

**City Pension Fund for  
Firefighters and Police Officers  
In the City of Miami Beach**

**Financial Statements  
Years Ended September 30, 2014 and 2013**



**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
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## **Independent Auditors' Report**

Board of Trustees  
City Pension Fund for Firefighters and Police Officers in the  
City of Miami Beach, Florida

We have audited the accompanying financial statements of the City Pension Fund for Firefighters and Police Officers in the City of Miami Beach (the "Plan"), which comprise the statements of fiduciary net position, as of September 30, 2014 and 2013, and the changes in its fiduciary net position for the years 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditor's 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 financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City Pension Fund for Firefighters and Police Officers in the City of Miami Beach as of September 30, 2014 and 2013, and changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Independent Auditors' Report**  
**(continued)**

**Emphasis of Matter**

As discussed in Note 2 to the financial statements, in 2014, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The financial statements as of and for the year ended September 30, 2013 were restated due to the implementation of GASB Statement No. 67. Our opinion is not modified with respect to this matter.

**Other Matters**

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules included under Required Supplementary information as listed in the accompanying table of contents be presented to supplement the basic 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.

***Supplemental Information***

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

*Goldstein Schechter Koch, P.A.*

Hollywood, Florida

January 15, 2015

Goldstein Schechter Koch



*City Pension Fund for Firefighters and Police Officers  
in the City of Miami Beach*



## **Management's Discussion and Analysis** **(Required Supplementary Information - Unaudited)** **September 30, 2014 and 2013**

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Our discussion and analysis of the City Pension Fund for Firefighters and Police Officers in the City of Miami Beach (the "Plan") financial performance provides an overview of the Plan's financial activities for the fiscal years ended September 30, 2014 and 2013. 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 follow this discussion.

### ***Financial Highlights***

- Plan assets exceeded liabilities at the close of the fiscal years ended September 30, 2014 and 2013 by \$769,298,572 and \$710,329,822, respectively (reported as net position restricted for pensions). The Plan's net position is held in trust to meet future benefit payments. The increase of \$58,968,750 and \$78,513,005 of the respective years has resulted primarily from the changes in the fair value of the Plan's investments due to volatile financial markets.

- Receivables at September 30, 2014 decreased by \$1,000,732 (or a 29.6% decrease) due primarily the decrease in employee buybacks.

Receivables at September 30, 2013 increased by \$333,821 (or an 11.0% increase) due primarily to the net of an increase in employee buybacks and a decrease in accrued interest and dividends.

- Liabilities at September 30, 2014 increased by \$106,927 (or a 27.5% increase) due primarily to an increase in payable for securities purchased.

Liabilities at September 30, 2013 decreased by \$43,884 (or a 10.2% decrease) due primarily to a decrease in payable for securities purchased.

- For the fiscal year ending September 30, 2014, City contributions to the Plan decreased by \$3,531,724 (or a 9.0% decrease) based on the actuarial valuation. Actual employer contributions were \$35,839,777 and \$39,371,501 for 2014 and 2013, respectively. Contributions from the Share plan in the amounts of \$120,549 and \$120,549 were received in the fiscal years ending 2014 and 2013, respectively. These amounts represent the annual costs of adopting certain minimum benefits mandated by the State.

For the fiscal year ending September 30, 2013, City contributions to the Plan increased by \$3,194,591 (or an 8.8% increase) based on the actuarial valuation. Actual employer contributions were \$39,371,501 and \$36,176,910 for 2013 and 2012, respectively. Contributions from the Share plan in the amounts of \$120,549 and \$120,549 were received in the fiscal years ending 2013 and 2012, respectively. These amounts represent the annual costs of adopting certain minimum benefits mandated by the State.

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

**(Required Supplementary Information - Unaudited)**  
**September 30, 2014 and 2013**

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### ***Financial Highlights - continue***

- For the fiscal year ending September 30, 2014, employee contributions including buybacks, decreased by \$4,458,362 (or a 45.9% decrease). Actual employee contributions, including buybacks, were \$5,258,974 and \$9,717,336 for 2014 and 2013, respectively. Employee contributions have fluctuated from year to year based on the number of active members and a decrease in buybacks.

For the fiscal year ending September 30, 2013, employee contributions including buybacks, increased by \$1,954,262 (or a 25.2% increase). Actual employee contributions, including buybacks, were \$9,717,336 and \$7,763,074 for 2013 and 2012, respectively. Employee contributions have fluctuated from year to year based on the number of active members and an increase in buybacks.

- For the fiscal year ending September 30, 2014, net investment income decreased by \$9,954,469. Actual results were \$59,715,467 and \$68,981,253 in net appreciation in fair value of investments for 2014 and 2013, respectively, and \$15,844,449 and \$16,143,057, of income from interest and dividends for 2014 and 2013, respectively. Investment expenses increased by \$390,075 (or 13.4%).

For the fiscal year ending September 30, 2013, net investment income decreased by \$23,755,554. Actual results were \$68,981,253 and \$93,118,220 in net appreciation in fair value of investments for 2013 and 2012, respectively, and \$16,143,057 and \$15,448,623, of income from interest and dividends for 2013 and 2012, respectively. Investment expenses increased by \$313,021 (or 12.1%).

- For the fiscal year ending September 30, 2014, benefit payments and refunds of contributions increased by \$1,500,489 (or 3.3%).

For the fiscal year ending September 30, 2013, benefit payments and refunds of contributions increased by \$566,394 (or 1.1%).

- For the fiscal year ended September 30, 2014, administrative expenses increased by \$99,211 (or 12.3%) due primarily to an increase in fringe benefits.

For the fiscal year ended September 30, 2013, administrative expenses decreased by \$53,206 (or 6.2%) due primarily to a decrease in legal fees.

### ***Plan Highlights***

For the fiscal year ending September 30, 2014, the time-weighted return of the portfolio was 9.98% for the trailing year and ranked in the 12th percentile. Actual net returns from investments were net income in 2014 of \$72,259,674 compared with net income of \$82,214,143 in 2013.

For the fiscal year ending September 30, 2013, the time-weighted return of the portfolio was 12.80% for the trailing year and ranked in the 30th percentile. Actual net returns from investments were a net income in 2013 of \$82,214,143 compared with net income of \$105,969,697 in 2012.

## **Management's Discussion and Analysis** **(Required Supplementary Information - Unaudited)** **September 30, 2014 and 2013**

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### ***Overview of the Financial Statements***

The basic financial statements include the Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position and Notes to the Financial Statements. The Plan also includes in this report additional information to supplement the financial statements.

The Plan presents required supplementary schedules, which provide historical trend information about the Plan.

The Plan prepares its financial statements on the accrual basis of accounting and in accordance with generally accepted accounting principles in the United States of America. These statements provide information about the Plan's overall financial status.

The Plan implemented the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25 as approved by the Governmental Accounting Standards Board in June 2012 in the financial statements for the fiscal year ended September 30, 2014. The financial statements, notes to the financial statements, and required supplementary information reflect changes as required by this statement.

### ***Description of the Financial Statements***

The *Statement of Fiduciary Net Position* presents information that includes all of the Plan's assets and liabilities, with the balance representing the Net Position Restricted for Pensions. It is a snapshot of the financial position of the Plan at that specific point in time and reflects the resources available to pay employees, retirees and beneficiaries at that point in time.

The *Statement of Changes in Fiduciary Net Position* reports how the Plan's net position changed during the fiscal year. The additions and deductions to net position are summarized in this statement. The additions include contributions to the retirement plans from employers (City) and employees and net investment income which include interest, dividends, investment expenses, and the net appreciation 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 is also *Required Supplementary Information* included in this report as required by the Governmental Accounting Standards Board. These schedules consist of the Plan's actuarial methods and assumptions and provide data on changes in the City's net pension liability, the City's contributions, and the Plan's investment returns.

