

**MIAMI BEACH EMPLOYEES' RETIREMENT PLAN**  
**A PENSION TRUST FUND OF THE CITY OF MIAMI BEACH, FLORIDA**  
**FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## TABLE OF CONTENTS

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|   |       |
|---|-------|
| <b>Independent Auditors' Report</b> .....   | 1-3   |
| <b>Management's Discussion and Analysis (Required Supplementary Information)</b> .....  | 4-8   |
| <b>Financial Statements</b>   |       |
| Statement of Fiduciary Net Position .....   | 9     |
| Statement of Changes in Fiduciary Net Position .....  | 10    |
| Notes to Financial Statements.....  | 11-25 |
| <b>Required Supplementary Information</b>   |       |
| Schedule of Changes in the City's Net Pension Liability and Related Ratios.....   | 26    |
| Schedule of City Contributions.....   | 27    |
| Schedule of Investment Returns .....  | 28    |
| <b>Supplementary Information</b>  |       |
| Schedule 1 – Schedule of Investment Expenses .....  | 29    |
| Schedule 2 – Schedule of Administrative Expenses.....   | 29    |
| <b>Reporting Section</b>  |       |
| Independent Auditors' Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> ..... | 30-31 |

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**INDEPENDENT AUDITORS' REPORT**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees and Plan Administrator  
**Miami Beach Employees' Retirement Plan**

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Miami Beach Employees' Retirement Plan (the Plan), which comprise the statement of fiduciary net position as of September 30, 2019 and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 entity'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 entity'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 2019 financial statements referred to above present fairly, in all material respects, the respective financial position of the Plan as of September 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Prior Year Comparative Information***

We have previously audited the Miami Beach Employees' Retirement Plan's 2018 financial statements, and our report dated March 19, 2019, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the city's net pension liability and related ratios, schedule of city contributions, and schedule of investment returns on pages 4–8 and 26–28 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of investment expenses and the schedule of administrative expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of investment expenses and the schedule of administrative expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2020 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 solely 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 the effectiveness of the Plan's 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.

*Marcum LLP*

Miami, FL  
March 11, 2020

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **Management's Discussion and Analysis**

### **(Required Supplementary Information)**

**September 30, 2019**

Our discussion and analysis of the Miami Beach Employees' Retirement Plan's (the Plan) financial performance provides an overview of the Plan's financial activities and funding conditions for the fiscal year ended September 30, 2019 compared to the fiscal year ended September 30, 2018. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements and required supplementary information. Please read it in conjunction with the Plan's financial statements, which follows this discussion.

#### ***Financial Highlights***

- The Plan assets exceeded its liabilities at the close of fiscal years ended September 30, 2019 and 2018 by \$666,499,619 and \$656,207,611, respectively (reported as net position held in trust for pension benefits).
- For the fiscal year ended September 30, 2019, liabilities increased by \$22,795 (or 8.7%) from the fiscal year ended September 30, 2018.
- For the fiscal year ended September 30, 2019, City contributions to the Plan, decreased \$28,181 (or 0.09%).
- For the fiscal year ended September 30, 2019, member contributions including buybacks increased by \$269,617.
- For the fiscal year ended September 30, 2019, the Plan had net investment income of \$23,328,881 compared to a net investment income of \$51,285,893 in the fiscal year ended September 30, 2018.
- For the fiscal year ended September 30, 2019, administrative expenses increased by \$97,801 (or 13%) as compared to 2018.

#### ***Plan Highlights***

As of September 30, 2019, the total return of the Plan's portfolio was 4.6% and ranked in the 35th percentile of the universe of total funds, 0.4% below the benchmark return of 5.0%. During fiscal year 2018, the total return of the Plan's portfolio was 8.6% and ranked in the 27th percentile of the universe of total funds, 1.4% above the benchmark return of 7.2%.

## *Description of the Financial Statements*

The *Statement of Fiduciary Net Position* presents information that includes all of the Plan's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, with the difference between the two reported as net position held in trust for pension benefits. It is a snapshot of the financial position of the Plan at that specific point in time and reflects the resources available to pay members, retirees and beneficiaries at that point in time. There were no deferred outflows/inflows at September 30, 2019 or 2018.

The *Statement of Changes in Fiduciary Net Position* reports how the Plan's net position changed during the year. The additions and deductions to net position are summarized in this statement. The additions include contributions to the retirement plan from the City and members and net investment income, which include interest, dividends, investment expenses, and the net appreciation or depreciation in the fair value of investments. The deductions include benefit payments, refunds of member contributions, and administrative expenses.

The *Notes to the Financial Statements* are presented to provide the information necessary for a full understanding of the financial statements. They include additional information not readily evident in the statements themselves such as a description of the Plan, contributions, significant accounting policies, funding policy, and investment risk disclosure.

There are also three *Required Supplementary Schedules* included in this report as required by the Governmental Accounting Standards Board. The schedule of changes in the city's net pension liability and related ratios, schedule of city contributions, and schedule of investment returns are presented following the notes to the financial statements.

Additional information is presented as part of Supplementary Information. This section is not required, but management has chosen to include it. It includes the Schedules of Investment Expenses and the Schedule of Administrative Expenses. The Schedule of Investment Expenses presents the expenses incurred in managing and monitoring the investments of the Plan and include financial management, consultant, and custodial fees. The Schedule of Administrative Expenses presents the expenses incurred in the administration of the Plan.

### *Summary of Fiduciary Net Position*

The table below shows comparative summary of Fiduciary Net Position:

|  | 2019                  | 2018                  | Increase (Decrease)<br>2018 to 2019 |         |
|--|-----------------------|-----------------------|-------------------------------------|---------|
|  |                       |                       | Amount                              | Percent |
| Cash   | \$ 4,919,715          | \$ 3,706,911          | \$ 1,212,804                        | 33%     |
| Receivables  | 154,563               | 333,855               | (179,292)                           | -54%    |
| Investments  | <u>661,709,282</u>    | <u>652,427,991</u>    | <u>9,281,291</u>                    | 1%      |
| <b>Total Assets</b>  | 666,783,560           | 656,468,757           | 10,314,803                          | 2%      |
| Liabilities  | <u>283,941</u>        | <u>261,146</u>        | <u>22,795</u>                       | 9%      |
| <b>Net Position Held in Trust for<br/>Pension Benefits</b> | <u>\$ 666,499,619</u> | <u>\$ 656,207,611</u> | <u>\$ 10,292,008</u>                | 2%      |

