



Notes to Basic Financial Statements



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CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of North Miami, (the “City”), located in Miami-Dade County, Florida, was incorporated in 1926. The City operates under a Council-Manager form of government and provides the following services: general government, public safety, public works, solid waste, water and sewer utility, stormwater management, culture and recreation including library services and community planning and development.

The accounting policies of the City, as reflected in the accompanying financial statements for the year ended September 30, 2017, conform to generally accepted accounting principles (“GAAP”), in the United States for local governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. A summary of the City’s most significant accounting policies applied in the preparation of the accompanying financial statements are described below.

A. Financial Reporting Entity

The financial reporting entity covered by this report includes the City and its component units. The reporting entity has been defined in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Section 2100. The accompanying financial statements include those of the City (the primary government) and those of its component units. Component units are legally separate organizations for which the primary government is financially accountable or organizations which should be included in the City's financial statements because of the nature and significance of their relationship with the primary government. GASB Codification of Governmental Accounting and Financial Reporting Standards Section 2100 provides guidance for the inclusion of a legally separate entity as a component unit of an entity. The application of this guidance provides for identification of entities for which the City is financially accountable or organizations that the nature and significance of their relationship with the City are such that exclusions would cause the City's basic financial statements to be misleading or incomplete.

Based upon the application of GASB Codification Section 2100, the component units listed below have been included in the City's reporting entity as either blended or discretely presented component units.

Blended component units, although legally separate entities, are in substance part of the City's operations. Accordingly, data from these component units are included with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the financial statements to emphasize that they are legally separate from the City. The financial balances and activities for each blended and discretely presented component unit are as of and for the year ended September 30, 2017.

Blended Component Units

North Miami Community Redevelopment Agency (CRA) – The CRA was created on June 7, 2005, in accordance with Chapter 163.356, Florida Statutes, to establish and carryout redevelopment objectives in economically deprived areas of the City. The CRA, whose board members are the same as the City Council’s, provides services that exclusively benefit the City. The CRA is fiscally

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

dependent on the City because the City Council approves the CRA's budget, levies taxes, and must approve any debt issuances.

Complete financial statements for the CRA can be obtained by writing to: Director, North Miami Community Redevelopment Agency, 776 N.E. 125 Street, North Miami, Florida 33161.

Museum of Contemporary Art ("MOCA") - MOCA is a non-profit organization established by City Ordinance in 1980 to provide cultural benefits to the City. The museum is operated and managed by a board of trustees. In 2008, the City entered into a management agreement with the organization and its board of trustees under which the City primarily funds operations of MOCA in its annual budget. Complete financial statements for MOCA can be obtained by writing to: Director, Museum of Contemporary Art, 770 N.E. 125 Street, North Miami, Florida 33161.

Discretely Presented Component Unit

City of North Miami Health Facilities Authority (the "Authority") - The Authority was created pursuant to State Statute to issue special obligation debt for capital improvements on certain health facilities located inside and outside the City limits. The debt is supported solely from revenues generated by said facilities and does not constitute an obligation of the City or the Authority. The Authority's sole activity in which it engages, is the issuance of revenue bonds to finance health care facilities, which is subject to the approval of the City Council. In addition, the City Council is responsible for appointing the members of the Board of the Authority, however, it does not function as an integral part of the primary government and it is presented as a discrete component unit. The Authority receives no revenues and makes no disbursements. Because there are no assets, liabilities or results of operations to report, no disclosure other than this description is made in accordance with GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Related Entity

The following related entity does not meet the criteria for a component unit and is not included in the City's financial statements. City Officials appointed the initial board and continue to appoint members to the boards of the following organization. The City's accountability for this organization does not extend beyond making appointments:

North Miami Educational Foundation Inc. ("the Foundation") - The Foundation is a non-profit organization incorporated in 2012. The original purpose of the Foundation was to provide financial assistance to at-risk students and economically disadvantaged residents in their pursuit of education. The founding board of nine members was selected by the City Council. The City awarded an initial contribution of \$350,000 to establish an endowment fund. An investment firm holds the funds and the earnings are used to fund the mission of the Foundation.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the City and its component units. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on user fees and charges to recover their costs and for capital renewal.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include:

- (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and
- (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The remaining non-major governmental funds are aggregated and reported as non-major governmental funds as a separate column.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, pension, postemployment benefits other than pensions, and landfill closure cost are recorded only when payment is due.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes, franchise fees and other taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be subject to accrual and are recognized as revenues of the current fiscal period when measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Community Development Block Grant (C.D.B.G.) Entitlement Fund** accounts for grant-related revenues and expenditures for housing rehabilitation programs.

The **Landfill Closure Fund** accounts for the costs of remediation and closure of the former Munisport landfill site and revenues generated from interest earned on the restricted cash balances.

The **CRA Fund** accounts for incremental tax revenues received from the City and Miami-Dade County to finance redevelopment projects intended to stimulate rehabilitation or development in the CRA area.

The City reports the following major proprietary funds:

The **Water and Sewer Utility Fund** accounts for the activity related to providing water treatment and distribution services and sewage treatment to all areas within the City limits and certain districts outside the City limits.

The **Stormwater Utility Fund** accounts for the activity of the City's stormwater systems and pollution resulting from stormwater runoff.

Additionally, the City reports the following fund types:

Internal Service Funds account for the cost of insuring the City in the areas of workers' compensation and general liability risks, and providing fleet management services to other departments on a cost reimbursement basis.

The **Pension Trust Funds** (Clair T. Singerman Plan and Police Pension Plan) are used to account for the City's two single-employer defined benefit pension plans. The Clair T. Singerman Plan and the Police Pension Plan were frozen to new participants in June 2016 and December 2016, respectively. New employees hired after such date are required to participate in the State of Florida Retirement System.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of Government-wide and Fund Financial Statements

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net position for governmental activities as shown on the government-wide statement of net position is presented in an accompanying schedule to the governmental funds balance sheet. The asset, liability and deferred inflow/outflow of resource elements which comprise the reconciliation difference stem from governmental funds using the *current financial resources measurement focus and the modified accrual basis of accounting* while the government-wide financial statements use the *economic resources measurement focus and the accrual basis of accounting*.

A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net position for governmental activities as shown on the government-wide statement of activities is presented in accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements, which comprise the reconciliation differences, stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use *the economic resources measurement focus and the accrual basis of accounting*.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's various utility and other functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions.

In the government wide statement of activities amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes with the exception of local option fuel taxes and the half-cent transportation surtax. Proceeds from these taxes are used to fund transportation related expenditures and, therefore, are reported as *program revenues* under the function "transportation".

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations.

The principal operating revenues of the City's water and sewer fund, stormwater utility fund and internal service fund, are charges for services. Operating expenses for enterprise funds and internal service funds include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

include committed, assigned and unassigned amounts, which are available and can be used for the intended purpose. When unrestricted resources are available for use, it is the City's policy to use committed resources first, then assigned and then unassigned as they are needed.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

The City's cash and cash equivalents include cash on hand, time and demand deposits, and short-term investments consisting primarily of collateralized interest on public funds checking accounts and investments with the State Board of Administration Investment Pool. The City pools cash from most of its funds for accounting and investments purposes. This gives the City the ability to maximize earnings potential from large idle cash. The relationship of an individual fund to the pooled cash account is similar to that of a demand deposit account. Individual funds can withdraw cash from the account as needed and, therefore, all equity in the pooled cash is considered highly liquid.

Resources of all funds, with the exception of the pension trust funds and certain other cash and investment accounts, which are maintained in accordance with legal requirements, have been combined into a pooled cash and investment system for the purpose of maximizing earnings. Interest earned on pooled cash and investments is allocated based upon equity balances of the respective funds. The average interest rate earned on investments was approximately 0.87% for fiscal year 2017.

The types of investments that can be purchased and held by the City are governed by the City's investment policy and the provisions of Florida Statutes Section 218.415. Under City policy and the statute, authorized investments are limited, unless otherwise authorized by law or ordinance, to the State Board of Administration Investment Pool, money market funds, direct or unconditionally guaranteed obligations of the United States Government, obligations of certain governmental agencies, interest bearing time deposits or savings accounts.

Cash and cash equivalents, for purposes of the statement of cash flows, include cash and investments which are defined as short-term, highly liquid investments with original maturities of three months or less when purchased.

Investments

Certain investments are recorded at fair value, which 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. Certain investments are recorded at net asset value (NAV) per share. This method of determining fair value uses member units to which a proportionate share of net assets is attributed. Certain investments are recorded at amortized cost.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fair value hierarchy established by GASB 72 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.

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.

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 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.

Collective investment trust are valued by obtaining 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 whereby contributions and withdrawals can be made on a daily basis.

2. Interfund Receivables, Payables and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.

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3. Receivables

All trade and other receivables are shown net of an allowance for uncollectable amounts. Long-term receivables are analyzed for their collectability based on the terms and conditions of the agreements. In addition to those receivables specifically identified as uncollectable based on management's assessment of individual creditors' ability to pay, a general allowance is calculated based on the City's historical collection experience to ensure all receivables are recorded at their net realizable value.

Water and wastewater charges to customers are based on actual water consumption. The City recognizes revenue and a related receivable for the estimated unbilled consumption as of September 30th of each year.

During the year ended September 30, 2017, management determined that approximately \$1.8 million of water and sewer utility billing credits granted to customers in fiscal years 2014 through 2016 was not properly accounted for in the water and sewer fund financial statements. Management corrected the error during the fiscal year ended September 30, 2017, by reducing revenues in the water and sewer fund statement of revenues, expenses and changes net position and on the government-wide statement of activities. Management believes that this adjustment does not materially misstate either the current or prior period financial statements.

4. Inventories and Prepays

Inventories consist principally of materials and supplies held for consumption and are recorded at cost. In the governmental funds, the cost of inventories are recorded as expenditures at the time of purchase since such amounts are not material to the financial statements. In the proprietary funds, the cost of inventories are recorded as expenses when consumed.

Certain payments to vendors reflect costs applicable to the future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Assets Held for Resale

The government-wide financial statements presents assets held for resale, which are properties held by the City for resale in connection with the City's grant programs. Such balances are recorded at lower of cost or market. In the fund financial statements such purchases of assets are recorded as expenditures.