Additional information is presented as part of *Other Supplemental Schedules*. This section is not required but management has chosen to include it. It includes *Schedules of Investment Expenses and 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.

**Management's Discussion and Analysis**  
**(Required Supplementary Information - Unaudited)**  
**September 30, 2014 and 2013**

***Condensed Statements of Fiduciary Net Position***

The table below reflects condensed comparative statements of fiduciary net position as of September 30:

	2014	2013 (Restated)	2012 (Restated)
Investments	\$ 766,758,713	\$ 707,321,650	\$ 629,186,350
Receivables	2,375,685	3,376,417	3,042,596
Cash	659,346	20,000	20,000
Total assets	<b>769,793,744</b>	710,718,067	632,248,946
Liabilities	<b>495,172</b>	388,245	432,129
Net position restricted for pensions	<b>\$ 769,298,572</b>	\$ 710,329,822	\$ 631,816,817

***Condensed Statements of Changes in Fiduciary Net Position***

The table below reflects a condensed comparative summary of the changes in fiduciary net position and reflects the activities of the Plan for the fiscal years ended September 30:

	2014	2013 (Restated)	2012 (Restated)
<b>Additions:</b>			
Contributions			
City	\$ 35,839,777	\$ 39,371,501	\$ 36,176,910
Employees	5,258,974	9,717,336	7,763,074
Share plan	120,549	120,549	120,549
Total	<b>41,219,300</b>	49,209,386	44,060,533
Net investment income	<b>72,259,674</b>	82,214,143	105,969,697
Total additions	<b>113,478,974</b>	131,423,529	150,030,230
<b>Deductions:</b>			
Benefits paid	<b>53,605,094</b>	51,917,400	51,332,817
Participants' contributions refunded	-	187,205	205,394
Administrative expenses	<b>905,130</b>	805,919	859,125
Total deductions	<b>54,510,224</b>	52,910,524	52,397,336
Net increase	<b>58,968,750</b>	78,513,005	97,632,894
Net position restricted for pensions at beginning of year	<b>710,329,822</b>	631,816,817	534,183,923
Net position restricted for pensions at end of year	<b>\$ 769,298,572</b>	\$ 710,329,822	\$ 631,816,817

The Plan's investment activity, 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.



## Management's Discussion and Analysis (Required Supplementary Information - Unaudited) September 30, 2014 and 2013

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### *Asset Allocation*

At the end of the fiscal year ended September 30, 2014, the domestic equity portion comprised 51.1% (\$384,146,024) of the total portfolio, net of DROP mutual funds. The allocation to fixed income securities was 36.3% (\$273,364,748), while cash and short-term investments comprised 3.1% (\$23,462,912). The portion of investments allocated to international equity was \$34,416,123 or 4.6% and to real estate was \$36,892,451 or 4.9% of the total portfolio, net of DROP mutual funds.

At the end of the fiscal year ended September 30, 2013, the domestic equity portion comprised 56.4% (\$392,379,622) of the total portfolio, net of DROP mutual funds. The allocation to fixed income securities was 32.9% (\$228,697,338), while cash and short-term investments comprised 2.6% (\$18,149,793). The portion of investments allocated to international equity was \$32,494,167 or 4.7% and to real estate was \$23,813,474 or 3.4% of the total portfolio, net of DROP mutual funds.

The target asset allocation was as follows, at September 30:

	<b>2014</b>	2013
Domestic equity	<b>50%</b>	50%
Fixed income	<b>35%</b>	35%
International equity	<b>5%</b>	5%
Real estate equity	<b>5%</b>	5%
Cash/short-term investments	<b>5%</b>	5%

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

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Pension Fund for Firefighters and Police Officers in the City of Miami Beach, 1691 Michigan Avenue, Suite 355, Miami Beach, Florida 33139.

**City Pension Fund for Firefighters and Police Officers**  
**In The City of Miami Beach**  
**Statements of Fiduciary Net Position**  
**September 30, 2014 and 2013**

	<b>2014</b>	2013 Restated
<b>Assets</b>		
Cash	\$ 659,346	\$ 20,000
Receivables:		
Employee buybacks	-	1,222,109
Receivable for securities sold	40,955	-
Accrued interest and dividends	2,334,730	2,154,308
<b>Total receivables</b>	<b>2,375,685</b>	<b>3,376,417</b>
Investments, at fair value:		
Short-term investments	22,803,566	18,129,793
U.S. government securities	20,122,576	23,145,088
Common stocks	320,417,690	329,803,640
Domestic equity fund	63,728,334	62,575,982
International equity fund	34,416,123	32,494,167
Domestic corporate bonds	201,231,499	154,983,512
International fixed income	52,010,673	50,568,738
Real estate fund	36,892,451	23,813,474
Mutual funds self-directed DROP participants	15,135,801	11,807,256
<b>Total investments</b>	<b>766,758,713</b>	<b>707,321,650</b>
<b>Total assets</b>	<b>769,793,744</b>	<b>710,718,067</b>
<b>Liabilities</b>		
Accrued expenses	414,791	388,245
Payable for securities purchased	80,381	-
<b>Total liabilities, as restated</b>	<b>495,172</b>	<b>388,245</b>
<b>Net position restricted for pensions, as restated in 2013</b>	<b>\$ 769,298,572</b>	<b>\$ 710,329,822</b>

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

**City Pension Fund for Firefighters and Police Officers**  
**In The City of Miami Beach**  
**Statements of Changes in Fiduciary Net Position**  
**For the Years Ended September 30, 2014 and 2013**

	2014	2013 Restated
<b>Additions</b>		
Contributions:		
City	\$ 35,839,777	\$ 39,371,501
Share plan	120,549	120,549
Total employer	<b>35,960,326</b>	39,492,050
Employees:		
Contributions	5,076,394	5,091,354
Buybacks	182,580	4,625,982
Total employees	<b>5,258,974</b>	9,717,336
Total contributions	<b>41,219,300</b>	49,209,386
Investment income:		
Net appreciation in fair value of investments	59,715,467	68,981,253
Interest and dividends	15,844,449	16,143,057
Total investment income	<b>75,559,916</b>	85,124,310
Less: investment expenses	<b>3,300,242</b>	2,910,167
Net investment income	<b>72,259,674</b>	82,214,143
Total additions	<b>113,478,974</b>	131,423,529
<b>Deductions</b>		
Benefits paid	53,605,094	51,917,400
Participants' contributions refunded	-	187,205
Administrative expenses	905,130	805,919
Total deductions	<b>54,510,224</b>	52,910,524
<b>Net increase</b>	<b>58,968,750</b>	78,513,005
<b>Net position restricted for pensions, as restated in 2013</b>		
Beginning of period	710,329,822	631,816,817
End of period	<b>\$ 769,298,572</b>	\$ 710,329,822

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

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

## Note 1 – Description of the Plan

### *Organization*

The Plan is a single employer defined benefit pension plan established by the City of Miami Beach, Florida (the “City”) and was created under Chapter 23414, Laws of Florida, Special Acts of 1945, as amended through September 30, 2013. Since the Plan is sponsored by the City, it is included as a pension trust fund in the City’s comprehensive annual financial report as part of the City’s financial reporting entity. The Plan’s governing board is the Board of Trustees, which comprises nine members: three of which are elected by the fire department, three of which are elected by the police department, and three of which are appointed by the Mayor.

The following is a brief description of the Plan provided for general information purposes only. Members should refer to the Plan document for more complete information. The Plan document governs in the event a question arises.

### *Members*

Members are substantially all police officers and firefighters employed by of the City of Miami Beach, Florida. Members are further divided in the following three tiers:

Tier One members are those hired prior to July 14, 2010.

Tier Two members are those hired on or after July 14, 2010, but prior to September 30, 2013.

