

NORTH MIAMI POLICE PENSION PLAN
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NORTH MIAMI POLICE PENSION PLAN

CONTENTS

Independent Auditors' Report	1-2
---	-----

Management's Discussion and Analysis (Required Supplementary Information)	3-7
--	-----

Financial Statements

Statement of Fiduciary Net Position	8
Statement of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10-23

Required Supplementary Information

Schedule of Changes in the City's Net Pension Liability and Related Ratios	24
Schedule of City Contributions	25
Schedule of Investment Returns	26

Reporting Section

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-28
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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and Plan Administrator
North Miami Police Pension Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the North Miami Police Pension Plan (the Plan), which comprise the statement of fiduciary net position as of September 30, 2016 and the related statement of changes in fiduciary net position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 respective financial position of the Plan, as of September 30, 2016, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Comparative Information

We have previously audited the North Miami Police Pension Plan's 2015 financial statements, and our report dated May 18, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the comparative information presented herein as of and for the fiscal year ended September 30, 2015, 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 3 to 7 and 24 to 26, respectively, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
March 23, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

NORTH MIAMI POLICE PENSION PLAN

Management's Discussion and Analysis

The discussion and analysis of the City of North Miami's (the City or the Employer) North Miami Police Pension Plan (NMPPP or the Plan) provides an overview of the financial activities and funding conditions for the fiscal years ended September 30, 2016 and 2015.

FINANCIAL HIGHLIGHTS

The net results from operations for fiscal year 2016 reflected the following financial activities:

- A net increase of \$7,753,236 in net position (or 14.00%).
- The Statement of Changes in Fiduciary Net Position reflects the financial performance that occurred during the year. Employer contributions for the year increased from \$3,358,659 in fiscal year 2015 to \$3,558,223 in fiscal year 2016. The amounts of employer contributions vary from year to year and are actuarially determined while member contributions are equal to 11.51% of covered payroll.
- Due to actuarial requirements, net employer contributions as a percentage of covered payroll increased from 37.37% to 41.20%.
- Liabilities increased from \$418,676 in 2015 to \$1,665,466 in 2016 due to purchases of securities at fiscal year end, which did not settle until after fiscal year end.
- Other contributions increased from \$82,682 in 2015 to \$576,823 in 2016 due to the fact that the North Miami Police Share Plan made a catch up contribution of approximately \$494,000 during fiscal year 2016.
- The plan experienced an increase in net investment income of \$4,086,504 from 2015 to 2016.
- Benefit payments and administrative expenses increased by 1.17% from \$3,118,791 to \$3,155,378.
- Total expenses as a percentage of Plan assets declined slightly from 0.59% in 2015 to 0.58% in 2016.

STATEMENT OF FIDUCIARY NET POSITION

The statement of fiduciary net position provides a snapshot of account balances at fiscal year end. It reports the assets available for future payments to retirees and any current liabilities that are owed as of the financial statement date. The resulting net position value, or assets minus liabilities, represents the value of net position restricted for pension benefits. The NMPPP continues to be adequately funded. It is important to remember that retirement system funding is based on a long time horizon, and that temporary ups and downs in the market are to be expected.

The summary of fiduciary net position is presented below:

	September 30,	
	2016	2015
Assets		
Cash	\$ 744,402	\$ 265,971
Investments	63,376,822	55,193,286
Receivables	685,759	347,700
Total Assets	64,806,983	55,806,957
Liabilities		
Liabilities	1,665,466	418,676
Net Position Restricted for Pension Benefits	<u>\$ 63,141,517</u>	<u>\$ 55,388,281</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

The statement of changes in fiduciary net position displays the effects of pension fund transactions that occurred during the fiscal year where additions less deductions equal the net increase or decrease in the fiduciary net position.

The summary of changes in fiduciary net position is presented below:

	Fiscal Year Ended	
	September 30,	
	2016	2015
Additions		
Contributions	\$ 5,149,457	\$ 4,287,917
Investment income, net	<u>5,759,157</u>	<u>1,672,653</u>
Total Additions	<u>10,908,614</u>	<u>5,960,570</u>
Deductions		
Benefits paid to plan members	3,019,118	2,992,356
Administrative expenses	<u>136,260</u>	<u>126,435</u>
Total Deductions	<u>3,155,378</u>	<u>3,118,791</u>
Net Increase	7,753,236	2,841,779
Net Position Restricted for Pension Benefits		
Beginning of year	<u>55,388,281</u>	<u>52,546,502</u>
End of year	<u>\$ 63,141,517</u>	<u>\$ 55,388,281</u>

FUNDING STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. A pension plan can become underfunded when the employer fails to make annual, actuarially required contributions to that plan. The City has traditionally contributed the annual required contribution to the NMPPP as determined by the Plan's actuary.