- The Plan assets exceeded its liabilities at the close of fiscal years ended September 30, 2019 and 2018 by \$666,499,619 and \$656,207,611 respectively (reported as net position held in trust for pension benefits). Net position is held in trust to meet future benefit payments. The increase of \$10,292,008 and increase of \$39,583,385, for the fiscal years ended September 30, 2019 and 2018, respectively, have resulted primarily from the changes in the contributions and the investment income and losses (market conditions).
- Cash at year ended September 30, 2019 increased by \$1,212,804 (32.7%) from the fiscal year ended September 30, 2018 due primarily to the timing and processing of benefit payments.
- Receivables at fiscal year ended September 30, 2019 decreased by \$179,292 (53.7%) from the fiscal year ended September 30, 2018 due primarily to current year activity related to DROP notes receivables. The Plan document allows DROP loans to be issued to Plan members subject to compliance requirements and provisions of the Plan document.
- For the fiscal year ended September 30, 2019, liabilities increased by \$22,795 (or 8.7%) as compared to September 30, 2018 primarily due to an increase in accrued expenses.

## Summary of Changes in Fiduciary Net Position

The table below shows comparative summary of changes in fiduciary net position:

|   | 2019                 | 2018                 | Increase (Decrease)<br>2018 to 2019 |         |
|---|----------------------|----------------------|-------------------------------------|---------|
|   |                      |                      | Amount                              | Percent |
| <b>Additions</b>                              |                      |                      |                                     |         |
| Contributions:                                |                      |                      |                                     |         |
| City  | \$ 31,864,304        | \$ 31,892,485        | \$ (28,181)                         | 0%      |
| Member  | 8,512,207            | 8,242,590            | 269,617                             | 3%      |
| Total contributions                           | 40,376,511           | 40,135,075           | 241,436                             | 1%      |
| Net investment income                         | 23,328,881           | 51,285,893           | (27,957,012)                        | -55%    |
| <b>Total Additions</b>                        | <u>63,705,392</u>    | <u>91,420,968</u>    | <u>(27,715,576)</u>                 | -30%    |
| <b>Deductions</b>                             |                      |                      |                                     |         |
| Benefits paid                                 | 51,014,104           | 49,726,168           | 1,287,936                           | 3%      |
| Refund of contributions                       | 1,571,361            | 1,381,297            | 190,064                             | 14%     |
| Administrative expenses                       | 827,919              | 730,118              | 97,801                              | 13%     |
| <b>Total Deductions</b>                       | <u>53,413,384</u>    | <u>51,837,583</u>    | <u>1,575,801</u>                    | 3%      |
| <b>Change in Net Position</b>                 | 10,292,008           | 39,583,385           | (29,291,377)                        | -74%    |
| <b>Net Position Held in Trust for Pension</b> |                      |                      |                                     |         |
| <b>Benefits at Beginning of Year</b>          | <u>656,207,611</u>   | <u>616,624,226</u>   | <u>39,583,385</u>                   | 6%      |
| <b>Net Position Held in Trust for Pension</b> |                      |                      |                                     |         |
| <b>Benefits at End of Year</b>                | <u>\$666,499,619</u> | <u>\$656,207,611</u> | <u>\$ 10,292,008</u>                | 2%      |

- For the fiscal year ended September 30, 2019, City contributions to the Plan, decreased \$28,181 (or 0.09%). Actual City contributions are based primarily on the actuarial valuation and were \$31,864,304 and \$31,892,485 for 2019 and 2018, respectively.
- For the fiscal year ended September 30, 2019, member contributions including buybacks increased by \$269,617. The variance is due to an expected increase of actual member contributions (based on a percentage of covered salary), including buybacks (unique to each plan member).
- For the fiscal year ended September 30, 2019, the Plan had net investment income of \$23,328,881 compared to \$51,285,893 in the fiscal year ended September 30, 2018. Actual results were \$16,449,374 and \$44,693,992 in net appreciation in fair value of investments for 2019 and 2018, respectively, \$9,323,051 and \$8,768,807 of income from interest and dividends, respectively. Investment expenses increased by \$266,638 due to the net increase in the fair value of investments from the prior year.
- For the fiscal year ended September 30, 2019, the Plan's benefits paid increased \$1,287,936 (2.6%) as compared to fiscal year ended September 30, 2018, due to an annual Cost of Living Adjustment and new Retirees receiving benefits at a higher rate than deceased retirees.

The Plan's investment activities, measured as of the end of any month, quarter or year, is a function of the underlying marketplace for the period measured and the investment policy's asset allocation. The benefit payments are a function of changing payments to retirees, their beneficiary (if the retiree is deceased) and new retirements during the period.

### ***Asset Allocation***

At September 30, 2019, the domestic equity portion, excluding the DROP fixed securities and mutual funds, comprised 39.1% (\$252,685,391) of the total portfolio. The allocation to fixed income securities was 28.0% (\$181,425,654), while real estate comprised 10.6% or (\$68,307,129). The allocation to international equity including emerging markets was 15.6% (\$100,746,994) and infrastructure investments were 6.6 % (\$42,593,026) of the total portfolio. The current allocation to cash is \$1,180,268.

At September 30, 2018, the domestic equity portion, excluding the DROP mutual funds, comprised 38.8% (\$247,364,914) of the total portfolio. The allocation to fixed income securities was 27.8% (\$176,886,136), while real estate comprised 10.4% or (\$66,286,956). The allocation to international equity including emerging markets was 16.2% (\$103,600,400) and an infrastructure investment was 6.4% (\$40,805,491) of the total portfolio. The current allocation to cash is \$2,496,064.

The target asset allocation and actual allocation (excluding DROP) as of September 30, is as follows:

|                         | 2019     |             | 2018     |             |
|-------------------------|----------|-------------|----------|-------------|
|                         | Target % | Actual      | Target % | Actual      |
| Domestic equities       | 39%      | 39.1%       | 39%      | 38.8%       |
| Fixed income securities | 28%      | 28.0%       | 28%      | 27.8%       |
| International equities  | 16%      | 15.6%       | 16%      | 16.2%       |
| Real estate             | 10%      | 10.6%       | 10%      | 10.4%       |
| Infrastructure          | 7%       | 6.6%        | 7%       | 6.4%        |
| Cash                    | 0%       | 0.1%        | 0%       | 0.4%        |
|                         |          | <u>100%</u> |          | <u>100%</u> |

### ***Contacting the Plan's Financial Management***

This financial report is designed to provide the Board of Trustees, our membership, taxpayers, and creditors with a general overview of the Plan finances and to demonstrate accountability for the monies the Plan manages. If you have any questions about this report or need additional financial information, contact Miami Beach Employees' Retirement Plan, 1700 Convention Center Drive, Miami Beach, Florida 33139.