Tier Three members are those hired on or after September 30, 2013.

At October 1, the Plan membership consisted of:

	2013	2012
Active Members	458	428
Deferred Vested Members	15	16
	<b>473</b>	<b>444</b>
Retired Members:		
a. Service	540*	534*
b. Disabled	58	56
c. Beneficiaries	98	92
	<b>696</b>	<b>682</b>
<b>Total</b>	<b>1,169</b>	<b>1,126</b>

\*Including members in the DROP

### *Contributions*

All Tier One and Tier Two members are required to contribute 10% of their salary to the Plan, while all Tier Three member are required to contribute 10.5% of their salary to the Plan.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Notes to Financial Statements  
September 30, 2014 and 2013**

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**Note 1 – Description of the Plan - continued**

*Service retirement benefits*

Tier One members

Members who met eligibility to retire prior to September 30, 2013 may retire on a service retirement pension upon the attainment of age 50 or, if earlier, the date when age and length of creditable service equals to at least 70 years.

Members eligible to retire on or after September 30, 2013 may retire on a service retirement pension upon the attainment of age 50 or, if earlier, the date when the member attains age 47 and length of creditable service equals to at least 70 years.

Upon retirement, a member who met eligibility to retire prior to September 30, 2013 will receive a monthly pension, payable for life, equal to 3% of the average monthly salary, as defined in the Plan ordinance, for each of the first 15 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 15 years, provided that the pension does not exceed 90% of the average monthly salary. Members who met eligibility to retire on or after to September 30, 2013 will receive a monthly pension, payable for life, equal to 3% of the average monthly salary, as defined in the Plan ordinance, for each of the first 20 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 20 years, provided that the pension does not exceed 85% of the average monthly salary.

The average monthly salary of the employee is computed based on the salary for the two highest paid years prior to the date of retirement or the average of the last two paid years, whichever produces the greater benefit after consideration of the overtime limit, to the employee prior to the date of retirement subject to the following limitation:

- a. For firefighter members, the inclusion of overtime in the employee's salary shall be limited in each year to an amount which, when combined with compensation for off duty services is equal to 11% of the highest annualized pay rate for the same salary rank that the member is in at the time of retirement.
- b. For police members, the inclusion of overtime in the member's salary shall be limited in each year to an amount which, when combined with compensation for off duty services is equal to 11% of the highest annualized pay rate for the same salary rank that the member is in at the time of retirement. However, the 11% limitation shall not apply to any member who holds the rank of Sergeant or Lieutenant on September 30, 2013, or any police officer who is promoted into the position of Police Sergeant prior to the date the 2013 Certified Police Sergeant Promotional Register expires in 2015. For these members, the inclusion of overtime and/or off duty in the member's salary shall be limited in each year to an amount which is equal to 70% of the difference between the member's annualized pay rate at retirement and the highest annualized pay rate for the next higher salary rank.
- c. In no case can the overtime limit exceed 300 hours for each year.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Notes to Financial Statements  
September 30, 2014 and 2013**

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**Note 1 – Description of the Plan - continued**

*Service retirement benefits*

Tier One members - continued

Members who met eligibility to retire on or after to September 30, 2015 will receive a monthly pension, payable for life, equal to 3% of the average monthly salary, as defined in the Plan ordinance, for each of the first 20 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 20 years, provided that the pension does not exceed 85% of the average monthly salary.

The average monthly salary of the employee is computed based on the salary for the three highest paid years prior to the date of retirement or the average of the last three paid years, whichever produces the greater benefit after consideration of the overtime limit, to the employee prior to the date of retirement subject to the following limitation:

- a. A members' benefit multiplier for creditable pension service earned before October 1, 2013 shall not be reduced.

Tier Two members

Any member may retire on a service retirement pension upon the attainment of age 50 or, if earlier, the date when the member attains age 48 and length of creditable service equals to at least 70 years.

Upon retirement, a member will receive a monthly pension, payable for life, equal to 3% of the average monthly salary, as defined in the Plan ordinance, for each of the first 20 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 20 years, provided that the pension does not exceed 85% of the average monthly salary. The average monthly salary of the employee is computed based on the salary for the three highest paid years prior to the date of retirement or the average of the last three paid years to the employee prior to the date of retirement, whichever produces the greater benefit after consideration of the overtime limit, subject to the following limitations:

- a. For firefighter members, the inclusion of overtime in the member's salary shall be limited in each year to an amount which, when combined with compensation for off duty services is equal to 11% of the highest annualized pay rate for the same salary rank that the member is in at the time of retirement.
- b. For police members, the inclusion of overtime in the member's salary shall be limited in each year to an amount which, when combined with compensation for off duty services is equal to 11% of the highest annualized pay rate for the same salary rank that the member is in at the time of retirement. However, the 11% limitation shall not apply to any member who holds the rank of Sergeant or Lieutenant on September 30, 2013, or any police officer who is promoted into the position of Police Sergeant prior to the date the 2013 Certified Police Sergeant Promotional Register expires in 2015. For these members, the inclusion of overtime and/or off duty in the member's salary shall be limited in each year to an amount which is equal to 70% of the difference between the member's annualized pay rate at retirement and the highest annualized pay rate for the next higher salary rank.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Notes to Financial Statements  
September 30, 2014 and 2013**

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**Note 1 – Description of the Plan – continued**

*Service retirement benefits*

Tier Two members - continued

- c. In no case can the overtime limit exceed 300 hours for each year.

Tier Three members

Any member may retire on a service retirement pension upon the attainment of age 50 or, if earlier, the date when the member attains age 48 and length of creditable service equals to at least 70 years.

Upon retirement, a member will receive a monthly pension, payable for life, equal to 3% of the average monthly salary, as defined in the Plan ordinance, for each of the first 20 years of creditable service and 4% of the average monthly salary for each year of creditable service in excess of 20 years, provided that the pension does not exceed 85% of the average monthly salary. The average monthly salary of the employee is computed based on the salary for the five highest paid years prior to the date of retirement or the average of the last 5 paid years to the employee prior to the date of retirement, whichever produces the greater benefit after consideration of the overtime limit, subject to the following limitations:

- a. For firefighter members, all compensation received for overtime pay limited to 300 hours and off duty services receive through the City shall be included in member's salary for pension contribution and benefit purposes; in no event shall the amount exceed 11% of the highest annualized pay rate for the same salary rank at the time of retirement.
- b. For police members, the inclusion of overtime in the member's salary shall be limited in each year to an amount which, when combined with compensation for off duty services is equal to 11% of the highest annualized pay rate for the same salary rank that the member is in at the time of retirement. However, the 11% limitation shall not apply to any member who holds the rank of Sergeant or Lieutenant on September 30, 2013, or any police officer who is promoted into the position of Police Sergeant prior to the date the 2013 Certified Police Sergeant Promotional Register expires in 2015. For these members, the inclusion of overtime and/or off duty in the member's salary shall be limited in each year to an amount which is equal to 70% of the difference between the member's annualized pay rate at retirement and the highest annualized pay rate for the next higher salary rank.
- c. In no case can the overtime limit exceed 300 hours for each year.

*Disability benefits*

Service connected - Any member who becomes totally and permanently disabled at any time as a result of illness or injury suffered in the line of duty may be retired on an accidental disability pension. For a service connected disability, the minimum pension payable is 85% of monthly salary of the employee at the time of disability retirement, less any offset for worker's compensation.

**City Pension Fund for Firefighters and Police Officers  
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**Note 1 – Description of the Plan – continued**

*Disability benefits - continued*

Non-service connected - Any member who becomes totally or permanently disabled after 5 years of creditable service as a result of illness or injury not suffered in the line of duty may be retired on an ordinary disability retirement pension. Upon disability retirement, a member receives a monthly pension equal to their service retirement benefits. For a non-service connected disability, the pension is the accrued benefit after 5 years of creditable service.