NET PENSION LIABILITY

With the implementation of GASB Statement No. 67, a new measure of the accounting liability of the City is referred to as the Net Pension Liability and is measured as of the Plan's year end and is presented in the required supplementary information section.

PLAN MEMBERSHIP

Changes in Plan Membership

	<u>September 30,</u>		
	<u>2016</u>	<u>2015</u>	<u>Change</u>
Inactive plan members and beneficiaries currently receiving benefits	42	37	5
Inactive plan members entitled but not yet receiving benefits	--	--	--
Active participants	<u>118</u>	<u>112</u>	<u>6</u>
Total Membership	<u>160</u>	<u>149</u>	<u>11</u>

ASSET ALLOCATION

The following table compares the plan's policy target asset allocation to actual allocation for September 30, 2016 and 2015.

	<u>2016</u>		<u>2015</u>	
	<u>Target</u>	<u>Actual</u>	<u>Target</u>	<u>Actual</u>
Equities	65.0%	62.8%	65.0%	61.8%
Fixed Income	25.0%	22.2%	25.0%	26.1%
Real Estate	10.0%	11.6%	10.0%	11.2%
Cash	0.0%	3.4%	0.0%	0.9%

INVESTMENT ACTIVITIES

Investment income is vital to the NMPPP for current and future financial stability. Therefore, the trustees have a fiduciary responsibility to act prudently and discretely when making plan investment decisions. To assist the Board of Trustees in this area, the Board employs the services of an investment consultant to periodically review and update the investment policy.

The Board and its investment consultant review portfolio performance quarterly. Performance is evaluated by individual money managers and by the asset class that each manager holds. Each performance is compared [a] to an internal benchmark (8.10% actuarial rate of return), [b] to a universe of peers and [c] to a broad financial benchmark (for example, S&P500).

Overall performance results, net of fees, for the plan can be viewed in the table below:

Summary of Investment Returns

	September 30,		Annualized	
	2016	2015	3 Yr. Return	5 Yr. Return
Equities				
Fund return	10.88%	1.45%	8.90%	15.67%
Fund policy	14.88%	-0.26%	9.55%	15.98%
Fixed Income				
Fund return	4.07%	1.06%	3.39%	3.06%
Fund policy	3.93%	1.02%	3.10%	2.61%
Real Estate				
Fund return	9.30%	13.94%	11.35%	11.96%
Fund policy	9.22%	14.12%	11.31%	11.18%
Total Fund				
Fund return	9.01%	2.84%	7.83%	10.97%
Fund policy	11.54%	2.01%	8.17%	11.21%

The plan uses the S&P500, S&P 600, S&P 400 and the MSCI Europe Australasia Far East (EAFE) indices as its equities policy. The Barclays Capital Government Credit Index (BCGC) and the Barclays Capital Intermediate Government Credit Index (BCIGC) form its fixed income policy. Real estate investments are measured against the National Council of Real Estate Investment Fiduciaries (NCREIF) index. The overall fund performance of the Plan is compared to the return of a portfolio comprised of the following:

Benchmarks per the Investment Policy

Barclays Capital Government Credit (fixed income)	25.0%
Russell 1000 Value (equities)	20.0%
Russell 1000 Growth (equities)	20.0%
Standard & Poor's 600 (equities)	10.0%
Standard & Poor's 400 (equities)	10.0%
MSCI Europe Australasia Far East (equities)	5.0%
National Council of Real Estate Investment Fiduciaries (real estate)	10.0%
	<u>100.0%</u>

In FY2016, the NMPPP underperformed against the policy by 253 basis points. This reflected dismal performance in the large-capitalization value (Logan) and growth (BRC) portfolios. Stellar performance in the Plan's international equities (Harding Loevner) and one of its real estate portfolios (Intercontinental Realty), however, were not sufficient to negate its large capitalization underperformance.