6. Capital Assets

Capital assets, which include land, buildings, machinery, equipment and infrastructure assets (e.g., utility lines, roads, bridges, sidewalks, and similar items) are reported at cost or estimated historical cost in the applicable governmental or business-type activities columns in the government-wide financial statements. Donated capital assets are recorded at their acquisition value at the date of donation. The City's capitalization thresholds are: \$1,000 for equipment and \$5,000 each for land,

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

buildings, and infrastructure items. The City’s capitalization threshold for intangible assets is \$30,000 for software and \$75,000 for easements. The costs of normal maintenance and repairs that do not increase the capacity or efficiency of the asset or materially extend asset lives beyond one year are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	50
Building improvements	20
Public domain infrastructure	10-50
Intangibles	5-25
System infrastructure	5-50
Vehicles, and other outdoor equipment	3-10
Office equipment	5-10
Computer equipment	3-4
Library books	5

7. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management’s knowledge of current events and actions it may undertake in the future, such estimates may ultimately differ from actual results.

8. Deferred Outflows/Inflows of Resources

The Statement of Net Position also includes a separate section for deferred outflows of resources. This represents the usage of net position applicable to future periods and will be recognized as expenses in the future period to which it applies. The City currently reports deferred outflows related to debt refundings and pensions in this category. The deferred outflow relating to debt includes the difference between the carrying value of refunded debt and its reacquisition price. This amount is being deferred and amortized over the life of the refunding debt.

The Statement of Net Position also displays a separate section for deferred inflow of resources. This represents the acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. In this category, the City currently reports deferred inflows of resources related to revenues received in advance for licenses, lease payments for Biscayne Landings (based on agreement with Oleta partners) and deferred inflows related to pensions.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Unearned Revenues

Unearned revenue represents items for which the City has not met all eligibility requirements imposed by the provider to allow for revenue recognition.

The following schedule summarizes the City's deferred outflows/inflows of resources and unearned revenues as of fiscal year end:

<u><i>Governmental Activities</i></u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Unearned Revenues</u>
Grant funds received	\$ -	\$ -	\$ 589,634
Rent received in advance	-	-	12,059,642
Miscellaneous advance receipts	-	-	443,334
Pensions	<u>18,028,916</u>	<u>8,559,307</u>	<u>-</u>
Total governmental activities	<u><u>18,028,916</u></u>	<u><u>8,559,307</u></u>	<u><u>13,092,610</u></u>
<u><i>Business-type Activities</i></u>			
Loss on debt refunding	19,672	-	-
Pensions	<u>2,463,585</u>	<u>1,110,124</u>	<u>-</u>
Total business-type activities	<u><u>\$ 2,483,257</u></u>	<u><u>\$ 1,110,124</u></u>	<u><u>\$ -</u></u>

10. Compensated Absences

It is the City's policy to permit employees to accumulate, within certain limits, earned but unused vacation time and sick leave, which will be paid to employees upon separation from City service. All vacation and sick leave pay are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, due to employee resignation or retirement. The estimated liability is measured using rates in effect at the balance sheet date; benefits are computed at current salary rates at the time of payment. Upon separation from City service, vacation leave is paid at 100% and sick leave is paid at 25% to 100% depending on years of service. The General Fund has primarily been used in prior years to liquidate the liability for compensated absences of governmental funds.

11. Long-Term Debt

In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as prepaid bond insurance costs, are deferred and amortized over

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the life of the bonds using the straight-line amortization method. The result of using this method does not differ significantly from the effective interest method. All other debt issuance costs are expensed as incurred. Bonds payable are reported net of the applicable bond premium or discount. In addition, the difference between the reacquisition price (new debt) and the net carrying value of the old debt on refunded debt transactions is deferred and amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as another financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing use. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. Net Position/Fund Balance

Net position (deficit) - This is the result of assets plus deferred outflows of resources, less liabilities and deferred inflows of resources in the government-wide and proprietary funds. Statements of net position are displayed in three categories:

- 1) Net investment in capital assets
- 2) Restricted
- 3) Unrestricted

Net investment in capital assets consists of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets, excluding unexpended proceeds. Deferred inflow/outflow of resources attributable to the acquisition, construction, or improvement of those assets and related debt are included in this component of net position. *Restricted* net position is that portion of net position that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions. *Unrestricted* net position (deficit) consist of all net position that does not meet the definition of either of the other two components.

Fund Balance - Governmental funds financial statements report fund balance classifications that comprise a hierarchy based primarily on the extent to which the City is legally bound to honor the specific purposes for which amounts in fund balance may be spent.

Fund balances are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Nonspendable Fund Balances* - include amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts), or legally or contractually required to remain intact (e.g. endowment).
- *Restricted Fund Balances* - include amounts that are restricted for specific purposes either by: (a) constraints imposed by external providers (such as grantors, creditors, bondholders, contributors, or laws or regulations of other governments), or (b) imposed by constitutional provisions. The City's restricted fund balances are for the following purposes:

Landfill closure \$10,369,358; housing and other community development \$5,918,199; public safety projects \$1,430,387; developer impact fees \$427,344; cultural and recreational purposes \$748,285; City transportation programs \$1,562,068.

- *Committed Fund Balances* - include amounts that can only be used for specific purposes pursuant to constraints imposed by City Council, which is the City's highest level of decision-making authority, set in place prior to the end of the period. An ordinance is the formal action required to establish, modify or rescind a fund balance commitment since it constitutes the highest binding constraint. The same type of formal action that created the constraint is required to change or remove the specified use. There was no committed fund balance of fiscal year end.
- *Assigned Fund Balances* - include amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Assignments of fund balances are made by the City Manager based upon the direction of the City Council. The assigned fund balances relate to the following:

\$321,121 funding for MOCA activities and \$23,149 to fund on-going project for the Arch Creek Bridge project.

- *Unassigned Fund Balances* - include amounts that have not been restricted, committed or assigned.

The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds, other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund. Accordingly, in addition to the General Fund negative unassigned fund balance of (\$4,921,302) the nonmajor governmental funds reported a total negative unassigned fund balance of (\$721,370).

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Impact of Recently Issued Accounting Pronouncements

Issued and Adopted Accounting Pronouncements

As of September 30, 2017, the City adopted the following statements of financial accounting standards issued by the GASB:

Accounting Standards Adopted

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in June 2015 with effective date for fiscal years beginning after June 15, 2016. The adoption resulted in no additional financial impact for the City.

GASB Statement No. 77, *Tax Abatement Disclosures*, was issued August 2015. The adoption resulted in no additional disclosures as the City did not enter into any tax abatement agreement fiscal year ended September 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, was issued December 2015. The provisions of this Statement are effective for the City for the fiscal year ended September 30, 2017. The adoption resulted in no additional financial impact for the City.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, was issued January 2016. The adoption resulted in no additional disclosure for the City.

GASB Statement No. 82, *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*, was issued March 2016. The adoption of GASB Statements No. 82 is reflected in the government-wide financial statements and in Note 10, Employee Retirement Plans.

Pronouncements Issued But Not Yet Adopted

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, was issued June 2015. This Statement improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The provisions of this Statement will be effective for the City beginning with fiscal year ending September 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The provisions of this Statement will be effective for the City beginning with fiscal year ending September 30, 2019.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 84, *Fiduciary Activities*, was issued January 2017. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. It establishes criteria for identifying fiduciary activities of all state and local governments with general focus on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The provisions of this Statement will be effective for the City beginning with fiscal year ending September 30, 2020.

GASB Statement No. 85, *Omnibus 2017*, was issued March 2017. This Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits and other postemployment benefits (OPEB). The provisions of this Statement will be effective for the City beginning with fiscal year ending September 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, was issued in May 2017 and effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. For the current fiscal year, the City has no transactions applicable to the provisions of this Statement.

GASB Statement No. 87, *Leases*, was issued in June 2017 and is effective for reporting periods beginning after December 15, 2019. This Statement aims to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits – Excluding Pension Trust Funds

In addition to insurance provided by the Federal Depository Insurance Corporation (FDIC), all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution, 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. Accordingly, all amounts reported as deposits are insured or collateralized under Florida Statutes Chapter 280 or the FDIC.

Investments – Excluding Pension Trust Funds

The SBA administers the Florida PRIME which is governed by Ch. 19-7 of the Florida Administrative Code and Chapters 218 and 215 of the Florida Statutes. These rules provide guidance and establish the policies and general operating procedures for the administration of the Florida PRIME. Florida PRIME is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for 2a-7 fund, which permits money market funds to use amortized cost to maintain a constant net asset value (NAV) of \$1 per share.

GASB Statement No. 72, *Fair Value Measurement and Application*, requires that investments be categorized according to the fair value hierarchy established by this Statement. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments in the State Board Administration (SBA) Florida PRIME totaling \$6,387,045 are recorded at amortized cost.

As of September 30, 2017, the City’s deposit and investment balances, including balances for the City’s blended component unit, were as follows:

<u>Investment Type</u>	<u>Balance</u>
Pooled Cash and Investments:	
Cash	\$ 49,900,080
Florida Prime (SBA)	6,387,045
Money market funds	2,334,128
Total pooled cash and investments	<u>58,621,253</u>
Non-Pooled Cash and Investments:	
North Miami CRA - Cash	4,714,037
MOCA - cash	654,919
MOCA - investment	416,285
Landfill - cash	10,369,358
Total non-pooled cash and investments	<u>16,154,599</u>
Total Cash and Investments	<u>\$ 74,775,852</u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The City's investments are categorized as follows according to the GASB 72 fair level hierarchy:

	<u>City of North Miami</u>	
	<u>Fair Value Measurements Using</u>	
	<u>Balance</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Investments by fair value level		
Money market funds:		
Iberia Bank	\$ 1,500,000	\$ 1,500,000
SunTrust bank	834,128	834,128
Total Investments by Fair Value	<u>\$ 2,334,128</u>	<u>\$ 2,334,128</u>

Interest Rate Risk

The City has an investment policy that limits the maturities on individual investments to no more than five years. The investments at September 30, 2017, meet our investment policy restrictions.

Credit Risk

The City has an investment policy that limits investments to the highest ratings by two nationally recognized statistical rating organizations (NRSRO) Standard and Poor's and Moody's Investment Services. Excess funds are invested with the SBA Florida PRIME which is rated AAAM by Standard and Poor's. The City's investments in money market funds of \$2,334,128 are not rated.

Concentration Credit Risk

The City's investment policy limits its investments to no more than 15% in any one issuer. This includes certificates of deposit, U.S. Federal Agencies, and federal instrumentalities. The maximum limit for total investments varies from 35% to 60% by type. The City does not have an issuers limit for the SBA Trust Funds. GASB 40 requires disclosure when the percent is 5% or more in any one issuer. The City does not have more than 5% of their investment in any one issuer.

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are held by the counterparty. All securities purchased by the City are designated as an asset in the City's name and are held in safekeeping by the City's custodian bank or a third party custodian institution.