*Death benefits*

The Plan also provides benefits for beneficiaries of members for service connected and non-service connected death.

*Cost of living adjustment*

Tier One members

All retirees and beneficiaries receiving a monthly pension as of September 30, 2010 will receive a 2.5% increase in benefits on October 1<sup>st</sup> of each year. Members that retire on or after September 30, 2010 will receive a 2.5% increase in benefits annually on the anniversary date of the member's retirement.

Tier Two and Tier Three members

All retirees and beneficiaries will receive a 1.5% increase in benefits annually on the anniversary date of the member's retirement.

*Refund of employee contributions*

If a member resigns or is lawfully discharged before retirement, their contributions with 3% interest per annum are returned to them. The Plan also provides a special provision for vested benefits for members who terminate after 5 years of service.

*Deferred retirement option plan*

All Members

Deferred Retirement Option Plan (“DROP”) participants have self-directed accounts, and the rate of return earned will therefore depend on the return of the particular accounts selected by the individuals. Once a member enters the DROP, their monthly retirement benefit is fixed, and their monthly benefit is paid into their DROP account. Upon termination of employment, the balance in the member's DROP account, including earnings, is payable to them and they also begin to receive their previously fixed monthly retirement benefit. The DROP is administered by the Plan's Board of Trustees.



# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

## Note 1 – Description of the Plan – continued

### *Deferred retirement option plan - continued*

#### Tier One members

An active member may enter into the DROP on the first day of any month after meeting eligibility to retire. Upon becoming eligible to participate in the DROP, a member may elect to enter that program for a period not to exceed 36 months. Members who enter the DROP on or after September 1, 2012 shall be eligible to participate for a period not to exceed 60 months. All members shall receive a 2.5% COLA increase in benefits annually on the anniversary date of the member's retirement. The exception is members who entered the DROP on or after September 1, 2012 and before September 30, 2013 shall receive a 0% COLA adjustment for the 3rd and 4th annual adjustment dates, regardless of whether the member remains in the DROP for the maximum 60 month period. Further, any member who exits the DROP within 6 months following the date of DROP entry shall be eligible to the 2.5% COLA adjustment.

#### Tier Two and Tier Three members

An active member may enter into the DROP on the first day of any month after attainment of age 50 or, if earlier, the date when the member attains age 48 and age and length of creditable service equals to at least 70 years. Upon becoming eligible to participate in the DROP, a member may elect to enter that program for a period not to exceed 60 months. All members shall receive a 1.5% COLA increase in benefits annually on the anniversary date of the member's retirement.

A summary of the changes in the DROP balance as of September 30 is as follows:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 11,807,256	\$ 9,408,588
Additions	7,705,655	8,250,776
Distributions	(5,079,670)	(6,475,244)
Interest	702,560	623,136
Ending balance	<u>\$ 15,135,801</u>	<u>\$ 11,807,256</u>

### *Other benefits*

Effective November 4, 2003, a member who retires, enters the DROP, or separates from City employment and is entitled to service or disability benefits may elect, in lieu of such benefits, a joint and contingent survivor option, at any time prior to retirement. Under the joint and contingent survivor option, the member shall receive an actuarially adjusted retirement benefit during the member's lifetime, and have the same monthly benefit (or designated percentage of 25%, 50%, 66-2/3% or 75% thereof) continued after the member's death to and for the lifetime of the member's designated joint pensioner. The election of the joint and contingent survivor option shall be null and void if the designated joint pensioner dies before the member's retirement. The value of the joint and contingent survivor option shall be actuarially equivalent to the value otherwise payable.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
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**Note 1 – Description of the Plan - continued**

*Other benefits - continued*

In the alternative and in lieu of the normal form of benefit, the member may, at any time prior to retirement, elect to receive a lifetime retirement benefit with 120 monthly payments guaranteed. If the member should die before 120 monthly payments are made, benefits will continue to be paid to the member's designated beneficiary for the balance of the 120 month period. If the retired member is living after 120 monthly payments are made, the payments shall be continued for the member's remaining lifetime.

*Termination*

In case of termination of the Plan, benefits accrued to members to the extent funded will be non-forfeitable.

*Funding Requirements*

The City is required to pay into the Plan such amounts as necessary to maintain the actuarial soundness of the Plan and to provide the Plan with assets sufficient to meet the benefits to be paid the members. The City contribution is reduced by any available State contributions (Share Plan).

*Investments*

The Plan has contracts with investment counselors who supervise and direct the investment of equity and fixed income securities. In addition, the Plan utilizes an investment consultant who monitors the investing activity. The Plan requires the City of Miami Beach to be custodian of all assets. The City in turn has a custodial agreement with a trust company which provides for the custody and handling of all transactions. The Plan provides for investment in U.S. Government securities, money market funds, bonds, notes, real estate, common stock, private placement international bond funds and international equity securities.

**Note 2 - Summary of Significant Accounting Policies**

*Basis of accounting*

The Plan financial statements are prepared using the accrual basis of accounting. Employee 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. Share plan contributions are recognized as revenues in the period in which they are approved by the State. 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 recorded at fair value in the Statement of Fiduciary Net Position. 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. The diversity of the investment types in which the Trust 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:

**City Pension Fund for Firefighters and Police Officers  
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September 30, 2014 and 2013**

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**Note 2 - Summary of Significant Accounting Policies – continued**

*Investments - continued*

- Short-term investments consist primarily of money market funds, commercial paper and similar instruments with maturities of less than one year. Short term investments are reported at fair value or at cost or amortized cost, which approximates fair value. For those investments which are reported at fair value, the investments are valued using similar methodologies as described within the debt securities section below.
- Debt securities: Debt securities consist primarily of negotiable obligations of the U.S. government and U.S. government-sponsored agencies, corporations, securitized offerings backed by residential and commercial mortgages, foreign debt securities and private placement funds (included in international fixed income in the Statement of Fiduciary Net Position). 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's type.
- Equity securities: These include common stock, domestic and international equity funds. Domestic securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Securities traded in the over-the counter market and listed securities for which no sale was reported on that date are valued at the last reported bid price. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at September 30, 2014 and 2013. 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.
- Real estate: Real estate funds are valued using their respective net asset value (“NAV”) as of September 30, 2014 and 2013. The most significant input into the NAV of such funds is the fair value of the investment holdings. These holdings are valued by the general partners on a quarterly or semi-annual basis, in conjunction with management and investment advisors.

Unrealized gains and losses are presented as net appreciation in fair value of investments on the Statement of Changes in Fiduciary Net Position along with gains and losses realized on sales of investments. Purchases and sales of investments are recorded on a trade-date basis.

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 statements of fiduciary net position.

*Use of estimates*

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

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

## Note 2 - Summary of Significant Accounting Policies - continued

### *Income Tax Status*

The Plan is tax exempt under the Internal Revenue Code, and, therefore, has recorded no income tax liability or expense.

### *Risk and Uncertainties*

Contributions to the Plan and the actuarial information included in the required supplementary information ("RSI") are reported based on certain assumptions pertaining to the interest rates, inflation rates and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

### *Recently Adopted Accounting Pronouncements*

The Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25* (GASB Statement No. 67). GASB Statement No. 67 applies to pension plans that administer pension benefits for governments through a trust or equivalent arrangement that meets certain specified criteria. GASB Statement No. 67 establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the net pension liability of employers for benefits provided through the pension plan. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information to be disclosed. The adoption of GASB 67 also required a restatement of prior years' liabilities in accordance with GASB 67. See Note 7.

### *Subsequent Events*

Management has evaluated subsequent events through January 15, 2015, the date which the financial statements were available for issue.