FINANCIAL ANALYSIS SUMMARY

The NMPPP investment activities, for the fiscal year ended September 30, 2016, are a function of the underlying market, money manager performance and the investment policy's asset allocation model. Recent years' robust market gains, which had come to a halt last fiscal year, resumed this year as evidenced by a 15.40% rise in the Standard & Poor's 500 Index (S&P500). However, although the Plan return (9.01%) failed to meet its target rate of return (11.54%), it did manage to exceed its actuarial assumed rate of return of 8.10%.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Board of Trustees, Plan participants and the marketplace's credit analysts with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Plan Administrator, 776 N.E. 125th Street – 3rd Floor, North Miami, Florida 33161 or 305-895-9884.

FINANCIAL STATEMENTS

NORTH MIAMI POLICE PENSION PLAN

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2016

(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2015)

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 744,402	\$ 265,971
Investments		
Short-term investment funds	3,051,459	628,060
U.S. Treasuries	1,329,762	2,950,029
U.S. Agencies	5,317,495	636,181
Corporate bonds	4,037,523	6,780,677
Equity securities	26,445,492	23,536,954
Real estate funds	7,134,935	6,519,762
Bond index funds	4,019,813	3,828,103
Equity securities index fund	<u>12,040,343</u>	<u>10,313,520</u>
Total Investments	<u>63,376,822</u>	<u>55,193,286</u>
Receivables		
Plan member contributions	16,470	25,818
CNM Police Share Plan	82,682	82,682
Receivable from broker on investments sold	522,524	125,049
Accrued interest	50,339	102,224
Accrued dividends	<u>13,744</u>	<u>11,927</u>
Total Receivables	<u>685,759</u>	<u>347,700</u>
Total Assets	<u>64,806,983</u>	<u>55,806,957</u>
Liabilities		
Payables	32,430	143,064
Payable to broker on investments purchased	1,616,456	275,612
Benefits payable	<u>16,580</u>	<u>--</u>
Total Liabilities	<u>1,665,466</u>	<u>418,676</u>
Net Position Restricted for Pension Benefits	<u>\$ 63,141,517</u>	<u>\$ 55,388,281</u>

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

NORTH MIAMI POLICE PENSION PLAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015)

	2016	2015
Additions		
Contributions		
Employer	\$ 3,558,223	\$ 3,358,659
Plan members	1,014,411	846,576
Other contributions	576,823	82,682
Total Contributions	5,149,457	4,287,917
Investment Income		
Net appreciation in fair value of investments	5,277,104	1,228,231
Interest	413,928	376,764
Dividends	309,795	271,020
	6,000,827	1,876,015
Less: investment expenses	(241,670)	(203,362)
Net Investment Income	5,759,157	1,672,653
Total Additions	10,908,614	5,960,570
Deductions		
Benefits Paid to Plan Members		
Disability retirement	150,404	150,404
Death benefit	26,557	24,757
Normal retirement	2,682,065	2,492,195
Lump sum retirement	--	325,000
Refund of member contributions	160,092	--
Total Benefits Paid to Plan Members	3,019,118	2,992,356
Administrative expenses	136,260	126,435
Total Deductions	3,155,378	3,118,791
Net Increase	7,753,236	2,841,779
Net Position Restricted for Pension Benefits		
Beginning	55,388,281	52,546,502
Ending	\$ 63,141,517	\$ 55,388,281

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

NOTES TO FINANCIAL STATEMENTS

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of the North Miami Police Pension Plan (the Plan) are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Interest and dividends are recorded as earned.

METHOD USED TO VALUE INVESTMENTS

Investments are reported at fair value except for short term investments (money market funds) which are reported at amortized cost. Net appreciation or depreciation 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 recorded on the trade-date. Dividends are recorded on the ex-dividend date.

Within certain limitations as specified in the Plan, the investment policy is determined by the Board of Trustees and is implemented by the Plan's investment managers. A financial consultant monitors the investment managers.

For more detail regarding the methods used to measure the fair value of investments refer to the fair value hierarchy in Note 3.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

COMPARATIVE INFORMATION AND RECLASSIFICATION

The financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the fiscal year ended September 30, 2015, from which the comparative information was derived.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPARATIVE INFORMATION AND RECLASSIFICATION (CONTINUED)

Certain amounts in the prior year financial statements, primarily related to the investment categories on the statement of fiduciary net position, have been reclassified to conform with the presentation in the current year financial statements.

IMPLEMENTATION OF GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS (GASB)

GASB Statement No. 72, Fair Value Measurement and Application

This Statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of GASB 72 in fiscal year 2016 results in increased disclosures related to the fair value measurement of investments.