Risks and Uncertainties

The City and Pension Plan investments are in a combination of stocks, bonds, government securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

at least reasonably possible that changes in risks in the near term would materially affect balances and the amounts reported in the financial statements.

Investments – Pension Trust Funds

The City’s Pension Trust Funds are Clair T. Singerman (“CTS”) Retirement System and the North Miami Police Pension Plan (“NMPP”). As of September 30, 2017, the City’s Pension Trust Funds had the following combined investments:

	Combined Investments - CTS Retirement System and NMPP Plan				
	Investment Maturities (In Years)				
	Fair Value	Less than 1 Year	1 to 5 Years	6 to 10 Years	10 or More Years
U.S. Treasuries	\$ 13,127,316	\$ -	\$ 1,600,243	\$ 9,095,634	\$ 2,431,439
U.S. Agency Obligations	14,667,255	4,542,144	6,580,625	2,012,789	1,531,697
Corporate bonds	16,512,703	1,811,622	9,455,518	4,742,483	503,080
Bond index funds	<u>16,030,140</u>	<u>12,361,249</u>	<u>-</u>	<u>3,668,891</u>	<u>-</u>
Total	<u>\$ 60,337,414</u>	<u>\$ 18,715,015</u>	<u>\$ 17,636,386</u>	<u>\$ 19,519,797</u>	<u>\$ 4,466,216</u>

Clair T. Singerman (CTS) Retirement System

All investments made or held by the CTS Retirement System shall be limited to the following as per the CTS Retirement System’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.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investment Maturity

Neither State law, nor the CTS Retirement System investment policy limit maturity term on fixed income holdings. As of September 30, 2017, the following table shows the distribution of the CTS Retirement System's investments by maturity:

	Investments - CTS Retirement System				
	<u>Investment Maturities (In Years)</u>				
	<u>Fair</u> <u>Value</u>	<u>Less than</u> <u>1 Year</u>	<u>1 to 5</u> <u>Years</u>	<u>6 to 10</u> <u>Years</u>	<u>10 or More</u> <u>Years</u>
U.S. Treasuries	\$ 9,746,085	\$ -	\$ 1,600,243	\$ 5,714,403	\$ 2,431,439
U.S. Agency Obligations	8,445,051	2,736,150	3,620,103	1,228,943	859,855
Corporate bonds	14,362,453	1,811,622	8,178,025	3,869,726	503,080
Bond index funds	<u>12,361,249</u>	<u>12,361,249</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 44,914,838</u>	<u>\$ 16,909,021</u>	<u>\$ 13,398,371</u>	<u>\$ 10,813,072</u>	<u>\$ 3,794,374</u>

Interest Rate Risk

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The CTS Retirement System 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.

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. The risk is generally measured by the assignment of a rating by a nationally recognized statistical rating organization. The CTS Retirement System's investment policy utilizes portfolio diversification in order to control this risk.

State law 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.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following table discloses credit ratings, by investment type, at September 30, 2017:

CREDIT RATINGS BY INVESTMENT TYPE - CTS RETIREMENT SYSTEM					
<u>Rating</u>	<u>Corporate Bonds</u>	<u>U.S. Agencies</u>	<u>U.S. Treasuries</u>	<u>Grand Total</u>	<u>% of Portfolio</u>
N/A	-	\$ 2,854,281	-	\$ 2,854,281	9%
A1	6,868,379	-	-	6,868,379	21%
A2	1,724,265	-	-	1,724,265	5%
A3	1,509,630	-	-	1,509,630	5%
Aa1	623,538	-	-	623,538	2%
Aa2	2,517,101	-	-	2,517,101	8%
N/A	-	-	9,746,085	9,746,085	30%
Aaa	1,119,540	5,590,770	-	6,710,310	21%
Total	<u>\$ 14,362,453</u>	<u>\$ 8,445,051</u>	<u>\$ 9,746,085</u>	<u>\$ 32,553,589</u>	<u>100%</u>

Concentration of Credit Risk

The CTS Retirement System's investment policy stipulates that not more than 5% of its 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, 2017, the value of each position held by the CTS Retirement System's 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.

GASB 40 requires disclosure when the percent is 5% or more in any one issuer. The CTS Retirement System does not have more than 5% of their investment in anyone issuer.

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty, the CTS Retirement System will not be able to recover the value of its investments or collateral securities that are held by the counterparty. The CTS Retirement System 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 CTS Retirement System are designated as assets of the CTS Retirement System in the Retirement System's name and are held in safekeeping by the CTS Retirement System's custodial bank or a third party custodial institution.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Fair Value

The following is a description of the fair value measurements used for the CTS Retirement System investments. Level 1 and 2 prices are obtained from various pricing sources by the CTS Retirement System'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 funds.
- Debt securities classified as Level 1 on 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.
- The CTS Retirement System has alternative investments consisting of real estate funds and a collective investment trust fund which hold a variety of investment vehicles that are reported at net asset value.

CTS Retirement System investments are categorized as follows according to the GASB 72 fair value hierarchy as of September 30, 2017:

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	CTS Retirement System		
	Balance	Fair Value Measurements Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments by Fair Value Level			
Debt securities:			
U.S. Treasury	\$ 9,746,085	\$ 9,746,085	\$ -
U.S. Agencies	8,445,051	-	8,445,051
Corporate bonds	14,362,453	-	14,362,453
Total Debt Securities	32,553,589	9,746,085	22,807,504
Equity securities:			
Common stock	40,946,215	40,946,215	-
Mutual fund	12,361,249	12,361,249	-
Total Equity Securities	53,307,464	53,307,464	-
Total Investments by Fair Value	\$ 85,861,053	\$ 63,053,549	\$ 22,807,504
Investments Measured at Net Asset Value (NAV)			
Real estate funds	\$ 12,295,573		
Collective investment trust fund	18,523,940		
Total investments measured at NAV	30,819,513		
Money market funds (exempt)	2,237,101		
Total Investments	\$ 118,917,667		

The following table summarizes investments for which fair value is measured using the net asset value (NAV) per share practical expedient method.

CTS Retirement System	
Investments Measured at NAV	Balance
Real estate funds ¹	\$ 12,295,573
Collective investment trust fund ²	18,523,940
Total investments measured at NAV	\$ 30,819,513

¹ Real estate funds – 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 fund 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.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

² Collective investment trust fund – Consists of index funds considered commingled in nature which is designed to match the return of its respective benchmark index. The fund is valued at the net asset value held at the end of the period based upon the fair value of the underlying investments. The fund is open for withdrawal daily and provides for redemptions with 1-day notice.

North Miami Police Pension Plan

All investments made or held by the North Miami Police Pension (“NMPP”) Plan shall be limited to the following as per the NMPP 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.

Investment Maturity

Neither state law nor the NMPP Plan investment policy limits maturity term on fixed income holdings. As of September 30, 2017, the following table shows the distribution of the NMPP Plan’s investments, by maturity:

	Investments - NMPP Plan				
	<u>Investment Maturities (In Years)</u>				
	<u>Fair</u> <u>Value</u>	<u>Less than</u> <u>1 Year</u>	<u>1 to 5</u> <u>Years</u>	<u>6 to 10</u> <u>Years</u>	<u>10 or More</u> <u>Years</u>
U.S. Treasuries	\$ 3,381,231	\$ -	\$ -	\$ 3,381,231	\$ -
U.S. Agency Obligations	6,222,204	1,805,994	2,960,522	783,846	671,842
Corporate bonds	2,150,250	-	1,277,493	872,757	-
Bond index funds	3,668,891	-	-	3,668,891	-
Total	<u>\$ 15,422,576</u>	<u>\$ 1,805,994</u>	<u>\$ 4,238,015</u>	<u>\$ 8,706,725</u>	<u>\$ 671,842</u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Interest Rate Risk

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The NMPP 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.

Credit Risk

State law and the NMPP 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 following table discloses credit ratings by investment type for the NMPP Plan at September 30, 2017:

CREDIT RATINGS BY INVESTMENT TYPE - NMPP PLAN					
Rating	Corporate Bonds	U.S. Agencies	U.S. Treasuries	Grand Total	% of Portfolio
N/A	\$ -	\$ 1,900,968	\$ -	\$ 1,900,968	16%
A1	477,622	-	-	477,622	4%
A2	568,371	-	-	568,371	5%
A3	858,801	-	-	858,801	7%
Aa1	245,456	-	-	245,456	2%
N/A	-	-	3,381,231	3,381,231	29%
Aaa	-	4,321,236	-	4,321,236	37%
Grand Total	\$ 2,150,250	\$ 6,222,204	\$ 3,381,231	\$ 11,753,685	100%

Concentration of Credit Risk

The NMPP 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, 2017, the value of each position held by the NMPP 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. GASB 40 requires disclosure when the percent is 5% or more in any one issuer. The plan does not have more than 5% of their investment in anyone issuer.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk

This is the risk that in the event of the failure of the counterparty, the NMPP 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 NMPP Plan are designated as assets of the NMPP Plan in the Plan's name and are held in safekeeping by the NMPP Plan's custodial bank or a third party custodial institution.

Fair Value

The following is a description of the fair value techniques for the NMPP Plan's investments. Level 1 and 2 prices are obtained from various pricing sources by the NMPP 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 funds.
- Debt securities classified as Level 1 on 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.
- The NMPP Plan's alternative investments 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.
- 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. Real estate partnerships investments are measured at net asset value based on their proportionate share of the value of the investments as determined by the fund managers.
- The 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. Such investments are valued at net asset value held at the end of the period.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Plan investments are categorized as follows according to the GASB 72 fair value hierarchy as of September 30, 2017:

	<u>Balance</u>	<u>NMPP Plan</u>	
		<u>Fair Value Measurements Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
Investments by Fair Value Level			
Debt securities			
U.S. Treasury	\$ 3,381,231	\$ 3,381,231	\$ -
U.S. Agencies	6,222,204	-	6,222,204
Corporate bonds	<u>2,150,250</u>	<u>-</u>	<u>2,150,250</u>
Total Debt Securities	<u>11,753,685</u>	<u>3,381,231</u>	<u>8,372,454</u>
Equity securities			
Common stock	28,340,285	28,340,285	-
Mutual fund	<u>3,777,419</u>	<u>3,777,419</u>	<u>-</u>
Total Equity Securities	<u>32,117,704</u>	<u>32,117,704</u>	<u>-</u>
Total Investments by Fair Value	<u>\$ 43,871,389</u>	<u>\$ 35,498,935</u>	<u>\$ 8,372,454</u>
Investments Measured at Net Asset Value (NAV)			
Real estate funds	\$ 7,713,280		
Collective investment trust fund:			
Bond index fund	3,668,891		
Index funds	<u>14,499,986</u>		
Total investments measured at NAV	<u>25,882,157</u>		
Money market funds (exempt)	<u>495,045</u>		
Total Investments	<u>\$ 70,248,591</u>		

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient method:

North Miami Police Pension	
Investments Measured at NAV	
	Balance
Real estate funds ¹	\$ 7,713,280
Collective investment trust fund	
Bond fund ²	3,668,891
Equity securities ²	14,499,986
Total investments measured at NAV	\$ 25,882,157

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 *Collective investment trust 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 days’ notice.