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# **FINANCIAL STATEMENTS**

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# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2019

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2018)

|  | <u>2019</u>           | <u>2018</u>           |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| <b>Cash</b>  | \$ 4,919,715          | \$ 3,706,911          |
| <b>Receivables</b>                                     |                       |                       |
| DROP notes receivable                                  | <u>154,563</u>        | <u>333,855</u>        |
| <b>Investments</b>                                     |                       |                       |
| Short term investment funds                            | 1,180,268             | 2,496,064             |
| Domestic equities                                      | 252,685,391           | 247,364,914           |
| International equities                                 | 100,746,994           | 103,600,400           |
| Fixed income bond funds                                | 181,425,654           | 176,886,136           |
| Real estate fund                                       | 68,307,129            | 66,286,956            |
| Infrastructure investments                             | 42,593,026            | 40,805,491            |
| Mutual funds - Deferred Retirement Option Program      | 12,761,136            | 14,107,708            |
| Fixed securities - Deferred Retirement Option Program  | <u>2,009,684</u>      | <u>880,322</u>        |
| <b>Total Investments</b>                               | <u>661,709,282</u>    | <u>652,427,991</u>    |
| <b>Total Assets</b>                                    | <u>666,783,560</u>    | <u>656,468,757</u>    |
| <b>Liabilities</b>                                     |                       |                       |
| Accounts payable and accrued liabilities               | <u>283,941</u>        | <u>261,146</u>        |
| <b>Net Position Held in Trust for Pension Benefits</b> | <u>\$ 666,499,619</u> | <u>\$ 656,207,611</u> |

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

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED SEPTEMBER 30, 2019

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

|  | 2019           | 2018           |
|--|----------------|----------------|
| <b>Additions</b>                                       |                |                |
| <b>Contributions</b>                                   |                |                |
| City   | \$ 31,864,304  | \$ 31,892,485  |
| Members  | 8,512,207      | 8,242,590      |
| <b>Total Contributions</b>                             | 40,376,511     | 40,135,075     |
| <b>Investment Income</b>                               |                |                |
| Net appreciation in fair value of investments          | 16,449,374     | 44,693,992     |
| Interest and dividends                                 | 9,323,051      | 8,768,807      |
| <b>Total Investment Income</b>                         | 25,772,425     | 53,462,799     |
| Less: investment expenses                              | 2,443,544      | 2,176,906      |
| <b>Net Investment Income</b>                           | 23,328,881     | 51,285,893     |
| <b>Total Additions</b>                                 | 63,705,392     | 91,420,968     |
| <b>Deductions</b>                                      |                |                |
| Benefits paid  | 51,014,104     | 49,726,168     |
| Refunds of contributions                               | 1,571,361      | 1,381,297      |
| Administrative expenses                                | 827,919        | 730,118        |
| <b>Total Deductions</b>                                | 53,413,384     | 51,837,583     |
| <b>Change in Net Position</b>                          | 10,292,008     | 39,583,385     |
| <b>Net Position Held in Trust for Pension Benefits</b> |                |                |
| Beginning of year                                      | 656,207,611    | 616,624,226    |
| End of year  | \$ 666,499,619 | \$ 656,207,611 |

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

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## **NOTES TO FINANCIAL STATEMENTS**

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# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 1 – DESCRIPTION OF THE PLAN

#### *ORGANIZATION*

The Miami Beach Employees' Retirement Plan (the Plan) is a single-employer defined benefit pension plan established by the City of Miami Beach, Florida (the City) effective March 18, 2006 for general employees. The Miami Beach Employees' Retirement System was created under and by the authority of Chapter 18691, Laws of Florida, Act of 1937, as amended, by merging the "Retirement System for General Employees of the City of Miami Beach" created by Ordinance 1901 with the "Retirement System for Unclassified Employees and Elected Officials of the City of Miami Beach" created by Ordinance 88-2603, as amended. Since the Plan is sponsored by the City, the Plan is included as a pension trust fund in the City's comprehensive annual financial report as part of the City's financial reporting entity.

Classified employees in the Plan are segregated into three unions and into categories called "Others": American Federation of State, County and Municipal Employees (AFSCME), Communications Workers of America (CWA) and Government Supervisors Association of Florida (GSAF). Unclassified and Others employees are not represented by a bargaining unit.

The Plan is administered by a nine member Board of Trustees (Trustees) comprised of four members appointed by the City Manager, three members elected by/from the general employee members, and two general employee retirees elected by the retired members of the Plan.

The following brief description of the Plan is provided for general information purposes only. Members should refer to the Plan document and City ordinances for more detailed and comprehensive information.

#### *MEMBERS*

Members are all full-time employees, classified and unclassified positions, who work more than 30 hours per week except for police officers and firefighters and persons who elected to join the defined contribution retirement plan sponsored by the City.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 1 – DESCRIPTION OF THE PLAN (CONTINUED)

#### *MEMBERSHIP*

Membership consisted of the following as of October 1, 2018, the date of the latest actuarial valuation:

|  |                     |
|--|---------------------|
| Inactive plan members and beneficiaries currently receiving benefits | 1,093               |
| Inactive plan members entitled but not yet receiving benefits        | 193                 |
| Active plan members  | <u>1,231</u>        |
| <b>Total Members</b>   | <u><u>2,517</u></u> |

#### *PENSION BENEFITS*

The Plan provides for retirement benefits as well as death and disability benefits at three different tiers depending on when the members entered the Plan.

The First Tier is for members that entered the Plan prior to the Second Tier Dates. The Second Tier is for members that entered the Plan on or after the Second Tier Dates, but before the Third Tier Dates. The Third Tier is for members that entered the Plan on or after the Third Tier Dates. Both the Second Tier and Third Tier Dates were established when each of the unions bargained with the City to establish new guidelines for retirement benefits relating to employees associated with their Unions. The Second Tier Dates are April 30, 1993 for members of AFSCME; August 1, 1993 for those classified as Other and GSAF, and February 21, 1994 for members of CWA. The Third Tier Dates are September 30, 2010 for members of AFSCME, GSAF and for those classified as other, and October 27, 2010 for members of CWA.