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

PLAN DESCRIPTION

The City of North Miami (the City or the Employer) is the administrator of a single-employer defined benefit pension plan established to provide pension benefits for its employees. The plan is administered by a seven member Board of Trustees comprised of three members occupying positions specifically designated by Ordinance and four elected police members.

Effective January 1, 1977, the City established a retirement system by Ordinance 748 for all employees hired on or after that date and for all employees under the City's then existing retirement system, the Clair T. Singerman Employees' Retirement System (691 plan), who elected to join the new Plan. Effective April 3, 1994, all general employees were transferred to the 691 plan. In effect, this Plan's membership is now restricted to sworn police personnel hired on or after January 1, 1977. This Plan provides retirement benefits as well as death and disability benefits. Since the Plan is a single-employer public employees' retirement system sponsored by the City, the Plan is considered part of the City's financial reporting entity and is included in the City's financial statements as a pension trust fund. The latest available

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

actuarial valuation is as of October 1, 2015 (beginning of year valuation date); however, employer contribution requirements for the year ended September 30, 2016 were based on the October 1, 2014 valuation. Benefit and contribution provisions are established by City ordinance and may be amended only by the City Council.

Membership in the Plan as of September 30, 2016 is as follows:

Inactive plan members and beneficiaries currently receiving benefits	42
Inactive plan members entitled but not yet receiving benefits	--
Active plan members	<u>118</u>
Total members	<u>160</u>

Subsequent to year end, effective December 1, 2016, the plan was closed to new members. New police officers hired by the City will join the Florida Retirement System (FRS). Existing members to the Plan had the option to remain in the Plan or to choose to participate in the FRS. These members had the option of keeping their accrued benefits in the Plan or receiving refunds of member contributions.

PENSION BENEFITS

Plan members become partially vested (25%) after 5 years credited service, increasing 15% annually, with full vesting after 10 years of credited service.

Normal retirement is the earlier of age 55 and 10 years of service or age 50 and 20 years of service. A member may elect to receive in a lump sum at retirement an amount, which is the actuarial equivalent of the benefits otherwise payable under the Plan.

Early retirement is available at age 50 and 10 years of service. For certain members hired on or before December 31, 2006, early retirement is also available after 20 years of service regardless of age.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 2 – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (CONTINUED)

PENSION BENEFITS (CONTINUED)

Normal retirement benefits are based on 1% of average final compensation (AFC) multiplied by the years of service up to July 1, 1979, plus 3% of average final compensation for the years of service from June 30, 1979 to June 30, 1997; and 3.5% of AFC for the years of service on or after July 1, 1997. Additionally, accumulated Plan member contributions up to September 30, 1982, are payable to the member in a lump sum upon termination or retirement.

Terminated members with less than five years creditable service receive their contribution plus accrued interest accumulated since initial employment. Partially vested members receive the greater of member contributions plus accrued interest or the sum of member contributions prior to October 1, 1982, plus their vested benefits.

CONTRIBUTIONS AND FUNDING POLICY

Employees contribute 9.51% or 11.51% of their base salaries or wages based on the Plan's investment performance. Interest is credited annually on members' accumulated contributions at a rate of interest determined at the discretion of the Board of Trustees. The interest rate was 0.14% for 2016 and 0.10% for 2015. Employer and state contributions for the fiscal years ended September 30, 2016 and 2015 were 45.01% and 38.66%, respectively, of covered payroll.

The Plan's funding policy provides for actuarially determined periodic employer contributions sufficient to pay the benefits provided by the Plan when they become due. The actuarial cost method used for determining the contribution requirements of the Plan is the Entry Age Normal.

Pursuant to Chapter 185, Florida Statutes, a portion of all insurance premium tax monies received in excess of \$147,586 (the 1997 threshold) are utilized by this Plan for the purchase of additional benefits for sworn police personnel. The excess of insurance premium tax monies allocated to pay for additional benefits in this plan amounted to \$576,823 and \$82,682 for the fiscal years ended September 30, 2016 and 2015, respectively, and is reported as other contributions; the receivable balance as of both September 30, 2016 and 2015 was \$82,682. The excess funds are received by the City of North Miami Police Share Plan (Share Plan) and are held there until this plan determines what benefit enhancements will be made. All other insurance premium tax monies, to the extent they do not exceed the threshold, remain with the City of North Miami's Police Share Plan. During fiscal year 2016, a catch up payment of approximately \$494k was contributed by the Share Plan.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS

DEPOSITS

In addition to insurance provided by the Federal Deposit Insurance Corporation, all deposits, which include cash on hand, are held in qualified public depositories pursuant to State of Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*. Under the Act, all qualified public depositories are required to pledge eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Therefore, all deposits are deemed as insured or collateralized with securities held by the entity or its agent in the entity's name.