NOTE 3. RECEIVABLES

Receivables as of September 30, 2017, for the City’s individual major funds and nonmajor funds, in the aggregate, net of the allowances for uncollectable accounts, are as follows:

	General	CDBG Entitlement	Nonmajor Governmental	Water and Sewer	Stormwater	Internal Service Funds	Total
Receivables:							
Customer accounts	\$ 1,584,494	\$ -	\$ 13,646	\$ 15,169,162	\$ 1,139,572	-	\$ 17,906,874
Property taxes	86,506	-	-	-	-	-	86,506
Intergovernmental	1,561,610	426,048	1,545,032	141,085	-	9,037	3,682,812
Due from component	138,900	-	-	-	-	-	138,900
Other - liens interest	3,690,666	-	-	-	-	-	3,690,666
Miscellaneous - receivable	793,079	-	-	35,019	116	684	828,898
Gross receivables	7,855,255	426,048	1,558,678	15,345,266	1,139,688	9,721	26,334,656
Less allowance for uncollectables	(3,773,645)	-	-	(1,076,948)	(126,231)	-	(4,976,824)
Total receivables, net	\$ 4,081,610	\$ 426,048	\$ 1,558,678	\$ 14,268,318	\$ 1,013,457	\$ 9,721	\$ 21,357,832

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 3. RECEIVABLES (Continued)

Notes Receivable - Oleta Partners

The City had a notes receivable originally in the amount of \$17,504,000 in connection with the sale of parcels of the Biscayne Landing land to Oleta Partners that occurred in November 2015. The notes are payable over ten years at an interest rate of 3.5% on the outstanding balances. The notes are recorded at the net present value.

The future minimum receipts are as follows:

Fiscal year ending September 30:	Note 1		Note 2		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	934,713	294,435	815,686	256,941	1,750,399	551,376
2019	934,713	261,720	815,686	228,392	1,750,399	490,112
2020	934,713	229,005	815,686	199,843	1,750,399	428,848
2021	934,713	196,290	815,686	171,294	1,750,399	367,584
2022	934,713	163,575	815,686	142,745	1,750,399	306,320
2023-2026	3,738,857	327,150	3,262,748	285,490	7,001,605	612,640
	<u>\$ 8,412,422</u>	<u>\$ 1,472,175</u>	<u>\$ 7,341,178</u>	<u>\$ 1,284,705</u>	<u>\$15,753,600</u>	<u>\$ 2,756,880</u>

Mortgage Loans Receivable - Housing Urban Development (HUD)

The City provides subsidy assistance to certain qualified residents of the City through the Home Purchase Subsidy Assistance Program in accordance with HUD guidelines. The Program was designed to assist in the acquisition and/or rehabilitation of qualified primary residences, in an amount not to exceed \$50,000 per participant. Each subsidy is secured by a mortgage on the property, which is required to be paid back in the event of a default. The amount outstanding at September 30, 2017, totaled \$9,356,200. The loans are forgivable ratably over a ten-year period and have therefore been allowed for as of fiscal year end.

NOTE 4. PROPERTY TAXES

Property taxes are levied on November 1st of each year, at which time taxes become an enforceable lien on property assessed as of the previous January 1st. Tax bills are payable upon receipt with discounts at the rate of 4% if paid in November, decreasing by 1% per month with no discount available in the month of March of the following year. Taxpayers also have the option of paying their taxes in advance in equal quarterly payments based on the prior year's tax assessment with quarterly discounts varying between 2% and 6%. All unpaid taxes on real and personal property become delinquent on April 1st and bear annual interest at 18% until a tax sale certificate is sold at auction. Miami-Dade County bills and collects all property taxes for the City, and sells tax certificates for delinquent taxes.

The total taxable value of property, as established by the Miami-Dade County Property Appraiser, at July 1, 2016, upon which the 2017 budget was based, was approximately \$2.6 billion. The City is permitted by Article 7, Section 9 of the Florida Constitution to levy taxes

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4. PROPERTY TAXES (Continued)

up to \$10 per \$1,000 of assessed value for general governmental services other than the payment of principal and interest on general obligation long-term debt. For the year ended September 30, 2017, the tax rate to finance General Fund operations was 7.5000 per 1,000 of assessed value. Property taxes receivable representing collections within 60 days subsequent to September 30 for billings through the fiscal year then ended amounted to approximately \$86,506 for the General Fund.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds consisted of the following balances at September 30, 2017:

	Interfund	
	Receivable	Payable
General Fund	\$ 1,170,477	\$ -
CRA	-	6,765
C.D.B.G. Entitlement Fund	-	301,210
Other nonmajor funds	-	862,502
Total	\$ 1,170,477	\$ 1,170,477

These outstanding balances between funds result mainly from the time lag between the dates that (a) interfund goods and services are provided or reimbursable expenditures occur, (b) transactions are recorded in the accounting system, and (c) payments between funds are made.

Interfund Transfers

Interfund transfers for the year ended September 30, 2017, consisted of the following:

	Transfer In			
	General	Landfill Closure	Nonmajor governmental funds	Total
<u>Transfers out:</u>				
General	\$ -	\$ 135,881	\$ 1,507,488	\$ 1,643,369
Nonmajor governmental funds	26,884	-	1,499	28,383
Water and sewer	-	-	215,054	215,054
Stormwater utility	-	-	26,754	26,754
Internal service	-	-	57,974	57,974
Total	\$ 26,884	\$ 135,881	\$ 1,808,769	\$ 1,971,534

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Bond covenants and City financial policies require use of interfund transfers to move financial resources from funds designated to receive them to the funds required to expend them. The transfers between the General Fund and Landfill Closure Fund and other Nonmajor Funds related to restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfers to Nonmajor Funds which includes the Debt Service Fund are made to fund the principal and interest payment on the pension obligation bond.

NOTE 6. CAPITAL ASSETS

Capital assets activities for the year ended September 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 12,600,765	\$ -	\$ (133,748)	\$ -	\$ 12,467,017
Construction in progress	1,043,261	169,921	-	(219,020)	994,162
Total capital assets not being depreciated	13,644,026	169,921	(133,748)	(219,020)	13,461,179
Capital assets, being depreciated:					
Land improvements	18,804,994	81,580	-	-	18,886,574
Building and improvements	20,825,409	261,782	-	-	21,087,191
Infrastructure	55,308,745	1,268,806	-	219,020	56,796,571
Machinery and equipment	19,607,573	1,010,491	(13,648)	-	20,604,416
Library Books	2,184,924	57,577	-	-	2,242,501
Total capital assets being depreciated	116,731,645	2,680,236	(13,648)	219,020	119,617,253
Less accumulated depreciation for:					
Land improvements	(13,161,661)	(314,790)	-	-	(13,476,451)
Building and improvements	(9,457,095)	(427,857)	-	-	(9,884,952)
Infrastructure	(26,784,504)	(1,203,743)	-	-	(27,988,247)
Machinery and equipment	(16,413,082)	(1,032,016)	13,648	-	(17,431,450)
Library Books	(2,082,932)	(25,847)	-	-	(2,108,779)
Total accumulated depreciation	(67,899,274)	(3,004,253)	13,648	-	(70,889,879)
Total capital assets being depreciated, net	48,832,371	(324,017)	-	219,020	48,727,374
Governmental activities capital assets, net	\$ 62,476,397	\$ (154,096)	\$ (133,748)	\$ -	\$ 62,188,553

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 6. CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 653,080	\$ -	\$ -	\$ 653,080
Construction in progress	<u>1,471,729</u>	<u>1,873,621</u>	<u>(825,663)</u>	<u>2,519,687</u>
Total capital assets not being depreciated	2,124,809	1,873,621	(825,663)	3,172,767
Capital assets, being depreciated:				
Land improvements	154,211	-	-	154,211
Building and improvements	2,460,235	8,999	-	2,469,234
Infrastructure	75,958,037	546,908	825,663	77,330,608
Machinery and equipment	<u>5,967,333</u>	<u>434,006</u>	<u>-</u>	<u>6,401,339</u>
Total capital assets being depreciated	84,539,816	989,913	825,663	86,355,392
Less accumulated depreciation for:				
Land improvements	(124,003)	(3,702)	-	(127,705)
Building and improvements	(748,514)	(74,482)	-	(822,996)
Infrastructure	(37,667,787)	(1,884,145)	-	(39,551,932)
Machinery and equipment	<u>(4,249,303)</u>	<u>(401,637)</u>	<u>-</u>	<u>(4,650,940)</u>
Total accumulated depreciation	(42,789,607)	(2,363,966)	-	(45,153,573)
Total capital assets being depreciated, net	<u>41,750,209</u>	<u>(1,374,053)</u>	<u>825,663</u>	<u>41,201,819</u>
Business-type activities capital assets, net	<u>\$ 43,875,018</u>	<u>\$ 499,568</u>	<u>\$ -</u>	<u>\$ 44,374,586</u>

Depreciation expense was charged to function/programs of the primary government as follows:

Governmental activities:	
General government	\$ 569,632
Public safety	536,603
Transportation and public works	831,793
Culture and recreation	687,445
Physical environment	28,027
Housing and urban development	42,487
Subtotal	<u>2,695,987</u>
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	<u>308,266</u>
Total depreciation expense – governmental activities	<u><u>\$3,004,253</u></u>
Business-type activities:	
Water and sewer	\$1,973,879
Stormwater	390,087
Total depreciation expense – business-type activities	<u><u>\$2,363,966</u></u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. LONG-TERM LIABILITIES

Governmental Activities

The following is a summary of changes in long-term liabilities for governmental activities for the year ended September 30, 2017:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Debt payable:					
Pension obligation note-Series 2010	\$ 14,725,000	\$ -	\$ (720,000)	\$ 14,005,000	\$ 770,000
Unamortized bond discount	(761,916)	-	97,520	(664,396)	-
Capital lease obligation	1,098,926	223,276	(520,636)	801,566	476,448
Total debt payable	<u>15,062,010</u>	<u>223,276</u>	<u>(1,143,116)</u>	<u>14,142,170</u>	<u>1,246,448</u>
Other liabilities:					
Compensated absences	6,035,443	2,142,982	(1,473,270)	6,705,155	2,199,619
OPEB	9,031,052	1,953,243	(452,970)	10,531,325	-
Landfill closure	9,989,543	-	(376,995)	9,612,548	-
Net pension liability	43,654,287	-	(13,288,946)	30,365,341	-
Net pension liability - FRS	232,286	4,139,524	-	4,371,810	-
Purchase installment liability	-	409,400	-	409,400	128,600
Claims payable (risk)	2,953,092	892,767	(868,549)	2,977,310	-
Claims payable (other)	435,864	-	-	435,864	-
Total other liabilities	<u>72,331,567</u>	<u>9,537,916</u>	<u>(16,460,730)</u>	<u>65,408,753</u>	<u>2,328,219</u>
Governmental activities - long-term liabilities	<u>\$ 87,393,577</u>	<u>\$ 9,761,192</u>	<u>\$ (17,603,846)</u>	<u>\$ 79,550,923</u>	<u>\$ 3,574,667</u>

For governmental activities, compensated absences, net pension liabilities and other post-employment benefit obligation are generally liquidated by the General Fund. Internal Service Funds predominately serve the governmental funds. Accordingly, their long-term liabilities for compensated absences, net pension liabilities and the other post-employment benefit obligation are included as part of the above totals for governmental activities.