## Note 3 - Contributions

### *Actual contributions*

The actual contributions from the City and the Share Plan for active employees for the fiscal years ended September 30, 2014 and 2013, amounted to \$35,960,326 and \$39,492,050, respectively, and the actual amount of covered payroll (excluding DROP members) was approximately \$50,750,000 and \$49,730,000, respectively. The contributions consisted of the following for the fiscal years ended September 30:

	2014		2013	
	Amount	Percent of Actual Annual Covered Payroll	Amount	Percent of Actual Annual Covered Payroll
City contributions	\$ 35,839,777	70.6%	\$ 39,371,501	79.2%
Share Plan	120,549	0.2	120,549	0.2
Total contributions from employer and other contributing entities	\$ 35,960,326	70.8%	\$ 39,492,050	79.4%

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**Note 3 – Contributions - continued**

*Actual contributions - continued*

	2014		2013	
	Amount	Percent of Actual Annual Covered Payroll	Amount	Percent of Actual Annual Covered Payroll
Employee contributions	\$ 5,076,394	10.0%	\$ 5,091,354	10.2%
Employee buybacks/transfers	182,580	0.4	4,625,982	9.3
Total contributions from employees	\$ 5,258,974	10.4%	\$ 9,717,336	19.5%

*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 contribution) that best fits the funding requirements of the Plan. For the years ended September 30, 2014 and 2013, the Plan selected to use the fixed dollar contribution amount.

The contributions required from the City, and the Share Plan for the fiscal years ended September 30, 2014 and 2013, were actuarially determined by the October 1, 2012 and 2011 valuations to be \$35,960,326 and \$39,492,050, respectively. The updated amount of actuarially computed annual covered payroll used in October 1, 2012 and 2011 valuations was \$46,313,650 and \$49,186,724, respectively.

The required City and Share Plan contributions cover the following for the fiscal years ended September 30:

	2014		2013	
	Amount	Percent of Actuarially Computed Covered Payroll	Amount	Percent of Actuarially Computed Covered Payroll
Normal cost	\$ 24,890,611	53.7%	\$ 17,593,392	35.8%
Amortization of Unfunded liability and other costs	11,069,715	23.9	21,898,658	44.5
Total required from City and Share Plan	\$ 35,960,326	77.6%	\$ 39,492,050	80.3%

**Note 4 - Deposits and Investment Risk Disclosures**

*Investment Authorization*

The Plan's investment policy is determined by the Board of Trustees. The policy has been identified by the Board to achieve a favorable rate of return using both absolute and relative measures against inflation, preservation of capital and long term growth, which will keep the Plan actuarially sound. The Trustees are authorized to acquire and retain every kind of property investment.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
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**Note 4 - Deposits and Investment Risk Disclosures - continued**

*Types of Investments*

The Plan's investment policy allowed for investment in bonds, equities, commercial paper, savings accounts, government securities, real estate, insurance contracts of domestic corporations and bonds issued by the State of Israel as follows:

Short-term investments

- a. Time, savings and money market deposit accounts of a national bank, a state bank or a savings and loan association insured by the Federal Deposit Insurance Corporation.
- b. Money market obligations issued by the United States Government or in obligations guaranteed as to principal and interest by the United States government.

Equity

1. Domestic and International Equities: equities defined as common stocks and issues convertible to equities, provided:
  - a. Each holding shall be listed on a major U.S. exchange (excluding Wellington who may hold Private Placements).
  - b. Not more than five percent (5%) of the market value of the Plan's total assets shall be invested in the common stock or capital stock of any one issuing company, nor shall the aggregate investment in any one issuing company be equal to or exceed five percent (5%) of the outstanding capital stock of the company.
2. The use of un-hedged and/or leveraged derivatives will not be allowed in any form, except Wellington who may have up to fifteen percent (15%) maximum, in their total fund portfolio.

Fixed Income

1. Short-term investments
  - a. Time, savings and money market deposit accounts of a national bank, a state bank or a savings and loan association insured by the Federal Deposit Insurance Corporation.
  - b. Money market funds, defined as fixed income securities having a maturity of less than one year, provided that all issues shall meet or exceed Standard & Poor's A1, or Moody's P1 credit rating.
2. Obligations issued by the U.S. government or an agency or instrumentality of the U.S. government, including mortgage-related securities, or foreign bonds or other evidence of indebtedness denominated in United States Dollars. The U.S. government securities which may be purchased include direct obligations issued by the United States Treasury, such as Treasury bills, certificates on indebtedness, notes and bonds as well as instruments issued or guaranteed by agencies or instrumentalities of the United States government, including mortgage-related securities. Mortgage-related securities or asset-backed securities not issued by the U.S. government or an agency or instrumentality thereof may also be purchased.

**City Pension Fund for Firefighters and Police Officers  
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**Note 4 - Deposits and Investment Risk Disclosures - continued**

*Types of Investments - continued*

Fixed Income - continued

3. Fixed income investments defined as preferred issues and fixed income securities provided:
  - a. All corporate debt issues shall be rated in the highest three (3) categories of quality by any of the following listed services: Moody's, Standard and Poor's, or Fitch's Manual. Anything herein to the contrary notwithstanding, a maximum of 25% of the Inverness bond portfolio may be rated in the fourth (4) highest categories.
  - b. Any issue, if downgraded below the fourth (4) highest category by two (2) of the three (3) of the above mentioned ratings services must either be sold or specifically approved for retention by the Board of Trustees.
4. Bonds issued by the State of Israel.
5. Commingled stocks, bonds, or money market funds whose investments are restricted to securities meeting the above criteria.
6. In addition to the above, Inverness Counsel, Inc. (money manager) is subject to the following specific guidelines:
  - a. Inverness Counsel's investment in corporate common stock, convertible bonds and convertible preferred issues shall not exceed forty-six percent (46%) of their total fund assets at market value.
  - b. No limitations are placed on percentage commitments to fixed income or money market investments.
7. In addition to the above, Wells Capital Management Inc. (money manager) is subject to the following specific guidelines:
  - a. Wells Capital's will generally invest at least eighty percent (80%) of its assets in debt securities, including obligations of foreign government or corporate entities or supranational agencies (such as the World Bank) denominated in various currencies.
  - b. Up to thirty-five percent (35%) of the debt securities may be below investment grade (which are rated below BBB by Standard & Poor's or Fitch, Inc. or below Baa by Moody's Investors Service, Inc.).
  - c. Wells Capital will invest in at least three countries or supranational agencies (such as World Bank).
  - d. No more than five percent (5%) of Wells Capital's assets will be invested in debt obligations or similar securities denominated in the currencies of developing countries.
  - e. Wells Capital may also enter into foreign currency exchange contracts to hedge currency exposure, where required, helping to manage the overall risk profile of the strategy.

The Plan's investment policy and guidelines include an addendum that allowed the Board to define a formal set of investment objectives and guidelines and procedures for management of the DROP assets.

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

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## Note 4 - Deposits and Investment Risk Disclosures - continued

### *Types of Investments - continued*

In accordance with the provisions of Florida Senate Bill 1462, no more than 25% of the Plan's total assets can be invested in foreign securities.

In accordance with the Protecting Florida's Investment Act (Fla. Stat. 215.473), the Board is prohibited from directly investing in any companies, identified by the State Board of Administration (SBA) on its website each quarter, as a scrutinized company.