INVESTMENTS

All investments made or held by the Plan shall be limited to the following as per the Plan's investment policy:

1. 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 provided the amount deposited does not exceed the insured amount.
2. Obligations issued by the U.S. government or an agency or instrumentality of the U.S. government, including mortgage-related securities.
3. Domestic and international equities.
4. Fixed income investments defined as preferred issues and fixed income securities.
5. Money market funds, defined as fixed income securities having a maturity of less than one year.
6. Bonds issued by the State of Israel.
7. Commingled stock, bond or money market funds whose investments are restricted to securities.
8. Domestic commercial real estate property holdings.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Maturity Risk

Neither state law nor Plan investment policy limits maturity term on fixed income holdings. As of September 30, 2016, the Plan had the following fixed income investments in its portfolio:

Investment	September 30, 2016				
	Investment Maturities (In Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasuries	\$ 1,329,762	\$ --	\$ --	\$ 1,329,762	\$ --
U.S. Agencies	5,317,495	1,039,990	2,907,216	457,847	912,442
Corporate Bonds	4,037,523	866,580	446,935	2,724,008	--
Bond Index Funds	4,019,813	--	--	4,019,813	--
Total Fixed Income Investments	<u>\$ 14,704,593</u>	<u>\$ 1,906,570</u>	<u>\$ 3,354,151</u>	<u>\$ 8,531,430</u>	<u>\$ 912,442</u>

Interest Rate Risk

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. The Plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to market value losses arising from increasing interest rates.

Rate of Return

For the year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 8.07%. 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.

Credit Risk

State law and the Plan's investment policy limits investments in bonds, stocks, or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia, provided the corporation is listed on any one or more of the recognized national stock exchanges or on the National Market System of the NASDAQ Stock Market and, in the case of bonds only, holds a rating in one of the three highest classifications by a major rating service. The Plan's investment policy limits fixed income investments to a rating no lower than Standard & Poor's BBB to Moody's Baa.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

Credit Risk (continued)

The Plan's corporate bonds and agency bonds were all rated "A" or better under Standard & Poor's ratings and at least "A" under Moody's ratings. The Plan's mutual bond fund investments were rated an average of "A" under both Standard & Poor's and Moody's.

Concentration of Credit Risk

The Plan's investment policy stipulates that not more than 5% of Plan assets can be invested in the common stock of any one issuing company nor can the aggregate investment in any one issuing company exceed 5% of the outstanding capital stock of any company. As of September 30, 2016, the value of each position held by the Plan portfolio comprised less than 5% of fiduciary net position and less than 5% of the value of the outstanding capital stock of the respective company.

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The Plan has third party custodial arrangements with financial institutions to accept securities on a delivery versus payment basis for direct purchase agreements. All securities purchased by the Plan are designated as an asset of the Plan in the Plan's name and are held in safekeeping by the Plan's custodial bank or a third party custodial institution.

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 such changes could materially affect the amounts reported in the statement of fiduciary net position. The Plan, through its investment advisor, monitors the Plan's investment and the risks associated therewith on a regular basis which the Plan believes minimizes these risks.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY

Fair value is defined as 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 Plan categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

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 values based upon unobservable inputs.

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

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

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

Debt classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. This includes U.S. Treasury bonds and notes. Debt securities classified as Level 2 are valued using pricing inputs that reflect the assumptions market participants would use to price an asset or liability and are developed based on market data obtained from sources independent of the reporting entity. This includes U.S. federal agencies, mortgage backed and collateralized securities, municipal bonds, and corporate obligations, including asset backed, bonds and notes.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

The Plan has investments in alternative assets consisting of real estate funds and collective investment trust funds which hold a variety of investment vehicles that do not have readily available market quotations. The alternative investments are measured at net asset value based on their proportionate share of the value of the investments as determined by the fund managers and are valued according to methodologies which include pricing models, discounted cash flow models and similar techniques.