Note Payable

On February 1, 2010, the City issued City of North Miami Promissory Note, Series 2010, in the amount of \$17,685,000 for the purpose of refunding the City's outstanding Taxable Special Obligation Refunding Bonds (Pension), Series 2002, and to pay a termination fee due with respect to a related interest rate swap. The interest rate on the Note is 7.25% per annum. The difference between the reacquisition price (new debt) and the carrying value of the refunded debt is being deferred and amortized over the life of the new debt. Debt service on this note is funded by non-ad valorem revenues budgeted and appropriated by the City on an annual basis.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. LONG-TERM LIABILITIES (Continued)

Principal and interest is payable through July 1, 2029. Debt service requirements to maturity on the Note follows:

Fiscal years ending September 30:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	770,000	1,015,363	1,785,363
2019	830,000	959,538	1,789,538
2020	885,000	899,363	1,784,363
2021	950,000	835,200	1,785,200
2022	1,020,000	766,325	1,786,325
2023-2028	7,885,000	3,035,938	10,920,938
2029	<u>1,665,000</u>	<u>692,738</u>	<u>2,357,738</u>
Total	<u>\$ 14,005,000</u>	<u>\$ 8,204,465</u>	<u>\$ 22,209,465</u>

Business-type Activities

The following is a summary of changes in long-term liabilities of the City for business-type activities for the year ended September 30, 2017:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Debt payable:					
FMLC Series 2016 Refunding (stormwater)	\$ 2,265,000	\$ -	\$ (350,000)	\$ 1,915,000	\$ 360,000
Unamortized bond premiums	123,060	-	(20,510)	102,550	-
State Revolving Fund Loan	2,996,913	-	(131,980)	2,864,933	85,722
Capital lease obligations	-	3,193	(800)	2,393	800
Total debt payable	<u>5,384,973</u>	<u>3,193</u>	<u>(503,290)</u>	<u>4,884,876</u>	<u>446,522</u>
Other liabilities:					
Compensated absences	868,388	1,095,856	(177,788)	1,786,456	252,761
OPEB	1,145,693	227,670	(52,798)	1,320,565	-
Net Pension Liability	5,936,195	-	(1,857,355)	4,078,840	-
Net pension liability - FRS	80,908	578,569	-	659,477	-
Total other liabilities	<u>8,031,184</u>	<u>1,902,095</u>	<u>(2,087,941)</u>	<u>7,845,338</u>	<u>252,761</u>
Business-type activities long-term liabilities	<u>\$ 13,416,157</u>	<u>\$ 1,905,288</u>	<u>\$ (2,591,231)</u>	<u>\$ 12,730,214</u>	<u>\$ 699,283</u>

Loans Payable

Stormwater Utility Loan

On September 29, 2016, the City issued \$2,265,000 FMLC Series 2016 Bond for the purpose of refunding, on a current basis, the then outstanding FMLC-Series 2001A Bond with an aggregate principal amount of \$2,600,000 and certain costs of issuing the note. Interest rates for the refunded bond ranges from 2% to 4%. The refunding resulted in gross savings of \$62,311 and an economic gain of \$100,572.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. LONG-TERM LIABILITIES (Continued)

Debt Service Requirements to Maturity

Principal and interest are payable through November 1, 2022. The debt service requirements to maturity on the FMLC Loan-Series 2016 follows:

<u>FMLC Loan - 2016</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2018	\$ 360,000	\$ 65,200	\$ 425,200
2019	370,000	54,400	424,400
2020	385,000	39,600	424,600
2021	395,000	28,050	423,050
2022	<u>405,000</u>	<u>16,200</u>	<u>421,200</u>
Total	<u>\$ 1,915,000</u>	<u>\$ 203,450</u>	<u>\$ 2,118,450</u>

Clean Water State Revolving Fund Loan

In February 2012, the City entered into a loan agreement with the State of Florida Department of Environmental Protection for a State Revolving Fund (“SRF”) loan in the amount of \$491,653 with an interest rate of 1.59%. The loan agreement was amended as follows subsequent to 2012:

- First amendment - August 4, 2014, to increase the loan amount to \$3,485,499.
- Second amendment - November 10, 2014, to reduce the loan amount to \$3,127,093

The purpose of the loan was to provide financial assistance for the planning and designing of the City’s sewer rehabilitation project. As of September 30, 2017, the total amount disbursed and outstanding was \$2,864,933.

Debt Service Requirements to Maturity

Principal and interest are payable through 2036:

<u>SRF Loan</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2018	\$ 141,374	\$ 25,581	\$ 166,955
2019	142,621	24,333	166,954
2020	143,881	23,074	166,955
2021	145,154	21,801	166,955
2022	146,439	20,516	166,955
2023 - 2027	751,920	82,854	834,774
2028 - 2032	947,472	54,257	1,001,729
2033 - 2036	<u>446,072</u>	<u>93,458</u>	<u>539,530</u>
Total	<u>\$ 2,864,933</u>	<u>\$ 345,874</u>	<u>\$ 3,210,807</u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. LONG-TERM LIABILITIES (Continued)

Pledged Revenues

The City issues debt that is secured by a pledge of specific revenues. Total pledged revenues to repay principal and interest on outstanding debt as of September 30, 2017 follows:

Source of Revenue Pledged	Non Ad-Valorem Revenues
Governmental Activities:	
Description of debt	Note payable
Purpose of debt	Refunded the Taxable Special Obligation Bonds -Series 2002
Current revenue pledged	\$ 38,540,328
Total future revenues pledged	\$ 22,209,465
Term of commitment	2010-2029
Current year debt service	\$ 1,508,528
Percentage of debt service to pledged revenues (current year)	3.91%

Source of Revenue Pledged	Non Ad-Valorem Revenues
Business Type Activities:	
Description of debt	FMLC Loan - Series 2016 (stormwater)
Purpose of debt	Capital improvements
Current revenue pledged	\$ 38,540,328
Total future revenues pledged	\$ 2,118,450
Term of commitment	2002-2022
Current year debt service	\$ 422,601
Percentage of debt service to pledged revenues (current year)	1.10%

Purchase Installment Agreement

On March 7, 2017, the City entered into an agreement with Point Blank Enterprises, Inc. to purchase body-worn cameras and the related monitoring software for the police department. The agreement is for an initial period of five (5) years for a total cost of \$533,000. The first payment of \$123,600 was made in April 2017. At September 30, 2017, the balance due was \$409,400 which will be paid annually as follows:

	Amount
Fiscal year ending September 30:	
2018	\$ 102,350
2019	102,350
2020	102,350
2021	102,350
Total	\$ 409,400

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 7. LONG-TERM LIABILITIES (Continued)

Capital Leases

The City finances the acquisition of certain vehicles and equipment through capital leases. The leases are collateralized by the leased vehicles and equipment. Future minimum total lease payments and the present value of minimum lease payments as of September 30, 2017, follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Fiscal year ending September 30:		
2018	476,284	808
2019	270,839	808
2020	<u>76,066</u>	<u>797</u>
Total minimum lease payments	823,189	2,413
Less amount representing interest	(21,623)	(20)
Present value of minimum lease payments	<u>\$ 801,566</u>	<u>\$ 2,393</u>

The net book value of assets acquired through capital leases as of September 30, 2017 follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Fleet	\$ 1,087,633	\$ -
Equipment	<u>537,933</u>	<u>3,193</u>
Total cost	1,625,566	3,193
Less accumulated depreciation	(824,000)	(800)
Total net book value	<u>\$ 801,566</u>	<u>\$ 2,393</u>

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides an optional single-employer defined benefit post-employment healthcare, dental, and group term life insurance plan to eligible individuals. The Plan allows employees and their beneficiaries, at their own cost to continue to obtain health, dental, and life insurance benefits upon retirement.

Pursuant to the provisions of Section 112.0801, Florida Statutes, employees who retire from the City and eligible dependents may continue to participate in the City's health, dental, and group term life insurance plan. The City subsidizes the premium rates paid by retirees by allowing them to participate in the plan at reduced or blended group premium rates for both active and retired employees. These rates provide an implicit rate subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the plan than those of active employees.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The City also provides an explicit health insurance subsidy with respect to certain retirees or their beneficiaries. The children of police officers who are killed in the line of duty receive a 100% subsidy for their health insurance until age 18 (or age 25) if a full-time student.

In 1997, the City offered a one-time Retirement Incentive to employees who had at least twenty years of City service and who were at least 50 years of age. The incentive was City paid group health premiums until age 65. Additionally, since October 1997, the City provides paid group health insurance premiums until age 65 for elected officials of the City who have served a minimum of two complete terms of office, and their tenure as an elected official commenced after May 1, 1991.

Also, since October 2000, the City provides paid group health insurance premiums for any former member of the administrative staff who has completed ten years or more of satisfactory service to the City as a member of the administrative staff, or has completed twenty years or more of satisfactory service with the City.

In accordance with the October 1, 2005, Police Bargaining Agreement, effective for police officers retiring after January 1, 2007, the City contributes \$200 toward the monthly premium for single coverage through the City's group health insurance plan. Retired officers, who do not elect to remain with the City's group insurance plan, receive a monthly payment of \$200. The \$200 contribution by the City is payable until the retired member becomes eligible for Medicare.