Classified members administered under the First Tier are eligible for normal retirement at age 50 and five years of Creditable Service and are entitled to benefits of 3% of Final Average Monthly Earnings (FAME) multiplied by the first 15 years of Creditable Service plus 4% of FAME multiplied by years of service in excess of 15 years, with the total not to exceed 90% of FAME. First Tier unclassified members accrued 4% for creditable service before October 18, 1992. Unclassified First Tier members accrued 3% per year of service after October 18, 1992, with the total not to exceed 80% of FAME.

Classified and unclassified members administered under the Second Tier are eligible for Normal Retirement at age 55 and five years of creditable service and are entitled to benefits of 3% of FAME multiplied by creditable service, subject to a maximum of 80% of FAME.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 1 – DESCRIPTION OF THE PLAN (CONTINUED)

#### *PENSION BENEFITS (CONTINUED)*

Classified and unclassified members administered under the Third Tier are eligible for Normal Retirement at age 55 with at least 30 years of creditable service, or age 62 with at least five years of creditable service and are entitled to benefits of 2.5% of FAME multiplied by creditable service, subject to a maximum of 80% of FAME.

For elected officials, City Manager or City Attorney, the benefit is 4% of FAME for each year of creditable service as an elected official, city manager or city attorney plus the retirement benefit as defined above for any other period of city employment, subject to a maximum of 80% of FAME.

FAME means one-twelfth of the average annual earnings during the highest two paid years of credible service. For Unclassified First Tier members who became a member prior to October 18, 1992 and were continuously a member from that date until March 18, 2006, FAME is defined as the larger of one-twelfth average covered salary during the two highest paid years of creditable service or one-twelfth of the pay of the year immediately preceding March 18, 2006. Effective as of September 30, 2010, FAME for members who have obtained normal retirement age or are within 24 months from normal retirement age is defined as average covered salary during the two highest paid years of creditable service. FAME for those members who as of September 30, 2010 are between 24 and 36 months from normal retirement age is defined as average covered salary during the three highest paid years of creditable service. FAME for those members who as of September 30, 2010 are between 36 and 48 months from normal retirement age is defined as average covered salary during the four highest paid years of creditable service. FAME for those members who as of September 30, 2010 are more than 48 months from normal retirement age is defined as average covered salary during the five highest paid years of creditable service.

#### *FUNDING REQUIREMENTS*

##### *Member Contributions*

All First Tier members who participate are required to contribute 12% of their covered salary to the Plan. All Second and Third Tier members are required to contribute 10% of their covered salary.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 1 – DESCRIPTION OF THE PLAN (CONTINUED)

#### *FUNDING REQUIREMENTS (CONTINUED)*

##### *Member Contributions (continued)*

Any First Tier member who terminates employment may either request a refund of their own contributions plus interest, or receive their accrued benefit beginning at age 50, if at least five years of creditable service are completed. Any Second Tier member who entered on or after the Second Tier Date and who terminates employment after five years of creditable service may either request a refund of their own contributions plus interest or receive their accrued benefit beginning at age 55. Any Third Tier member who entered on or after the Third Tier Date and who terminates employment after five years of creditable service but prior to the normal or early retirement date shall be eligible to receive a normal retirement benefit at age 62.

##### *City Contributions*

The City is to contribute such amounts as are necessary to maintain the actuarial soundness of the Plan and to provide the Plan with assets sufficient to meet the benefits to be paid to the members. The City also provides indirect administrative support such as office space and utilities.

#### *INVESTMENTS*

The Plan has contracts with investment managers who supervise and direct the investment of equity and fixed income securities. In addition, the Plan utilizes an investment advisor who monitors the Plan's investing activity. The investments owned are held by a custodian in the name of the Plan. The Plan provides for investments in U.S. Government securities, money market funds, bonds, notes, common stock, international securities, real estate investment trust funds and global infrastructure investments.

#### *DEFERRED RETIREMENT OPTION PROGRAM (DROP)*

A DROP was enacted on January 28, 2009 by Ordinance 2009-3626. Under this Program, the amount of the benefit is calculated as if the participant had retired on the date of DROP commencement. First and Second Tier members who have attained eligibility for Normal Retirement may continue working with the City for up to three years, while receiving a retirement benefit that is deposited into a DROP account. Third Tier members may participate in a DROP account for up to five years. Effective July 17, 2013, members within classifications in the CWA bargaining unit who were hired prior to October 27,

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 1 – DESCRIPTION OF THE PLAN (CONTINUED)

#### *DEFERRED RETIREMENT OPTION PROGRAM (DROP) (CONTINUED)*

2010, and members not included in any bargaining unit who were hired prior to September 10, 2010, may elect to retire for the purposes of the Program but continue employment with the City for up to sixty months, and have their monthly retirement benefit paid into a DROP account during the DROP period. Effective October 1, 2013, any member within classifications in the GSAF bargaining may elect to retire for the purposes of the Program but continue employment with the City for up to sixty (60) months, and have their monthly retirement paid into a DROP account during the DROP period. Effective April 23, 2014, members within classifications in the AFSCME bargaining unit who were hired prior to September 30, 2010, may elect to retire for the purposes of the Plan but continue employment with the City for up to sixty (60) months, and have their monthly retirement benefit paid into a DROP account during the DROP period.

A series of investment vehicles which are established by the Board of Trustees are made available to DROP participants to choose from. Any losses, charges, or expenses incurred by the participant in their DROP account are not made up by the City or the Plan, but shall be borne by the participant. Upon termination of employment, a member may receive distributions in accordance with the DROP.

A DROP participant is not entitled to receive an ordinary or service disability retirement and in the event of death of a DROP participant, there is no accidental death benefit for pension purposes. DROP participation does not affect any other death or disability benefit provided to a member under federal law, state law, City ordinance, or any rights or benefits under any applicable collective bargaining agreement.

As of September 30, 2019, there were 123 members in the DROP and the fair value of DROP investments were \$14,770,820 which is included in the investments in the statement of fiduciary net position. The DROP also allows for member loans. Approximately \$155,000 in loans were outstanding as of September 30, 2019.

#### *COST OF LIVING ADJUSTMENT*

First and Second Tier members receive an annual cost-of-living adjustment (COLA) of 2.5%. The COLA is not payable while members are in the DROP. For Third Tier members the COLA is 1.5%.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *BASIS OF ACCOUNTING*

The Plan's financial statements are prepared using the accrual basis of accounting. Member contributions are recognized as revenues in the period in which the contributions are due. City contributions are recognized as revenues when due pursuant to actuarial valuations. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Interest income is recorded as earned and dividend income is recorded as of the ex-dividend date.