Real estate partnerships provide quarterly valuations to the pension trust fund management. Individual properties are valued by the investment management at least annually and are adjusted as frequently as quarterly if material market or operational changes have occurred.

Properties are generally externally appraised every one to five years, depending on the investment. Annual audits of partnerships include a review of compliance with each partnership's valuation policies.

The fair value of collective investment trusts are determined by the fair values of the underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings within each fund are publicly traded securities. The funds have daily openings and contributions and withdrawals can be made on a daily basis.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

The following is a summary of the fair value hierarchy of the fair value of investments as of September 30, 2016:

	9/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities				
U.S. Treasury	\$ 1,329,762	\$ 1,329,762	\$ --	\$ --
U.S. Agencies	5,317,495	--	5,317,495	--
Corporate bonds	<u>4,037,523</u>	--	<u>4,037,523</u>	--
Total Debt Securities	<u>10,684,780</u>	<u>1,329,762</u>	<u>9,355,018</u>	--
Equity securities				
Common stock	23,262,213	23,262,213	--	--
Mutual funds	<u>3,183,279</u>	<u>3,183,279</u>	--	--
Total Equity Securities	<u>26,445,492</u>	<u>26,445,492</u>	--	--
Total Investments by Fair Value	<u>37,130,272</u>	<u>\$ 27,775,254</u>	<u>\$ 9,355,018</u>	<u>\$ --</u>
Investments Measured at the Net Asset Value (NAV)*				
Real estate funds	7,134,935			
Index funds				
Bond index fund	4,019,813			
Equity securities index fund	<u>12,040,343</u>			
Total investments measured at NAV	<u>23,195,091</u>			
Money market funds (exempt)	<u>3,051,459</u>			
Total Investments	<u>\$ 63,376,822</u>			

* As required by generally accepted accounting principles (GAAP), certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the statement of fiduciary net position.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

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

Investments Measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (Days)
Real estate funds ¹	\$ 7,134,935	\$ --	Daily	10 - 90
Index funds				
Bond index fund ²	4,019,813	--	Daily	1
Equity securities index fund ²	<u>12,040,343</u>	--	Daily	1
Total investments measured at NAV	<u>\$23,195,091</u>			

1 *Real estate fund* – Consists of two real estate partnerships. One of the funds is an open-end diversified core real estate commingled fund whose primary objective is to provide returns that are attractive to other asset classes with stable income and the potential for market appreciation. The fund invests primarily in core institutional quality industrial, multi family, office, and retail properties located throughout the United States, and is diversified by product type, geographic region, and economic exposure in order to mitigate investment risk. Requests for redemption in this fund may be made at any time with 10 days notice. The other real estate fund held by the plan invests directly and indirectly in real estate using vehicles such as joint ventures, partnerships and other participation interests with real estate owners, developers and others. The fund seeks a diversified portfolio consisting of yield-driven real estate value added investments consisting of multi-family, industrial, retail, residential and mixed-use properties. The fund provides for redemptions with 90 days notice.

2 *Equity Securities Index funds* – Consists of two index funds considered commingled in nature which are designed to match the returns of their respective benchmark index. Each are valued at the net asset value held at the end of the period based upon the fair value of the underlying investments. These funds are open for withdrawal daily and provide for redemptions with 1 day notice.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 4 – NET PENSION LIABILITY OF THE CITY

The components of the net pension liability of the City at September 30, 2016:

Total pension liability	\$ 87,227,493
Plan fiduciary net position	<u>(63,141,517)</u>
Net pension liability	<u>\$ 24,085,976</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.39%
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SIGNIFICANT ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of October 1, 2015 and rolled forward to September 30, 2016, using the following actuarial assumptions:

Inflation	3.00%
Salary increases	3.50% - 9.40% depending on service
Investment rate of return	8.10%
Mortality table	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvement projected using Scale AA after 2000

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equities	60.00%	7.50%
International Equity	5.00%	8.50%
Fixed income	25.00%	2.50%
Real Estate	10.00%	4.50%
Cash	0.00%	0.00%

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 4 – NET PENSION LIABILITY OF THE CITY (CONTINUED)

DISCOUNT RATE

A single discount rate of 8.10% 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 8.10%. 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 pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments (8.10%) was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE NET PENSION LIABILITY OF THE CITY TO CHANGES IN THE DISCOUNT RATE

Below is a table providing the sensitivity of the net pension liability of the City 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 of 8.10%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

	1% Decrease 7.10%	Single Discount Rate Assumption 8.10%	1% Increase 9.10%
Net Pension Liability	<u>\$ 35,964,674</u>	<u>\$ 24,085,976</u>	<u>\$ 14,470,758</u>

NOTE 5 – TAX STATUS

The Internal Revenue Service has determined and informed the Plan by a letter dated September 26, 2014, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code. Management believes that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

NORTH MIAMI POLICE PENSION PLAN

NOTES TO FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016

NOTE 6 – ADMINISTRATIVE EXPENSES

The City provides the Plan with certain services without receiving compensation. These services include office space in City Hall and the services of certain administrative personnel.