Funding Policy

The City does not directly contribute to the Plan on behalf of retirees. Retirees and their beneficiaries pay the same group rates that are charged for active employees. The premiums vary depending on the benefits selected and whether the retiree elects single or family coverage. The premium also varies depending on whether the retiree elects coverage under the HMO or POS plan.

However, the City's actuary, in the actuarial valuation, calculates an offset to the cost of these benefits as an employer contribution, based on the implicit rate subsidy. This offset equals the total age-adjusted premiums paid by the City or its active employees for coverage of the retirees and their dependents for the year, net of the retiree's own annual payments.

Annual OPEB Cost and Net OPEB Obligation

As of September 30, 2017, there were 161 retirees and eligible dependents receiving post-employment healthcare benefits. The annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with GASB Statement No. 45. The annual required contribution represents a funding level that, if paid on an on-going basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 10 years.

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

The annual OPEB cost for the current year and related information follows:

	2017
Normal cost	\$ 996,076
Amortization	2,037,815
Annual required contribution (ARC)	3,033,891
Interest on net OPEB obligation	305,302
Adjustment to ARC	(1,158,276)
Total annual OPEB cost (expense)	2,180,917
Employer contributions made	(505,768)
Increase in net OPEB obligation	1,675,149
Net OPEB obligation, beginning of year	10,176,741
Net OPEB obligation, end of year	\$ 11,851,890

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal years ending September 30, 2015 - 2017, follows

Fiscal Year	Annual OPEB Cost	Amount Contributed	Percentage of OPEB Contributed	Net OPEB Obligation
2015	\$ 1,556,548	\$ 480,239	30.85%	\$ 9,160,393
2016	\$ 1,569,444	\$ 553,096	35.24%	\$10,176,741
2017	\$ 2,180,917	\$ 505,768	23.19%	\$11,851,890

Funded Status and Funding Progress

The funded status of the Plan as of October 1, 2016 (date of the most recent actuarial valuation) follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a, b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a), c)
October 1, 2016	-	\$ 17,641,754	\$ 17,641,754	0.0%	\$ 22,863,448	77.2%

The actuarial valuation for the calculation of OPEB involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS (Continued)

subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information following the notes to the financial statements is designed to provide multi-year trend information to show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. However, the City has not set aside assets to fund the Plan at this time.

Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in the actuarial accrued liabilities and the actuarial value of assets. The significant methods and assumptions used were as follows:

Actuarial valuation date	October 1, 2016
Amortization period and method	10-year open period, level dollar open
Remaining amortization period	10 years
Actuarial assumptions:	
Investment rate of return	3.00% per annum
Includes inflation at	2.50% per annum
Healthcare cost trend rates:	
Select rates	7.5% beginning January 1, 2014, graded down to 6.05% in 2022
Ultimate rate	4.86%

NOTE 9. SELF-INSURANCE

The City maintains a self-insurance program accounted for in the internal service funds. The General Risk Management fund was established by City Ordinance to account for insurance activities relating to workers' compensation and general liability risks. Charges to departments are based upon amounts determined by management to be necessary to meet the required annual payouts during the fiscal year and to maintain adequate fund reserves. The funding level and estimated claims liability for workers' compensation and general liability for fiscal year 2017 is based on recommended funding requirements for fiscal year 2017, as determined by a self-insurance actuarial review as of September 30, 2017, performed by outside consultants.

The City is exposed to various risks of loss for workers' compensation and general liability covered by its self-insurance program. The other exposures include theft, and errors and omissions, for which the City carries commercial insurance.

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 9. SELF-INSURANCE (Continued)

As of September 30, 2017, the City's risk retention for certain types of risk is as follows:

<u>Line of Coverage</u>	<u>Retention/Deductible</u>	<u>Coverage after Retention/Deductible</u>
Self-insured:		
Workers' compensation	Self-insured retention of \$500,000	Excess worker's compensation Part I - Statutory Part II - \$1,000,000 (employers liability)
General liability (includes automobile)	Fully self-insured	F.S. 768.28 (\$200,000/individual, \$300,000/occurrence)
Commercial insurance:		
Property:		
Property, multi-peril	\$5,000 general & 5% named storm	\$66,307,552
Boiler and machinery	\$1,000	\$50,000,000
Flood	Buildings: \$1,250 to \$2,000 Contents: \$1,000 to \$2,000 varies according to facility	Buildings: \$25,000 to \$333,000 Contents: \$0 to \$200,000 varies according to facility
Other:		
Police professional liability	\$25,000/claim & \$75,000/aggregate	\$2,000,000/loss and aggregate
Public officials' liability	\$50,000 EPLI/wrongful acts	\$2,000,000/loss and aggregate

The General Risk Management Internal Service Fund accounts for the following coverages/claims:

Workers' Compensation

All workers' compensation costs are paid from the self-insurance fund, up to \$500,000 self-insured retention, with all operating funds of the City assessed a charge based upon the requirements of the self-insurance fund and their relative share of the total risk. As claims are reported they are investigated by claims personnel, and an estimate of liability on a case-by-case basis is established. The estimated liabilities are periodically reviewed and revised as claims develop.

General Liability

Departments of the City are assessed for general and automobile liability coverage based upon the requirements of the self-insurance fund and their relative share of the total risk. The City has continued to purchase certain casualty insurance for which the premium is low in relation to the coverage provided. As the casualty claims are reported, they are investigated by the claims personnel and an estimate of liability on a case-by-case basis is established.

Estimated Claims Liability

The estimated claims liability of \$2,977,310 in the General Risk Management internal service fund includes estimates for claims incurred but not reported (IBNR) and allocated loss adjustment expenses. The estimates are based on the requirement that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 9. SELF-INSURANCE (Continued)

Changes in the estimated claims liability are as follows:

	<u>Workers'</u> <u>Compensation</u>	<u>General</u> <u>Liability</u>	<u>2017</u> <u>Total</u>	<u>2016</u> <u>Total</u>
Estimated claims liability - beginning of year	\$ 1,981,345	\$ 971,747	\$ 2,953,092	\$ 2,787,065
Current year claims and changes in estimates	656,448	236,322	892,770	519,644
Claim payments	<u>(706,181)</u>	<u>(162,371)</u>	<u>(868,552)</u>	<u>(353,617)</u>
Estimated claims liability - end of year	<u>\$ 1,931,612</u>	<u>\$ 1,045,698</u>	<u>\$ 2,977,310</u>	<u>\$ 2,953,092</u>

The City carries Excess Workers' Compensation insurance to secure statutory worker's compensation coverage in excess of the self-insured retention. In 2017, there was no reduction in insurance coverage from the prior year. During the past three years, there have been no settlements that exceeded insurance coverage. The City continues to seek annual recovery on cases exceeding the self-insured retention. The City recovered reimbursements from the excess carrier on two cases where the self-insured retentions of \$250,000 and \$350,000 were exceeded.

NOTE 10. EMPLOYEE RETIREMENT PLANS

Pension Systems Administered by the City of North Miami

The City of North Miami (the City or the Employer) is the sponsor of two single employer defined benefit pension plans (collectively the "Plans") established to provide pension benefits for its employees: Clair T. Singerman Retirement System ("CTS") and the North Miami Police Pension Plan (the "NMPP" Plan). Each plan is administered by a seven member Board of Trustees who are either appointed by Ordinance or elected from among Plan participants.

On April 3, 1994, the City transferred all general employees who were in the NMPP Plan to the CTS Retirement System, thereby limiting the NMPP Plan participation to sworn police personnel hired after January 1, 1977. The CTS Retirement System covers police officers hired before January 1, 1977, and all general employees and former North Miami firefighters.

On February 15, 2016, the City closed the CTS Retirement System to new participants. After the closure, new members joined the Florida Retirement System ("FRS"). Active members were afforded a one-time irrevocable option to transfer to the FRS.

Each of the Plans issues a publicly available stand-alone report that includes financial statements and required supplementary information for each Plan. These reports may be obtained by writing to: North Miami Employees' Retirement Systems, 776 N.E. 125th Street, North Miami, Florida 33161.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plans 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 Plans. Interest and dividends are recorded as earned.

For the purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the Pension Plan.

Method Used to Value Investments

Investments are reported at fair value. Within certain limitations as specified in the Plans, the investment policy is determined by the Board of Trustees and is implemented by the Plans' 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 2**.

North Miami Police Pension Plan

Plan Description

The City of North Miami (the employer) is the sponsor of a single-employer defined benefit plan (hereafter the "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.

Since the Plan is a single-employer public employees' retirement system plan 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 actuarial valuation is as of October 1, 2016 (beginning of year valuation date); however, employer contribution requirements for the year ended September 30, 2017, were based on the October 1, 2015, valuation. Benefit and contribution provisions are established by City ordinance and may be amended only by the City Council.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Membership in the Plan is as follows:

Inactive plan members and beneficiaries currently receiving benefits	39
Active plan members	<u>121</u>
Total	<u>160</u>

Effective January 1, 2017, 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 receive 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.

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 AFC 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 Policies

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 0.25% for 2017. Employer and state contributions for the fiscal year ended September 30, 2017 was 43.28% 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.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

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 \$339,778 for the fiscal year ended September 30, 2017, and is reported as other contributions; the receivable balance as of September 30, 2017 was \$82,682. 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.

Net Pension Liability

Components of the net pension liability of the City as of September 30, 2017:

	<u>NMPP Plan</u>
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%

Actuarial Assumptions

The total pension liability was measured as of September 30, 2016, and determined by an actuarial valuation as of October 1, 2015, using the following actuarial assumptions and applied to all prior periods included in the measurement:

Assumptions Used to Determine Net Pension Liability:

Inflation	3.0%
Salary Increases	3.50% to 9.40% depending on service
Assumed discount rate on investment	8.10%
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
Note	Effective as of October 1, 2015, the investment return assumption has been reduced by 0.1% from 8.20% to 8.10%.

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

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 Plan's target asset allocation as of September 30, 2017 are summarized in the following table:

NMPP Plan		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equities	60.00%	7.50%
International Equity	5.00%	8.50%
Domestic bonds	25.00%	2.50%
International bonds	0.00%	3.50%
Real Estate	10.00%	4.50%

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.