#### *INVESTMENTS*

Investments are reported at fair value except for short-term investments which are reported at amortized cost. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Net appreciation in fair value of investments includes realized and unrealized gains and losses. Realized gains and losses are determined on the basis of specific cost. Purchases and sales of securities are reflected on a trade-date basis. Interest income is recognized as earned and dividend income is recorded as of the ex-dividend date. Refer to Note 5 for more detail regarding the methods used to measure the fair value of investments.

Given the inherent nature of investments, it is reasonably possible that changes in the value of those investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

#### *USE OF ESTIMATES*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### *RISKS AND UNCERTAINTIES*

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of fiduciary net position. The Plan, through its investment advisor, monitors the Plan's investments and the risks associated therewith on a regular basis, which the Plan believes minimizes these risks.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *RISKS AND UNCERTAINTIES (CONTINUED)*

Plan contributions are made and the net pension liability is reported based on certain assumptions pertaining to investment returns, 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.

#### *COMPARATIVE INFORMATION*

The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Plan's financial statements for the year ended September 30, 2018, from which the information was derived.

### NOTE 3 – CONTRIBUTIONS

#### *ACTUARIALLY DETERMINED CONTRIBUTIONS*

Effective May 30, 2012, the Division of Retirement mandated that local governments confer with the Plan's actuary to select and maintain a contribution method (percentage of payroll or fixed dollar contributions) that best fits the funding requirements of the Plan. For the years ended September 30, 2019 and 2018, the Plan determined to use the "fixed dollar contribution amount".

The contributions required from the City for the years ended September 30, 2019 and 2018 were actuarially determined using valuation dates of October 1, 2017 and October 1, 2016, respectively.

The actual City contributions for active employees for the years ended September 30, 2019 and 2018 amounted to \$31,864,304 and \$31,892,485, respectively.

### NOTE 4 – DEPOSIT AND INVESTMENT RISK DISCLOSURES

#### *CASH*

Deposits are carried at cost. Cash reported in the statement of fiduciary net position includes a demand account used for Plan operations.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 4 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (CONTINUED)

#### *SHORT-TERM INVESTMENT FUNDS (STIF)*

Transactional cash and portfolio assets that are temporarily not invested in authorized, longer term securities may either be directly invested in allowable high-grade short-term fixed income investments or may be "swept" into the Plan's custodial short-term investment (money market) commingled fund. Allowable high-grade, short-term fixed income investments are as follows: certificates of deposit, commercial paper, U.S. Treasury bills and repurchase agreements.

#### *INVESTMENT AUTHORIZATION*

The Plan's investment policy is determined by the Board of Trustees. The policy has been established to have the greatest expected investment return, and the resulting positive impact on asset values, funded status, and benefits, without exceeding a prudent level of risk. The Trustees are authorized to acquire and retain every kind of property, real, personal or mixed, and every kind of investment specifically including, but not by way of limitation, bonds, debentures, and other corporate obligations, and stocks, preferred or common, which persons of prudence, discretion and intelligence acquire or retain for their own account.

Investment in all equity securities shall be limited to those listed on a major U.S. stock exchange and limited to no more than 60% (at market) of the Plan's total asset value with no more than 5% of an investment manager's equity portfolio invested in the shares of a single corporate issuer. Investments in stocks of foreign companies shall be limited to 25% (at cost) of the value of the portfolio.

The fixed income portfolio shall be comprised of securities rated "BBB–" or higher by Standard & Poor's rating services with no more than 5% of an investment manager's total fixed income portfolio invested in the securities of a single corporate issuer.

#### *TYPES OF INVESTMENTS*

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

| <u>Authorized Investments</u> | <u>Target %</u> |
|-------------------------------|-----------------|
| Domestic equities             | 39%             |
| Fixed income securities       | 28%             |
| International equities        | 16%             |
| Real estate                   | 10%             |
| Infrastructure                | 7%              |

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED SEPTEMBER 30, 2019

#### NOTE 4 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (CONTINUED)

##### *RATE OF RETURN*

For the year ended September 30, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.65%. The money-weighted rate of return expresses investment performance, net of investment manager and consultant expenses adjusted for the changing amounts actually invested. Inputs to the internal rate of return calculation are determined on a monthly basis.

##### *INTEREST RATE RISK*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer with various durations of maturities.

Information about the sensitivity of the fair values of the Plan's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Plan's investments by maturity at September 30, 2019.

| Investment Type              | Fair Value            | Investment Maturities (in years) |                       |              |                     |
|------------------------------|-----------------------|----------------------------------|-----------------------|--------------|---------------------|
|                              |                       | Less than 1                      | 1 to 5                | 6 to 10      | More than 10        |
| Fixed income bond funds      | \$ 181,425,654        | \$ --                            | \$ 181,425,654        | \$ --        | \$ --               |
| Fixed securities - DROP      | 2,009,684             | --                               | --                    | --           | 2,009,684           |
| Total fixed income investmen | <u>\$ 183,435,338</u> | <u>\$ --</u>                     | <u>\$ 181,425,654</u> | <u>\$ --</u> | <u>\$ 2,009,684</u> |

##### *CREDIT RISK*

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. This risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy utilizes portfolio diversification in order to control this risk. The following table discloses credit ratings by investment type, at September 30, 2019.

|  | Fair Value            | Percent of Portfolio |
|--|-----------------------|----------------------|
| Quality Rating of Credit Risk Debt Securities: |                       |                      |
| AA   | \$ 181,425,654        | 99%                  |
| A+   | <u>2,009,684</u>      | <u>1%</u>            |
| <b>Total Credit Risk Debt Securities</b>       | <u>\$ 183,435,338</u> | <u>100%</u>          |

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 4 – DEPOSIT AND INVESTMENT RISK DISCLOSURES (CONTINUED)

#### *CONCENTRATION OF CREDIT RISK*

The investment policy of the Plan contains limitations on the amount that can be invested in any one issuer as well as maximum portfolio allocation percentages. There were no individual investments that represent 5% or more of fiduciary net position at September 30, 2019.

#### *CUSTODIAL CREDIT RISK*

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Plan's deposits are covered by federal deposit insurance. At September 30, 2019, the Plan had an uninsured cash balance of approximately \$4,744,000 with one financial institution.

Custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the Plan, and are held either by the counterparty or the counterparty's trust department or agent but not in the Plan's name.