Florida statutes and Plan investment policy authorize the Trustees to invest funds in various investments. The current target and actual allocations of these investments at September 30, 2014 and 2013 are as follows:

<b>Authorized investments</b>	<b>Target % of portfolio</b>	<b>2014</b>	<b>Target % of portfolio</b>	<b>2013</b>
Domestic equity	<b>50%</b>	<b>51%</b>	50%	56%
Fixed income	<b>35%</b>	<b>36%</b>	35%	33%
International equity	<b>5%</b>	<b>5%</b>	5%	5%
Real estate equity	<b>5%</b>	<b>5%</b>	5%	3%
Cash/short-term investments	<b>5%</b>	<b>3%</b>	5%	3%

### *Rate of Return*

For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension investment expense, was 9.98%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### *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:



**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach**

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**Note 4 - Deposits and Investment Risk Disclosures - continued**

*Interest Rate Risk - continued*

Investment Type	Fair Value	2014 Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 10,350,535	\$ 2,505,664	\$ 2,524,569	\$ 5,320,302	\$ -
U.S. agencies	9,772,041	-	9,772,041	-	-
Domestic corporate bonds	201,231,499	10,112,190	85,327,264	105,792,045	-
International corporate bonds	17,823,650	3,039,753	-	14,783,897	-
Private placement	34,187,023	602,876	8,019,605	15,364,003	10,200,539
<b>Total fixed income Securities</b>	<b>\$ 273,364,748</b>	<b>\$ 16,260,483</b>	<b>\$ 105,643,479</b>	<b>\$ 141,260,247</b>	<b>\$ 10,200,539</b>

Investment Type	Fair Value	2013 Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. treasuries	\$ 10,410,888	\$ -	\$ 5,108,723	\$ 5,302,165	\$ -
U.S. agencies	12,734,200	-	12,734,200	-	-
Domestic corporate bonds	154,983,512	15,389,319	64,796,759	74,797,434	-
International corporate bonds	17,705,158	-	3,169,836	14,535,322	-
Private placement	32,863,580	572,917	12,536,301	11,275,688	8,478,674
<b>Total fixed income Securities</b>	<b>\$ 228,697,338</b>	<b>\$ 15,962,236</b>	<b>\$ 98,345,819</b>	<b>\$ 105,910,609</b>	<b>\$ 8,478,674</b>

*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.

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
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## Note 4 - Deposits and Investment Risk Disclosures - continued

### *Credit Risk - continued*

The following table discloses credit ratings by investment type, at September 30, as applicable:

	2014		2013	
	Fair Value	Percent of Portfolio	Fair Value	Percent of Portfolio
U.S. Government				
Guaranteed*	\$ 20,122,576	7.36%	\$ 23,145,088	10.12%
Quality rating of credit risk debt securities:				
AAA	8,768,843	3.21	9,173,468	4.01
AA+	12,918,367	4.73	20,869,376	9.13
AA	11,210,475	4.10	10,309,394	4.51
AA-	25,203,432	9.22	15,478,651	6.77
A+	32,295,224	11.81	28,411,031	12.42
A	67,611,046	24.73	60,330,060	26.38
A-	53,727,816	19.65	36,736,392	16.06
BBB+	21,552,463	7.88	14,167,167	6.19
BBB	14,181,564	5.19	6,892,372	3.01
BBB-	4,245,283	1.55	2,468,183	1.08
BB+	88,705	0.03	35,755	0.02
BB	231,017	0.09	80,557	0.04
BB-	146,343	0.05	57,622	0.03
B+	238,856	0.09	162,904	0.07
B	449,960	0.17	358,977	0.15
B-	372,778	0.14	20,341	0.01
Total credit risk debt securities	253,242,172	92.64	205,552,250	89.88
Total fixed income securities	\$ 273,364,748	100.00%	\$ 228,697,338	100.00%

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

### *Concentration 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 the fiduciary net position at September 30, 2014 and 2013.

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

## Note 4 - Deposits and Investment Risk Disclosures – continued

### *Custodial Credit Risk*

Deposits are exposed to custodial risk if they are uninsured and uncollateralized. Custodial 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 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 bank and registered in the Plan's name. All of the Plan's deposits are insured and or collateralized by a financial institution separate from the Plan's depository financial institution.

### *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan has exposure through international holdings in a private placement trust fund. The Plan has exposure to currency fluctuations at September 30, as follows:

	<b>2014</b>	<b>2013</b>
<b>Currency</b>	<b>Holdings Valued in U.S. Dollars Private Placement</b>	<b>Holdings Valued in U.S. Dollars Private Placement</b>
Australian Dollar	\$ 5,089,719	\$ 4,118,051
Brazilian Real	1,727,823	1,895,237
British Pound Sterling	2,729,379	1,250,885
Canadian Dollar	(73,573)	203,291
Euro	10,680,017	11,093,123
Hungarian Forint	9,693	-
Japanese Yen	(117,506)	16,762
Mexican Peso	1,662,751	1,786,679
Norwegian Krone	1,407,153	1,541,475
South African Rand	1,004,053	928,603
Swedish Krona	2,487,770	2,207,342
Other	6,035,073	6,628,412
<b>Total</b>	<b>\$ 32,642,352</b>	<b>\$ 31,669,860</b>

## Note 5 - Commitments

The Plan is obligated under a rental operating lease for office space, which expires on August 31, 2016. The base rent for the first twelve months of the lease was \$7,355 per month, net of electricity. The lease contains a provision for future rent increases annually by an amount equal to 4% of the prior year's base rent. During the years ended September 30, 2014 and 2013, rent expense under the lease agreement amounted to \$128,584 and \$117,519, respectively.

**City Pension Fund for Firefighters and Police Officers  
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**Note 5 – Commitments - continued**

The following is a schedule of the aggregate future minimum rental payments under this lease, excluding applicable sales taxes, net of electricity:

<u>For the year ending September 30,</u>	
2015	\$ 121,188
2016	115,149
	<u>\$ 236,337</u>

**Note 6 – Net Pension Liability of the City**

The components of the net pension liability of the City at September 30, 2014 were as follows:

	<b>2014</b>
Total pension liability	<b>\$ 991,506,019</b>
Plan’s fiduciary net position	<b>769,298,572</b>
City net pension liability	<b>\$ 222,207,447</b>

Plan’s fiduciary net position as a percentage of total pension liability 77.59%

*Actuarial Assumptions*

The total pension liability at September 30, 2014 was determined using an actuarial valuation as of October 1, 2013, with update procedures used to roll forward the total pension liability to September 30, 2014. The actuarial valuation used the following actuarial assumptions:

Inflation	3.0%
Projected salary increases	2.87% – 9.87%
Projected COLAs	1.5%, 2.0%, or 2.5% compounded annually
Investment rate of return	8.0% compounded annually, net of pension plan investment expense, including inflation.

Healthy mortality rates are calculated with the RP 2000 Combined Mortality Table with Blue Collar Adjustment projected 15 years from the valuation date for pre-retirement mortality and 7 years from valuation date for post-retirement mortality. Disabled mortality rates are calculated with the RP 2000 Disabled Mortality Table.

The actuarial assumptions used in the October 1, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2003 – September 30, 2009.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Notes to Financial Statements  
September 30, 2014 and 2013**

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**Note 6 – Net Pension Liability of the City - continued**

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*.

ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of the valuation date of October 1, 2013 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return* <b>2014</b>
Cash Equivalents	<b>2.10%</b>
Inter-term government bond	<b>4.40%</b>
Corporate bonds	<b>6.00%</b>
Large value stocks	<b>10.50%</b>
Large growth stocks	<b>10.25%</b>
Small value stocks	<b>11.00%</b>
Small growth stocks	<b>11.45%</b>
Mid cap stocks	<b>10.75%</b>
Real estate	<b>8.75%</b>
International stocks	<b>10.75%</b>
Emerging equities	<b>12.50%</b>
Convert. bond	<b>8.66%</b>
Mortgage bonds	<b>4.75%</b>
REITs	<b>8.54%</b>
International bonds	<b>8.74%</b>

• Real rates of return are net of the long-term inflation assumption of 2.5% for 2014.