Rate of Return - For the year ended September 30, 2017, the annual money-weighted rate of return on Plan investments, net of Plan investment expense was 8.10%. 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

Changes in Net Pension Liability

The following table shows the Plan's changes in net pension liability based on the actuarial information provided to the City at September 30, 2017:

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

	NMPP Plan		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2016	\$ 80,525,495	55,388,280	\$ 25,137,215
Changes for the year			
Service cost	2,688,621	-	2,688,621
Interest	6,699,774	-	6,699,774
Difference between actual & expected experience	(722,729)	-	(722,729)
Assumption changes	1,055,450	-	1,055,450
Benefit payments	(2,859,026)	-	(2,859,026)
Refunds	(160,092)	-	(160,092)
Contributions - employer	-	3,558,223	(3,558,223)
Contributions - employer (from State/Share Plan)	-	576,823	(576,823)
Contributions - member	-	1,014,411	(1,014,411)
Net investment income	-	5,759,158	(5,759,158)
Benefit payments	-	(2,859,026)	2,859,026
Refunds	-	(160,092)	160,092
Administrative expense	-	(136,260)	136,260
Net changes	<u>6,701,998</u>	<u>7,753,237</u>	<u>(1,051,239)</u>
Balance at September 30, 2017	<u>\$ 87,227,493</u>	<u>\$ 63,141,517</u>	<u>\$ 24,085,976</u>

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:

	NMPP Plan		
	Single		
	1% Decrease 7.10%	Discount Rate Assumption 8.10%	1% Increase 9.10%
Net pension liability	<u>\$ 35,881,993</u>	<u>\$ 24,085,976</u>	<u>\$ 14,388,077</u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$3,711,087. At September 30, 2017, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	NMPP Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,307,434
Assumptions changes	1,534,095	-
Net difference between projected and actual earnings on pension plan investments	1,642,335	1,131,241
Employer contributions made subsequent to the measurement date	3,827,089	-
	\$ 7,003,519	\$ 3,438,675

The deferred outflows of resources related to the Plan, totaling \$3,827,089, resulting from City contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2017. Other amounts reported as net deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2018	\$	(29,674)
2019		(29,675)
2020		140,076
2021		(407,368)
2022		53,665
Thereafter		10,731
Total	\$	(262,245)

Clair T. Singerman Retirement System

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 Clair T. Singerman (CTS) Retirement System is administered by a seven member Board of Trustees comprised of one firefighter elected from firefighter members, one police officer elected from police members, two ex-officio members occupying positions specifically designated by Ordinance, and three elected general employee members.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

The CTS Retirement System was established by the City's Ordinance 691 effective January 1, 1968. 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. All full-time employees are eligible except for sworn police personnel hired after 1976. The latest actuarial valuation is as of October 1, 2016; however, the required employer contribution for the fiscal year ended September 30, 2017 is based on the October 1, 2015 actuarial valuation. Benefit and contribution provisions are established by City ordinance and may be amended only by the Board of Trustees, subject to approval of the City Council.

Membership in the CTS Retirement System is as follows:

Inactive plan members and beneficiaries currently receiving benefits	224
Inactive plan members entitled but not yet receiving benefits	3
Active plan members	<u>241</u>
Total	<u>468</u>

Effective February 15, 2016, new employees 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

General employee plan members and police personnel not included in the police bargaining unit become partially vested (25%) after 5 years of credited service, increasing 15% annually, with full vesting after 10 years of credited service. All other police personnel become fully vested after 14 years.

Normal retirement is for:

- Plan members who retire at the earlier of age 55 and 10 years of service or age 50 and 20 years for general members.
- Plan members who retire at age 50 and 20 years of service for police and firefighters.

Early retirement is available after completion of 14 years of service for all Plan members. General members may also be eligible at age 50 after 10 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.

Normal retirement benefits are based on 1% of average final compensation multiplied by the years of services through July 1, 1979 plus 3% of average final compensation for years of service after June 30, 1979. However, for any year prior to October 1, 1968, during which a member contributed less than 7% of compensation, the benefit percentage for each year varies per the Ordinance. A terminating member with less than five years' creditable service shall receive his/her contribution

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

plus accrued interest accumulated since initial employment. Partially vested members shall receive the greater of member contributions plus accrued interest or the sum of member contributions prior to October 1, 1982, and his/her vested benefits.

Contributions and Funding Policies

Plan members contribute either 6%, 7% or 8% of their annual compensation depending on their credited years of service as of November 10, 2015. Interest is credited annually on members' accumulated contributions through the prior year-end. The interest rate determined by the Board of Trustees was 0.25% in 2017. Employer contributions for the fiscal year ended September 30, 2017 was 39.19% of covered payroll. The total employer contribution on the statement of changes in fiduciary net position is \$4,924,792 for 2017.

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 for the Plan is the Entry Age Normal.

Contributions required on an actuarial basis to provide benefits for former City firemen who had elected to remain in the Plan upon their transfer to the Miami-Dade County Fire Department on October 1, 1969, are made by Miami-Dade County and the State of Florida - Bureau of Municipal Police and Firefighters' Retirement Fund pursuant to Chapter 175, Florida Statutes.

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 the one remaining sworn police personnel that was included in this Plan prior to 1976. The excess of insurance premium tax monies amounted to \$1,657 for the fiscal year ended September 30, 2017, and is reported as other contributions; the balance to be received as of September 30, 2017 was \$33,529. The funds were received by the City of North Miami's Police 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.

Net Pension Liability

Components of the net pension liability of the City at September 30, 2017 follows:

	<u>CTS</u>
Total pension liability	\$118,702,482
Plan fiduciary net position	<u>(108,344,279)</u>
Net pension liability	<u>\$ 10,358,203</u>
Plan fiduciary net position as a percentage of total pension liability	91.27 %

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Actuarial Assumptions

The total pension liability was measured as of September 30, 2016, and determined by an actuarial valuation as of October 1, 2015, using the following actuarial assumptions and applied to all prior periods included in the measurement:

Assumptions Used to Determine Net Pension Liability

Inflation	3.0%
Salary Increases	5.0% to 7.50% depending on service
Assumed discount rate on investment	7.50%
Retirement Age	Experience-based table of rates
Mortality	RP-2000 Combined Healthy Participant Mortality Table for males and females with mortality improvements projected to all future years after 2000 using Scale AA

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, 2017 are summarized in the following table:

CTS Retirement System		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equities	50.00%	7.50%
International Equity	10.00%	8.50%
Domestic bonds	30.00%	2.50%
Real Estate	10.00%	4.50%

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

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Rate of Return - For the year ended September 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 10.61%. 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.

Changes in Net Pension Liability

The following table shows the Plans changes in net pension liability based on the actuarial information provided to the City at September 30, 2017:

	CTS Retirement System		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2016	\$ 122,273,439	\$ 97,820,173	\$ 24,453,266
Changes for the year			
Service cost	2,659,600	-	2,659,600
Interest	9,099,037	-	9,099,037
Benefit changes	(6,839,780)	-	(6,839,780)
Difference between actual & expected experience	(1,266,151)	-	(1,266,151)
Benefit payments	(7,034,144)	-	(7,034,144)
Refunds	(190,942)	-	(190,942)
Other	1,423	-	1,423
Contributions - employer	-	5,900,606	(5,900,606)
Contributions - employer (from State/Share Plan)	-	1,423	(1,423)
Contributions - non-employer contributing entity	-	92,782	(92,782)
Contributions - member	-	920,667	(920,667)
Net investment income	-	11,084,389	(11,084,389)
Benefit payments	-	(7,034,144)	7,034,144
Refunds	-	(190,942)	190,942
Administrative expense	-	(250,675)	250,675
Net changes	(3,570,957)	10,524,106	(14,095,063)
Balance at September 30, 2017	\$ 118,702,482	\$ 108,344,279	\$ 10,358,203

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

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 (asset), if it were calculated using a single discount rate of 7.50%, as well as what the plan's net pension liability (asset) 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:

	CTS Retirement System		
	1% Decrease 6.50%	Single Discount Rate Assumption 7.50%	1% Increase 8.50%
Net pension liability (asset)	\$ 24,377,523	\$ 10,358,203	\$ (1,667,621)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized a credit to pension expense of \$4,214,412. At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	CTS Retirement System	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,005,203
Net difference between projected and actual earnings on pension plan investments	4,068,550	3,935,563
Employer contributions made subsequent to the measurement date	5,030,309	-
	\$ 9,098,859	\$ 5,940,766

The deferred outflows of resources related to the CTS Retirement System, totaling \$5,030,309, resulting from City contributions to the CTS Retirement System subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ended September 30, 2018. Other amounts reported as net deferred inflow of resources related to pensions will be recognized in pension expense as follows:

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Year ending September 30:

2018	\$ (831,664)
2019	(712,525)
2020	380,800
2021	<u>(708,827)</u>
Total	<u>\$ (1,872,216)</u>

Pension Plans Administered by the State of Florida

The City provides retirement benefits to the Mayor, four (4) City Council Members and new employees hired after February 15, 2016 through the Florida Retirement System (FRS) and the Retiree Health Insurance Subsidy (HIS) Plan.

FLORIDA RETIREMENT SYSTEM

The City participates in the Florida Retirement System (the “FRS”), which was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Health Insurance Subsidy Program, a cost-sharing multiple-employer defined benefit pension plan, for retired members of any state-administered retirement system in paying the costs of health insurance.

The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement and consists of the two cost-sharing, multiple-employer defined benefit plans and other nonintegrated programs.

The City's pension expense for FRS totaled \$328,008 for the fiscal year ended September 30, 2017.

A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' website (www.dms.myflorida.com).

Plan Description

The FRS is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

- *Regular Class* - Members of the FRS who do not qualify for membership in the other classes.
- *Elected County Officers Class* - Members who hold specified elective offices in local government.
- *Senior Management Service Class (SMSC)* - Members in senior management level positions.
- *Special Risk Class* - Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the FRS prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the FRS on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service (except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service). All members enrolled in the FRS on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service (except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service). Members of the FRS may include up to four years of credit for military service toward creditable service.