Consistent with the Plan's investment policy, the investments are held by the Plan's custodial banks and registered in the Plan's name.

### NOTE 5 – FAIR VALUE HIERARCHY

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 as defined below:

Level 1 - Investments' fair values based on prices quoted in active markets for identical assets.

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

Level 3 - Investments' fair value inputs based upon unobservable inputs.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 5 –FAIR VALUE HIERARCHY (CONTINUED)

The diversity of the investment types in which the Plan has entered into requires a range of techniques to determine fair value. The overall valuation processes and information sources by major investment classification are as follows:

#### *Fixed Income Securities*

Fixed income securities consist primarily of bond funds. These securities can typically be valued using the close or last traded price on a specific date (quoted prices in active markets). When quoted prices are not available, fair value is determined based on valuation models that use inputs that include market observable inputs. These inputs included recent trades, yields, price quotes, cash flows, maturity, credit ratings, and other assumptions based upon the specifics of the investment type. Accordingly, these investments have been reported as Level 2.

#### *Equity Securities*

These include common stock and domestic and international equity funds. Domestic securities, which include common stock and domestic equity funds, traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year (Level 1). Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on yields currently available on comparable securities of issuers with similar credit ratings or using a matrix pricing technique (Level 2).

#### *Mutual Funds*

Mutual funds are held on behalf of participants in the DROP. These mutual funds are actively traded and quoted on a daily basis when the New York Stock Exchange is open for business (Level 1).

#### *Real Estate Fund*

This investment is composed primarily of real estate investments owned directly or through partnership interests. Estimated fair value of net equity investments in real estate assets is determined by the fund managers at each valuation date. As part of the fund managers' valuation process, properties are externally appraised generally on an annual basis. Property valuations are reviewed by the fund managers quarterly and values are adjusted if there has been a significant change in circumstances related to the investment property since the last valuation. The real estate investment fund requires a 90-day notice for redemption.

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

### NOTE 5 –FAIR VALUE HIERARCHY (CONTINUED)

#### *Infrastructure Investment*

The underlying investments of the global infrastructure fund are valued by independent appraisers on an annual basis. Asset valuations and the salient valuation-sensitive assumptions of each interest are reviewed by the adviser and values are adjusted quarterly. The investment reports a net asset value (NAV) per unit outstanding. The NAV is based on the fair value of the underlying investments held by the fund less its liability.

The following is a summary of the fair value hierarchy of the fair value of investments as of September 30, 2019:

|   | 9/30/2019            | Fair Value Measurements Using   |   |  |
|---|----------------------|---|---|--|
|   |                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Equity Securities</b>                                |                      |   |   |  |
| <i>Domestic Equities</i>                                |                      |   |   |  |
| S&P Index   | \$ 100,545,812       | \$ --   | \$ 100,545,812  | \$ --  |
| Large Cap Fund PLUS                                     | 98,279,586           | --  | 98,279,586  | --   |
| Mid-Cap Index Fund                                      | 29,388,640           | --  | 29,388,640  | --   |
| Small-Cap Index Fund                                    | 24,471,353           | --  | 24,471,353  | --   |
| <i>International Equities</i>                           |                      |   |   |  |
| International Quality Growth                            | 68,893,412           | --  | 68,893,412  | --   |
| Emerging Markets Core                                   | 31,853,582           | 31,853,582  | --  | --   |
| <i>Mutual Funds (DROP)</i>                              |                      |   |   |  |
| Mutual Fund equities                                    | 12,761,136           | 12,761,136  | --  | --   |
| <b>Total Equity Securities</b>                          | <b>366,193,521</b>   | <b>44,614,718</b>   | <b>321,578,803</b>  | <b>--</b>  |
| <b>Fixed Income Bond Funds</b>                          |                      |   |   |  |
| Core Bond Index Fund                                    | 51,587,122           | --  | 51,587,122  | --   |
| Bond Fund   | 129,838,532          | --  | 129,838,532   | --   |
| Fixed Income Fund (DROP)                                | 2,009,684            | --  | 2,009,684   | --   |
| <b>Total Fixed Income</b>                               | <b>183,435,338</b>   | <b>--</b>   | <b>183,435,338</b>  | <b>--</b>  |
| <b>Real Estate Fund</b>                                 |                      |   |   |  |
| Strategic Property Fund                                 | 68,307,129           | --  | --  | 68,307,129   |
| <b>Total Investments by Fair Value Level</b>            | <b>617,935,988</b>   | <b>\$44,614,718</b>   | <b>\$505,014,141</b>                                      | <b>\$68,307,129</b>                                |
| <b>Investment Measured at the Net Asset Value (NAV)</b> |                      |   |   |  |
| Infrastructure Fund                                     | 42,593,026           |   |   |  |
| Total investment measured at NAV                        | 42,593,026           |   |   |  |
| Short-term investment fund (exempt)                     | 1,180,268            |   |   |  |
| <b>Total Investments</b>                                | <b>\$661,709,282</b> |   |   |  |

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED SEPTEMBER 30, 2019

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#### NOTE 5 –FAIR VALUE HIERARCHY (CONTINUED)

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

#### Investment Measured at the NAV

|                                  | Fair<br>Value       | Unfunded<br>Commitments | Redemption<br>Frequency (if<br>Currently Eligible) | Redemption<br>Notice<br>Period |
|----------------------------------|---------------------|-------------------------|--|--------------------------------|
| Infrastructure Fund <sup>1</sup> | <u>\$42,593,026</u> | <u>\$ --</u>            | Semi-annual  | 90 days                        |

<sup>1</sup> This fund is focused on identifying a universe of investments that best meet the portfolio's risk management objectives. This involves the identification of investments that have assets predominantly invested in developed economies. Limits have been applied to country and regional exposure. The return pattern expected from global infrastructure is an inflationary return component plus a substantial premium, as well as competitive performance relative to the S&P Global Infrastructure Index.