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

## Notes to Financial Statements

September 30, 2014 and 2013

### Note 6 – Net Pension Liability of the City - continued

#### *Discount Rate*

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from the City will be made at statutorily required rates, actuarially determined. 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 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 changes in the Discount Rate*

The following presents the net pension liability of the City calculated using the discount rate of 8.0%, as well as what the employer net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 Percent) than the current rate:

	<b>Employer Net Pension Liability</b>		
	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
September 30, 2014	\$ 345,519,095	\$ 222,207,447	\$ 120,722,501

### Note 7 – Restatement of Financial Statements

In accordance with U.S. GAAP and paragraph 49 of GASB 67, certain changes in accounting principles were retrospectively applied, and therefore, comparative financial statements include a restatement of all prior years presented for the following changes made to comply with the requirements of GASB 67.

The Plan administers a DROP (see Note 1). During the DROP participation period, each member’s monthly retirement benefit accrues and the balance accumulates with the DROP account. Upon termination of employment and the end of the DROP period, each retired member’s funds are immediately due and payable. Monthly accruals were previously expensed and accordingly recorded as a deduction on the Statement of Changes in Fiduciary Net Position. Similarly, the total amount of deferred retirement benefits that had accumulated but not yet been distributed at fiscal year-end were previously classified as a liability on the Statement of Fiduciary Net Position. According to paragraph 98 of GASB 67, “DROP balances, similar to other benefit payments, should be recognized as a pension plan liability only when ultimately due to the plan member.” Further clarification is provided by question 37 in the GASB 67 implementation guide which states that “benefits generally would be considered due and payable only when they are required to be distributed to the plan member from the DROP account.”

As a result of the preceding, financial statements have been restated to report a liability only for benefits due but not yet distributed to members who had ended their participation in the DROP program at September 30. Likewise, deductions have been restated to include only DROP amounts actually distributed to participants as well as amounts due but not yet distributed. Additions have also been restated to add back those that relate to the DROP for investment income earned by the DROP account. The cumulative effect of the restatement is as follows:

# City Pension Fund for Firefighters and Police Officers In the City of Miami Beach

Notes to Financial Statements  
September 30, 2014 and 2013

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## Note 7 – Restatement of Financial Statements - continued

### Statement of Fiduciary Net Position

Total liabilities, previously reported	\$ 12,195,501
Impact of restatement	(11,807,256)
<u>Total liabilities, as restated</u>	<u>\$ 388,245</u>
Net position restricted for pensions, previously reported	\$ 698,522,566
Impact of restatement	11,807,256
<u>Total net position restricted for pensions, as restated</u>	<u>\$ 710,329,822</u>

### Statement of Changes in Fiduciary Net Position

Total additions, previously reported	\$ 130,800,393
Impact of restatement	623,136
<u>Total additions, as restated</u>	<u>\$ 131,423,529</u>
Total deductions, previously reported	\$ 54,686,056
Impact of restatement	(1,775,532)
<u>Total deductions, as restated</u>	<u>\$ 52,910,524</u>

## Note 8 - Pension Plan for Employees of the Plan

The administrative employees of the Plan, who do not participate in the plan described herein, participate in the City of Miami Beach Employees Retirement Plan (“MBERP”) which is a single employer defined benefit pension plan for general employees of the City of Miami Beach, Florida. MBERP provides retirement, death, and disability benefits to plan members and beneficiaries. The employees of the Plan are required to contribute 8-10% of their base salary. The MBERP issues a publicly available financial report that can be obtained by contacting Miami Beach Employees Retirement Plan, 1700 Convention Center Drive, Miami Beach, Florida 33139.

## **Required Supplementary Schedules**



**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Required Supplementary Information  
Schedule of Changes in the City's Net Pension Liability (Unaudited)  
Last Fiscal Year**

<b>Total pension liability</b>		
Service cost	\$	14,763,595
Interest		75,108,912
Changes of benefit terms		-
Differences between expected and actual experience		7,685,043
Changes of assumptions		-
Benefit payments, including refunds of member contributions		(53,605,094)
Net change in total pension liability		43,952,456
Total pension liability- beginning		947,553,563
Total pension liability- ending		991,506,019
<b>Plan fiduciary net position</b>		
Contributions - City and State		35,960,326
Contributions - member		5,258,974
Net investment income		72,259,674
Benefit payments, including refunds of member contributions		(53,605,094)
Administrative expenses		(905,130)
Other		-
Net change in plan fiduciary net position		58,968,750
Plan fiduciary net position – beginning		710,329,822
Plan fiduciary net position - ending	\$	769,298,572
City's net pension liability	\$	222,207,447

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

*See accompanying independent auditors' report and notes to required supplementary information.*

**City Pension Fund for Firefighters and Police Officers  
 In the City of Miami Beach  
 Required Supplementary Information  
 Schedule of Changes in the City's Net Pension Liability (Unaudited) - continued  
 Last Fiscal Year**

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Total pension liability	\$	991,506,019
Plan fiduciary net position		769,298,572
City's net pension liability	\$	222,207,447

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Plan fiduciary net position as a percentage of the total pension liability	77.59%
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Covered – employee payroll	\$	57,545,593
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City's net pension liability as a percentage of covered – employee payroll	386.14%
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\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Required Supplementary Information  
Schedule of Contributions by Employer (Unaudited)  
Last 10 Fiscal Years**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 35,960,326	\$ 39,492,050	\$ 36,297,459	\$ 32,811,570	\$ 23,403,818
Contributions in relation to the actuarially determined contribution	35,960,326	39,492,050	36,297,459	32,811,570	23,403,818
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll *	\$ 57,545,593	\$ 46,313,650	\$ 49,186,724	\$ 49,718,966	\$ 51,636,070
Contributions as a percentage of covered-employee payroll	62.49%	85.27%	73.80%	65.99%	45.32%
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 20,159,995	\$ 17,618,045	\$ 15,231,417	\$ 14,601,836	\$ 11,978,155
Contributions in relation to the actuarially determined contribution	20,159,995	17,618,045	15,231,417	14,601,836	11,978,155
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll *	\$ 53,153,934	\$ 40,060,096	\$ 36,592,193	\$ 32,354,015	\$ 33,870,768
Contributions as a percentage of covered-employee payroll	37.93%	43.98%	41.62%	45.13%	35.36%

\* Includes DROP members

**City Pension Fund for Firefighters and Police Officers  
In the City of Miami Beach  
Required Supplementary Information  
Schedule of Investment Returns (Unaudited)  
For the Year Ended September 30, 2014**

	<b>2014</b>
Annual money-weighted rate of return, net of investment expense	9.98%

\* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**City Pension Fund for Firefighters and Police Officers**  
**In the City of Miami Beach**  
**Required Supplementary Information**  
**Notes to Required Supplementary Information (Unaudited)**  
**Last Ten Fiscal Years**

*Method and assumptions used in calculations of the City's actuarially determined contributions.* The actuarially determined contribution rates in the schedule of the City's contributions are calculated as of October 1. Unless otherwise noted above, the following actuarial methods and assumptions were used to determine contribution rates reported in the Schedule of the City's contributions.

Actuarial cost method	Early age normal
Amortization method	Level percentage, closed
Amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.00%
Projected salary increases	2.87% - 9.87%
Investment rate of return	8.00%
Cost-of-living increases	1.5%, 2.0%, or 2.5%

Retirement Age: Experience-based table of rates that are specific to the type of eligibility condition.

**Mortality Rates:**

**Healthy:** For healthy participants, the RP 2000 Combined Mortality Table Projected with Blue Collar Adjustment projected 15 years from valuation date for pre-retirement mortality and 7 years from valuation date for post-retirement mortality was used.

**Disabled:** For disabled participants, the RP 2000 Disabled Mortality Table was used.

**Disability Rates:** Representative values of the assumed annual rates of disability among members in active service are as follows:

<u>Age</u>	<u>Disability Rates</u>	<u>Age</u>	<u>Disability Rates</u>
20	0.0007	45	0.0058
25	0.0011	50	0.0099
30	0.0016	55	0.0142
35	0.0022	60	0.0200
40	0.0032	64	0.0269

55% of disabilities are assumed to be ordinary, 45% are assumed to be accidental.