Administrative costs paid by the Plan consisted of the following:

	Fiscal Years Ended	
	September 30,	
	2016	2015
Audit and Legal Services	\$ 41,375	\$ 38,650
Bookkeeping, Secretarial, and Telephone	27,497	25,293
Actuarial Services	21,147	19,487
Training	15,757	13,633
Performance Monitoring	12,717	15,987
Bond Insurance	11,455	8,149
Other	<u>6,312</u>	<u>5,236</u>
Total Administrative Costs	<u>\$ 136,260</u>	<u>\$ 126,435</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH MIAMI POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE CITY'S NET
PENSION LIABILITY AND RELATED RATIOS

	2016	2015	2014
Total Pension Liability			
Service cost	\$ 2,688,621	\$ 2,364,576	\$ 2,474,226
Interest	6,699,774	6,407,038	5,987,806
Difference between actual and expected experience	(722,729)	(2,551,912)	--
Assumption changes	1,055,450	973,319	--
Benefit payments	(2,859,026)	(2,992,356)	(3,537,499)
Refunds	(160,092)	--	(72,946)
Net Change in Total Pension Liability	6,701,998	4,200,665	4,851,587
Total Pension Liability - Beginning	<u>80,525,495</u>	<u>76,324,830</u>	<u>71,473,243</u>
Total Pension Liability - Ending (a)	<u>\$ 87,227,493</u>	<u>\$ 80,525,495</u>	<u>\$ 76,324,830</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 3,558,223	\$ 3,358,659	\$ 3,194,000
Contributions - non-employer contributing entity	576,823	82,682	82,682
Contributions - member	1,014,411	846,576	791,906
Net investment income	5,759,157	1,672,653	4,798,319
Benefit payments	(2,859,026)	(2,992,356)	(3,537,499)
Refunds	(160,092)	--	(72,946)
Administrative expense	(136,260)	(126,435)	(132,094)
Net Change in Plan Fiduciary Net Position	7,753,236	2,841,779	5,124,368
Plan Fiduciary Net Position - Beginning	<u>55,388,281</u>	<u>52,546,502</u>	<u>47,422,133</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 63,141,517</u>	<u>\$ 55,388,281</u>	<u>\$ 52,546,501</u>
Net Pension Liability - Ending (a) - (b)	\$ 24,085,976	\$ 25,137,214	\$ 23,778,329
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	72.39%	68.78%	68.85%
Covered Employee Payroll	\$ 9,185,954	\$ 8,901,956	\$ 8,327,087
Net Pension Liability as a Percentage of Covered Employee Payroll	262.20%	282.38%	285.55%

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.

NORTH MIAMI POLICE PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS

Year Ended September 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2016	\$ 3,640,905	\$ 4,135,046	\$ (494,141) *	\$ 9,185,954	45.01%
2015	3,441,341	3,441,341	--	8,901,956	38.66%
2014	3,239,178	3,276,682	(37,504)	8,327,087	39.35%

Notes to Schedule of Contributions:

Valuation Date: October 1, 2014
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 Percentage of Payroll, Closed
Remaining Amortization Period	30 years
Asset Valuation Method	Recognition of 20% of difference between market value of assets and expected actuarial value of assets
Inflation	3.00%
Salary Increases	3.50% to 9.40% depending on service
Investment Rate of Return	8.20%
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 improvement projected using Scale AA after 2000

* During fiscal year 2016, the Share Plan made a catch up contribution of approximately \$494,000 to the Plan.

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.

NORTH MIAMI POLICE PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	8.07%	2.82%	10.91%

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.

REPORTING SECTION

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

To the Board of Trustees and Plan Administrator
North Miami Police Pension 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 North Miami Police Pension Plan (the Plan), as of and for the fiscal year ended September 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2017.

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. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Miami, FL
March 23, 2017