#### NOTE 6 –NET PENSION LIABILITY OF THE CITY

The components of the net pension liability of the City at September 30, 2019:

|   |                       |
|---|-----------------------|
| Total pension liability   | \$ 905,749,411        |
| Plan fiduciary net position   | <u>(666,499,619)</u>  |
| <b>Net Pension Liability</b>  | <u>\$ 239,249,792</u> |
| <b>Plan Fiduciary Net Position as a Percentage<br/>of Total Pension Liability</b> | 73.59%                |

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

### FOR THE YEAR ENDED SEPTEMBER 30, 2019

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#### NOTE 6 –NET PENSION LIABILITY OF THE CITY (CONTINUED)

##### *SIGNIFICANT ACTUARIAL ASSUMPTIONS*

The total pension liability was determined by an actuarial valuation as of October 1, 2018, rolled forward to September 30, 2019, using the following actuarial assumptions:

Interest rates:

|                                   |       |
|-----------------------------------|-------|
| Discount rate                     | 7.50% |
| Long-term expected rate of return | 7.60% |

|                 |  |
|-----------------|--|
| Mortality table | RP-2000 Combined Healthy Participant Mortality Table (for pre-retirement mortality) and the RP-2000 Mortality Table for Annuitants (for post-retirement mortality), with mortality improvements projected to all future years after 2000 using Scale BB. |
|-----------------|--|

Effective October 1, 2018, the investment return assumption was lowered from 7.60% to 7.50%. Additional assumption changes were adopted pursuant to an Experience Study for Seven Years Ended September 30, 2017, dated March 11, 2019, as described in the Actuarial Assumptions and Cost Method section of the October 1, 2018 actuarial valuation report. These changes increased the net pension liability by \$10,022,465 as of September 30, 2019 (the measurement date).

##### *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 expense 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, 2019 are summarized in the following table:

| <u>Asset Class</u>      | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|---|
| Domestic equities       | 5.82%   |
| Fixed income securities | 2.78%   |
| International equities  | 7.38%   |
| Real estate             | 5.50%   |
| Infrastructure          | 6.25%   |

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

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### NOTE 6 – NET PENSION LIABILITY OF THE CITY (CONTINUED)

#### *DISCOUNT RATE*

A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 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 plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### *SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE*

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

|                              | 1%<br>Decrease<br>6.50% | Single<br>Discount Rate<br>Assumption<br>7.50% | 1%<br>Increase<br>8.50% |
|------------------------------|-------------------------|--|-------------------------|
| <b>Net Pension Liability</b> | <u>\$ 350,397,153</u>   | <u>\$ 239,249,792</u>                          | <u>\$ 147,338,079</u>   |

### NOTE 7 – TAX STATUS

The Internal Revenue Service has determined and informed the Trustees by a letter dated October 15, 2014 that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Plan administrator and tax counsel believe that the Plan is currently being operated in compliance with the applicable requirements of the IRC.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**MIAMI BEACH EMPLOYEES' RETIREMENT PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CHANGES IN THE CITY'S  
NET PENSION LIABILITY AND RELATED RATIOS**

| September 30,   | 2019                  | 2018                  | 2017                  | 2016                  | 2015                  | 2014                  |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Total Pension Liability</b>                          |                       |                       |                       |                       |                       |                       |
| Service cost  | \$ 16,171,537         | \$ 15,232,372         | \$ 13,720,496         | \$ 12,906,811         | \$ 11,795,411         | \$ 12,306,795         |
| Interest  | 65,045,122            | 63,015,047            | 57,800,541            | 56,164,518            | 53,832,182            | 51,809,378            |
| Benefit changes   | --                    | --                    | --                    | --                    | (1,277,929)           | --                    |
| Difference between actual and expected experience       | 1,117,690             | 18,961                | (4,242,257)           | (2,210,692)           | 5,603,144             | (278,357)             |
| Assumption changes                                      | 10,022,465            | 4,771,684             | 52,573,659            | 11,676,037            | 11,026,357            | --                    |
| Benefit payments  | (51,014,104)          | (49,726,168)          | (44,576,144)          | (41,900,843)          | (35,874,016)          | (37,501,400)          |
| Refunds   | (1,571,361)           | (1,381,297)           | (905,574)             | (948,535)             | (941,310)             | (1,143,866)           |
| Other (change in receivable from excess benefit plan)   | --                    | --                    | --                    | --                    | 311,076               | 311,077               |
| <b>Net Change in Total Pension Liability</b>            | <b>39,771,349</b>     | <b>31,930,599</b>     | <b>74,370,721</b>     | <b>35,687,296</b>     | <b>44,474,915</b>     | <b>25,503,627</b>     |
| <b>Total Pension Liability - Beginning</b>              | <b>865,978,062</b>    | <b>834,047,463</b>    | <b>759,676,742</b>    | <b>723,989,446</b>    | <b>679,514,531</b>    | <b>654,010,904</b>    |
| <b>Total Pension Liability - Ending (a)</b>             | <b>\$ 905,749,411</b> | <b>\$ 865,978,062</b> | <b>\$ 834,047,463</b> | <b>\$ 759,676,742</b> | <b>\$ 723,989,446</b> | <b>\$ 679,514,531</b> |
| <b>Plan Fiduciary Net Position</b>                      |                       |                       |                       |                       |                       |                       |
| Contributions - employer                                | \$ 31,864,304         | \$ 31,892,485         | \$ 29,358,098         | \$ 27,783,852         | \$ 26,456,580         | \$ 25,602,030         |
| Contributions - member                                  | 8,512,207             | 8,242,590             | 7,871,072             | 7,341,533             | 7,310,183             | 7,373,407             |
| Net investment income                                   | 23,328,881            | 51,285,893            | 70,646,599            | 55,818,905            | (5,048,406)           | 51,773,646            |
| Benefit payments  | (51,014,104)          | (49,726,168)          | (44,576,144)          | (41,900,843)          | (35,874,016)          | (37,501,400)          |
| Refunds   | (1,571,361)           | (1,381,297)           | (905,574)             | (948,535)             | (941,310)             | (1,143,866)           |
| Administrative expense                                  | (827,919)             | (730,118)             | (703,539)             | (677,509)             | (706,283)             | (668,851)             |
| Other   | --                    | --                    | (68,222)              | --                    | --                    | --                    |
| <b>Net Change in Plan Fiduciary Net Position</b>        | <b>10,292,008</b>     | <b>39,583,385</b>     | <b>61,622,290</b>     | <b>47,417,403</b>     | <b>(8,803,252)</b>    | <b>45,434,966</b>     |
| <b>Plan Fiduciary Net Position - Beginning</b>          | <b>656,207,611</b>    | <b>616,624,226</b>    | <b>555,001,936</b>    | <b>507,584,533</b>    | <b>516,387,785</b>    | <b>470,952,819</b>    |
| <b>Plan Fiduciary Net Position - Ending (b)</b>         | <b>\$ 666,499,619</b> | <b>\$ 656,207,611</b> | <b>\$ 616,624,226</b> | <b>\$ 555,001,936</b> | <b>\$ 507,584,533</b> | <b>\$ 516,387,785</b> |
| <b>Net Pension Liability - Ending (a) - (b)</b>         | <b>\$ 239,249,792</b> | <b>\$ 209,770,451</b> | <b>\$ 217,423,237</b> | <b>\$ 204,674,806</b> | <b>\$ 216,404,913</b> | <b>\$ 163,126,746</b> |
| <b>Plan Fiduciary Net Position as a Percentage of</b>   |                       |                       |                       |                       |                       |                       |
| <b>Total Pension Liability</b>                          | 73.59%                | 75.78%                | 73.93%                | 73.06%                | 70.11%                | 75.99%                |
| Covered Payroll*  | \$ 84,980,438         | \$ 79,797,583         | \$ 77,013,213         | \$ 71,863,150         | \$ 82,359,302         | \$ 76,362,960         |
| <b>Net Pension Liability as a Percentage of Covered</b> |                       |                       |                       |                       |                       |                       |
| <b>Payroll</b>  | 281.54%               | 262.88%               | 282.32%               | 284.81%               | 262.76%               | 213.62%               |