**Employee Withdrawal Rates:** Representative values of the assumed annual rates of withdrawal among members in active service are as follows:

<u>Age</u>	<u>Withdrawal Rates</u>	<u>Age</u>	<u>Withdrawal Rates</u>
20	0.50%	35	1.50%
25	1.00%	40	0.75%
30	1.25%	45	0.25%

**Marital Assumptions:** 1. 77% of members are assumed married or entitled to benefits for dependents, including registered domestic partners.

2. Male spouses are assumed to be three years older than female spouses.

**City Pension Fund for Firefighters and Police Officers**  
**In the City of Miami Beach**  
**Required Supplementary Information**  
**Notes to Required Supplementary Information (Unaudited) - continued**  
**Last Ten Fiscal Years**

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*Benefit Changes*

In 2013, participants were categorized into different tiers: Tier 1 - members hired prior to July 14, 2010, Tier 2 - members hired on or after July 14, 2010 but prior to September 30, 2013, and Tier 3 - members hired on or after September 30, 2013. Final average monthly earnings (FAME) were updated to the greater of the average of the 2 highest paid years prior to date of retirement or the 2 last paid years after taking into consideration the overtime limit (Tier 1 and eligible to retire prior to September 30, 2015), the greater of the average of the 3 highest paid years prior to date of retirement or the 3 last paid years after taking into consideration the overtime limit (Tier 1 and eligible to retire on or after September 30, 2015), the greater of the average of the 3 highest paid years prior to date of retirement or the 3 last paid years after taking into consideration the overtime limit (Tier 2) and the greater of the average of the 5 highest paid years prior to date of retirement or the 5 last paid years after taking into consideration the overtime limit (Tier 3). Normal retirement eligibility was updated to the earlier of attainment of age 50 or Rule of 70 (Tier 1 and eligible to retire prior to September 30, 2013), the earlier of attainment of age 50 or Rule of 70 and attainment of age 47 (Tier 1 and eligible to retire on or after September 30, 2013), and the earlier of attainment of age 50 or Rule of 70 and attainment of age 48 (Tier 2 and 3). Benefits were updated to not exceed 85% of FAME (if eligible to retire on or after September 30, 2013) unless exceeded 85% as of September 30, 2013 (Tier 1 and eligible to retire on or after September 30, 2013 but prior to September 30, 2015). Pensionable salary was updated to exclude overtime pay in excess of 300 hours per calendar year. Withdrawal benefit eligibility was updated to any age prior to 50 with at least 5 years of service for members who terminate employment on or after September 30, 2013. Member contributions were updated to 10% of salary per year for members hired prior to September 30, 2013 and 10.5% of salary per year for members hired on or after September 30, 2013. Members will no longer be able to purchase an additional multiplier or pre-employment public safety service as a police officer or firefighter, and overtime for police officers was limited in each year to an amount that is equal to 11% of highest annualized pay rate for the same salary rank that the member is in at the time of retirement. In 2010, for new hires on or after September 30, 2012, the pension multiplier was updated to 3 for each year of service up to 20 years and 4% for each year of service thereafter (subject to a maximum of 90%). The Rule of 70 retirement was updated to state that members must attain age 48 to be eligible. Final average salary was updated to the three highest paid years of last three years prior to retirement, and the cost of living adjustment was updated to 1.5% annually. In 2010, for members who enter the DROP on or after September 1, 2012, the DROP period was updated to a maximum of 60 months and a 2.5% COLA will be paid annually on the anniversary date of the member's retirement. Pensionable pay was updated to include off-duty pay. Overtime for police officers was limited in each year to an amount equal to 70% of the difference between the member's annualized pay rate at retirement and the highest annualized pay rate for the next higher salary rank, while overtime for firefighters was limited in each year to an amount that is equal to 11% of highest annualized pay rate for the same salary rank that the member is in at the time of retirement. Members with ten or more years of service were allowed to purchase up to four years of pre-employment military service, up to two years pre-employment public safety service, or either 3% or 6% additional benefit multiplier.

*Assumption Changes*

In 2013, the asset valuation method was updated to phase in the deviation between the expected and actual return on assets at the rate of 20% per year and the load for projected pensionable payroll was decreased to 16%. In 2012, investment return was updated to 8.0%, expected salary increases for final years 2013 and 2014 were reduced by 2.17% and increased by 3.0% respectively, contingency compensation load for overtime and other pays were decreased to 16%, and contingency pre-employment service load was decreased to 0.275%. In 2011, investment return was updated to 8.1%, mortality tables for healthy pre and post retirement participants were projected 15 and 7 years from the valuation date, and the contingency compensation load for overtime and other pays was increased to 18%. In 2010, investment return was updated to 8.2% and the freeze on the cost of living increase component of the salary scale was extended to March 31, 2012. In 2009, investment return was updated to 8.3%, mortality rates were changed to the RP-2000 Combined Mortality Table with a blue collar adjustment for healthy lives and the RP-2000 Disabled Mortality table for disabled participants, a 20% load was added to the projected base payroll, retirement and withdrawal rates were updated to reflect the results of the October 1, 2003 through October 1, 2008 experience study, salary increase rates were updated to 3.38% for plan year 2009 and 6.0% for all subsequent plan years, and the load for overtime and other pays was updated to 16%. In 2008, investment return was updated to 8.5%, the salary scale was reduced by 50 basis points, loadings for contingencies were increased by 100 basis points, and the retirement assumption was updated to reflect an increase in the level of retirements starting at age 45. In 2005, the "fresh start" method was applied, retirement rates were increased to reflect actual retirement experience, and loadings for contingencies and pre-employment service was updated to 7.0% and 5.5% respectively.

## **Other Supplemental Schedules**

# City Pension Fund for Firefighters and Police Officers

## In The City of Miami Beach

### Other Supplemental Schedules of Investment Expenses and Administrative Expenses

For the Years Ended September 30, 2014 and 2013

	2014	2013
<b>Schedule "1"</b>		
<b>Schedule of Investment Expenses</b>		
Financial management expenses:		
JP Morgan Investment Management, Inc.	\$ 279,778	\$ 224,290
RBC Global Asset Management (U.S.) Inc.	164,959	89,492
Logan Capital Management, Inc.	235,545	117,691
Wentworth, Hauser and Violich	309,264	272,688
Wellington Trust Company, NA	406,328	457,360
Inverness Counsel	1,545,938	1,426,719
RhumbLine Advisers	56,737	51,099
Wells Capital Management	123,049	102,717
Total financial management expenses	3,121,598	2,742,056
Short-term investments		
Thistle Asset consulting	67,420	64,600
Investment custodial fees:		
Fiduciary Trust Company	111,224	103,511
Total investment expenses	\$ 3,300,242	\$ 2,910,167
<b>Schedule "2"</b>		
<b>Schedule of Administrative Expenses</b>		
Personnel services		
Salaries and payroll taxes	\$ 310,008	\$ 295,312
Fringe benefits	71,928	26,084
Total personnel services	381,936	321,396
Professional services		
Legal	74,456	61,751
Actuarial	44,093	46,996
Audit	25,000	30,000
Bookkeeping	2,398	2,407
Total professional services	145,947	141,154
Other		
Rent	128,584	117,519
Insurance	85,079	75,985
Office expense	42,874	39,907
I.T. dept. computer and phone charges	43,889	37,137
Computer consultant	13,073	10,238
Education, dues & subscriptions	40,493	28,562
Medical fees	12,897	23,346
Equipment expense	4,514	5,792
Utilities	5,844	4,883
Total other	377,247	343,369
Total administrative expenses	\$ 905,130	\$ 805,919





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