with the recommendation that journal entries should show evidence of the preparation and review including the individual that performed the function and the date it was performed. We will continue to prepare and review entries ensuring that the supporting documentation reflects whom performed the function and when.

2017-02 Untimely preparation of bank reconciliations.

Criteria

Best practices indicate that bank reconciliations are preferably prepared within 30 days from when the 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, 2017, we reviewed the bank reconciliation for the month of July 2017 for the Plan's cash bank accounts. Our procedures disclosed that the bank reconciliations were prepared and reviewed on September 22, 2017. In addition, On January 30, 2018 CFLG further reviewed the cash accounts reconciliations for the months of February 2017, August 2017 and September 2017 and noted the following:

CURRENT YEAR FINDINGS AND RESPONSES (Continued)

Condition (Continued)

- Bank Reconciliations for the months of February, August and September 2017 were prepared past the 30 days after month end on May 16, 2017, October 20, 2017 and January 17, 2018, respectively.
- The bank reconciliations for the month of February 2017 and September were only signed by the preparer.
- As of January 30, 2018, the cash accounts reconciliation for the months of October, November and December 2017 were not prepared.

Cause

Proper supervision not conducted over the bank reconciliation process that 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 transaction could cause accounts to be either over/understated.

Recommendation

We recommend the Plan implements 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

Management agrees with the recommendation and will ensure that bank reconciliations are prepared and reviewed within thirty days of the month end. In addition, we will ensure that the bank reconciliations include evidence of review and approval.