\* Expected total covered payroll for the year ending September 30, 2019 was estimated using the expected pensionable payroll from the October 1, 2018 Actuarial Valuation.

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

# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF CONTRIBUTIONS

| Year Ending<br>September 30, | Actuarially<br>Determined<br>Contribution | Actual<br>Contribution | Contribution<br>Deficiency<br>(Excess) | Covered<br>Payroll | Actual<br>Contribution<br>as a % of<br>Covered Payroll |
|------------------------------|---|------------------------|--|--------------------|--|
| 2019                         | \$ 31,864,304                             | \$ 31,864,304          | \$ --                                  | \$ 84,980,438      | 37.50%   |
| 2018                         | 31,892,485                                | 31,892,485             | --                                     | 79,797,583         | 39.97%   |
| 2017                         | 29,358,098                                | 29,358,098             | --                                     | 77,013,213         | 38.12%   |
| 2016                         | 27,783,852                                | 27,783,852             | --                                     | 71,863,150         | 38.66%   |
| 2015                         | 26,317,983                                | 26,456,580             | (138,597)                              | 82,359,302         | 32.12%   |
| 2014                         | 25,602,030                                | 25,602,030             | --                                     | 76,362,960         | 33.53%   |

#### Notes to Schedule of Contributions

**Valuation Date:** October 1, 2017  
**Measurement Date:** September 30, 2019  
**Notes:** Actuarially determined contributions are calculated as of October 1, which is two years prior to the end of the fiscal year in which contributions are reported.

#### Methods and Assumptions Used to Determine Contribution Rates:

|                               |  |
|-------------------------------|--|
| Actuarial Cost Method         | Entry Age Normal   |
| Amortization Method           | Level Dollar, Closed   |
| Remaining Amortization Period | 30 years   |
| Asset Valuation Method        | 5-year smoothed market   |
| Inflation                     | 3.00%  |
| Salary Increases              | 4.5% to 7.0% depending on service, including inflation   |
| Investment Rate of Return     | 7.60%  |
| Retirement Age                | Experience-based table of rates that are specific to the type of eligibility condition.  |
| Mortality                     | RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvements projected after year 2000 to the year 2010 using Scale AA.<br>RP-2000 Mortality Table for annuitants (for post-retirement mortality) with mortality improvements projected to all future years after 2000 using Scale BB. |

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

**MIAMI BEACH EMPLOYEES' RETIREMENT PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF INVESTMENT RETURNS**

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| September 30,  | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Annual Money-Weighted Rate of Return,<br>Net of Investment Expense | 2.65%       | 7.61%       | 11.51%      | 9.63%       | -2.61%      | 10.70%      |

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

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## **SUPPLEMENTARY INFORMATION**

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# MIAMI BEACH EMPLOYEES' RETIREMENT PLAN

## SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2019

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2018)

|  | 2019                | 2018                |
|--|---------------------|---------------------|
| Schedule "1"                               |                     |                     |
| <u>Schedule of Investment Expenses</u>     |                     |                     |
| Financial Management Expense               | \$ 2,344,979        | \$ 2,078,082        |
| Investment Consultant Fees                 | 95,000              | 95,000              |
| DROP Service Fees                          | 3,565               | 3,824               |
| <b>Total Investment Expenses</b>           | <b>\$ 2,443,544</b> | <b>\$ 2,176,906</b> |
| Schedule "2"                               |                     |                     |
| <u>Schedule of Administrative Expenses</u> |                     |                     |
| <b>Personnel Services</b>                  |                     |                     |
| Salaries and payroll taxes                 | \$ 441,678          | \$ 416,708          |
| <b>Professional Services</b>               |                     |                     |
| Actuarial                                  | 82,005              | 59,203              |
| Legal                                      | 61,775              | 69,280              |
| Audit                                      | 24,200              | 23,200              |
| Bookkeeping                                | 4,200               | 4,200               |
| <b>Total Professional Services</b>         | 172,180             | 155,883             |
| <b>Other</b>                               |                     |                     |
| Education, dues and subscriptions          | 70,579              | 62,485              |
| Insurance                                  | 50,043              | 51,620              |
| Computer consultant                        | 36,935              | 2,897               |
| Printing and postage                       | 29,967              | 13,370              |
| Office supplies                            | 16,380              | 3,702               |
| Miscellaneous                              | 4,420               | 1,402               |
| Copier lease and copy fees                 | 1,906               | 1,513               |
| Miscellaneous board of directors' expense  | 1,381               | 667                 |
| Verification services                      | 1,250               | 1,250               |
| Bank charges                               | 882                 | 1,260               |
| IT department computer and phone charges   | 318                 | 5,842               |
| Property management fees                   | --                  | 9,419               |
| Medical                                    | --                  | 2,100               |
| <b>Total Other</b>                         | 214,061             | 157,527             |
| <b>Total Administrative Expenses</b>       | <b>\$ 827,919</b>   | <b>\$ 730,118</b>   |

*See independent auditors' report.*

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## **REPORTING SECTION**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees and Plan Administrator  
**Miami Beach Employees' Retirement Plan**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Miami Beach Employees' Retirement Plan (the Plan), as of and for the year ended September 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2020.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations 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*.

### ***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.

*Marcum LLP*

Miami, FL  
March 11, 2020