The FRS also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The FRS provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the FRS to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate, except that certain instructional personnel may participate for up to 96 months. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

FRS Retirement Benefits and Contributions

Benefits under the FRS are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the five highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the eight highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, based on the retirement class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
Regular Class Members Initially Enrolled Before July 1, 2011:	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 years of service	1.68
Regular Class Members Initially Enrolled on or After July 1, 2011:	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 years of service	1.68
Elected County Officers	3
Senior Management Service Class	2
Special Risk Regular:	
Service from December 1, 1970 through September 30, 1974	2
Service on and after October 1, 1974	3

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement, and multiplying that result by 3%. FRS members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions during the 2017 fiscal year were as follows:

<u>Class ⁽²⁾</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer ⁽¹⁾</u>
FRS, Regular	3.00%	7.52%
FRS, Elected Council Officers	3.00%	42.47%
FRS, Senior Management Service	3.00%	21.77%
	(2)	(2)

(1) Employer rates include 1.66% for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06% for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The City's contributions to the FRS amounted to \$328,008 and employees' contributions amounted to \$93,836 for the fiscal year ended September 30, 2017.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

On September 30, 2017, the City reported a liability of \$4,037,944 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2017 fiscal year contributions relative to the participating members. At June 30, 2017, the City's proportionate share was 0.01365%.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$970,038 related to the Plan. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions, from the following sources:

	FRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 370,586	\$ 22,368
Changes of Assumptions	1,357,034	-
Net difference between projected and actual earnings on FRS pension plan investments	-	100,070
Changes in proportion and differences between City FRS contributions and proportionate share of contributions	1,659,643	55,955
City FRS contributions subsequent to the measurement date	78,978	-
Total	\$ 3,466,241	\$ 178,393

The deferred outflows of resources related to pensions, totaling \$78,978, resulting from the City's contributions to the FRS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2018	\$ 641,774
2019	641,774
2020	641,774
2021	641,483
2022	642,065
	\$ 3,208,870

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Actuarial Assumptions

The FRS actuarial valuation was determined using the following actuarial assumptions, as of July 1, 2016, applied to all periods included in the measurement:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Investment Rate of Return	7.10%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Long-Term Expected Rate of Return - The long-term expected rate of return on the Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

FRS				
Asset Class	Target Allocation *	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.00%	3.00%	3.00%	1.80%
Fixed income	18.00%	4.50%	4.40%	4.20%
Global equity	53.00%	7.80%	6.60%	17.00%
Real estate (property)	10.00%	6.60%	5.90%	12.80%
Private equity	6.00%	11.50%	7.80%	30.00%
Strategic investment	12.00%	6.10%	5.60%	9.70%
	100.00%			
Assumed inflation-mean		2.6%		2.00%

*Note: (1) As outlined in the Plan's investment policy

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

Discount Rate - The discount rate used to measure the net pension liability of the Plan was 7.10%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return. The discount rate is reviewed annually and set by mutual agreement between the Board of Trustees and its Actuarial firm.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the City's proportionate share of the net pension liability would be if it calculated using a discount rate that is one percentage point lower (6.10%) or one percentage point higher (8.10) than the current rate:

	FRS		
	1% Decrease 6.10%	Single Discount Rate Assumption 7.10%	1% Increase 8.10%
City's proportionate share of the net pension liability	\$ 7,308,435	\$ 4,037,944	\$ 1,322,687

Retiree Health Insurance Subsidy Program (HIS)

Plan Description

The Retiree Health Insurance Subsidy Program (the "HIS") is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of the State-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Florida Department of Management Services.

Benefits Provided

For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include Medicare.

Contributions

The HIS is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

FRS members. For the fiscal year ended September 30, 2017, the HIS contribution rate was 1.66%. The City contributed 100% of its statutorily required contributions for the current fiscal year. The HIS contributions are deposited in a separate trust fund from which payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The City's contributions to the HIS totaled \$14,795 for the fiscal year ended September 30, 2017.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City reported a net pension liability of \$993,347 for its proportionate share of the HIS Plan's net pension liability. The total pension liability was determined by an actuarial valuation date as of July 1, 2017. The City's proportionate share of the net pension liability was based on the City's 2017 fiscal year contributions relative to the 2017 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.0092%.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$193,126 related to the HIS. In addition, the City reported, deferred outflows of resources and deferred inflows of resources related to the HIS from the following sources:

	HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,068
Changes of Assumptions	139,630	85,896
Net difference between projected and actual earnings on HIS pension plan investments	551	-
Changes in proportion and differences between City HIS contributions and proportionate share of contributions	768,906	23,633
City HIS contributions subsequent to the measurement date	14,795	-
Total	\$ 923,882	\$ 111,597

The deferred outflows of resources related to pensions, totaling \$14,795, resulting from the City's contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2018	\$ 159,498
2019	159,498
2020	159,498
2021	159,498
2022	159,498
Total	<u>\$ 797,490</u>

Actuarial Assumptions

The HIS plan's actuarial valuation was determined using the following actuarial assumptions as of July 1, 2017, applied to all periods included in the measurement:

Inflation	2.60%
Salary Increases	3.25% average, including inflation
Municipal Bond Rates - Investment Rate of Return	2.85%

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability for the HIS Plan was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using a discount rate of 3.58%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 10. EMPLOYEE RETIREMENT PLANS (Continued)

	HIS		
	Single		
	1%	Discount Rate	1%
	Decrease	Assumption	Increase
	1.85%	2.85%	3.85%
City's proportionate share of the net pension liability	\$ 1,133,539	\$ 993,347	\$ 876,572

Net Pension Liability, Deferred Inflow of Resources, and Deferred Outflow of Resources

The following table summarizes the net pension liability, deferred inflow of resources and deferred outflow of resources for each plan as previously disclosed in Note 10:

Plan	Net Pension Liability	Deferred Inflow of Resources	Deferred Outflow of Resources
North Miami Police Pension Plan	\$ 24,085,976	\$ 3,438,675	\$ 7,003,519
Clair T. Singerman Employee Retirement System	10,358,203	5,940,766	9,098,859
Florida Retirement System (FRS and HIS)	5,031,289	289,990	4,390,123
Total	\$ 39,475,468	\$ 9,669,431	\$ 20,492,501

NOTE 11. DEFINED CONTRIBUTION PLANS

The City of North Miami Police Officers' Retirement Pension Fund Share Plan

The City of North Miami Police Officers' Retirement Pension Fund Share Plan (Ord. 592.1.1) (the Plan) was established to provide retirement benefits for police officers of the City of North Miami. These benefits are funded from the State of Florida insurance premium tax monies and are in addition to benefits provided by the City of North Miami's retirement system. A separate Board of Trustees is responsible for the administration of this Plan. In accordance with GASB Statement No. 24, the City recognized \$339,778 as on behalf payments for contributions of these premiums into the Plan.

The Plan issues a publicly available report that includes financial statements and required supplementary information. This report may be obtained by writing to: City of North Miami Police Department, 700 N.E. 124th Street, North Miami, Florida 33161. This Plan is administered by the City.

Managers' Pension Plan

The Managers' Pension Plan is an IRS Section 401(a) defined contribution pension plan for those members of the Administrative Staff not eligible to participate in the City's defined benefit pension plan. This Plan is funded through employer contributions consisting of 10% of a participant's compensation. This Plan can only be amended by the City Council. During fiscal year 2017, the

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 11. DEFINED CONTRIBUTION PLANS (Continued)

City contributed approximately \$54,000 into this Plan, which is administered through a third party administrator.

Excess Benefit Plan

In May 1968, the City established the Excess Benefit Plan, a qualified governmental excess benefit arrangement as defined in Section 415 (M) (3) of the Internal Revenue Code. The City contributed approximately \$45,998 into this Plan. This Plan is administered by the City.

NOTE 12. ENVIRONMENTAL MATTERS (Munisport Landfill Site)

Historical Background

In 1970, the City acquired 350 acres of land (a/k/a Biscayne Landing), for approximately \$11,800,000, using the proceeds of \$12,000,000 General Obligation Bonds, issued to provide financial assistance to the Inter-American Center Authority (Interama), an agency established by the State of Florida to develop an international cultural and trade center for the Americas. The project never materialized and Interama never repaid the City for purchasing the land.

The City subsequently entered into a 30-year lease agreement with a company formed to develop a recreation project on the Interama land. The company subsequently operated a portion of the property as a dumpsite, and the property became the subject of controversy arising principally from site related environmental issues involving the City, the company, various governmental agencies and others. The controversy restricted the use and development of the property. Accordingly, the recreation project was never completed and the company abandoned the premises.

In 1981, the Florida Department of Environmental Regulation (a/k/a FDEP) filed a suit against the City to close the portion of the land, which was operated as a dumpsite (landfill). The landfill has not operated since 1980 and the City, State and DERM have worked together to produce a closure plan, pursuant to a Consent Agreement. On February 10, 1998, the City voluntarily executed a Consent Agreement with the Miami-Dade County Department of Environmental Resources Management (“DERM”) to carry out groundwater remedial measures required by Florida law and County ordinance. In 2004, Miami-Dade County provided the City with a one-time contribution of \$31 million for remediation and closure of the landfill.

In May 2012, the City entered into a 99 year lease and development agreement for the site with Oleta Partners (see Note 14). In connection with the agreement, the developer assumed responsibility for the remediation and closure of the site beyond the costs funded by the Miami-Dade County contribution mentioned above. As of September 30, 2017, the liability assumed by the developer for remediation and closure is approximately \$18.5 million. In accordance with the guidance provided by GASB 18, *Accounting for Municipal Solid Waste Landfill Closure and Post Closure Care Costs*, the City met the requirements to transfer its responsibility for closure and post-closure, to the developer. Therefore, the \$18.5 million is not reported in the City’s financial

**CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 12. ENVIRONMENTAL MATTERS (Munisport Landfill Site) (Continued)

statements for post-closure cost. The City has reported a landfill closure liability of \$9.6 million at year end, related to the site.

Recent Studies and Developments

A Remediation and Landfill Closure Cost Projection was completed in 2015, which estimated the cost of remediation and closure at approximately \$13.1 million. This cost estimate is a decrease from a previous cost projection of \$13.6 million and is based on the proposed groundwater remediation system, the reevaluated stormwater management system, and the closure-related activities. While this latest method has tentatively been approved by DERM and the FDEP, the newly proposed groundwater remediation system is at the conceptual level as of September 30, 2017, and uncertainties remain as to the ultimate cost of the remediation and closure of the landfill site.

During 2017, the City incurred approximately \$652,704 in site closure costs, which is reflected in the Landfill Closure fund. In addition to the remediation and closure of the site, as discussed above, it is estimated that long-term closure care costs will be approximately \$623,035 per year over 30 years, for a projected total cost of approximately \$18.6 million.

Landfill Closure Escrow Account

On December 22, 2004, the City received \$31,027,000 in funding from Miami-Dade County to be used towards financing the remediation and closure costs of the “Munisport” landfill site. The funds were deposited into the Munisport landfill closure escrow account.

The Landfill Closure special revenue fund accounts for the restricted assets activity used to fund landfill closure costs. Within this fund, deposits are made to the fund’s restricted assets account for the purpose of complying with the Florida Department of Environmental Protection’s escrow requirements of Rule 62-701.630(5)(c), Florida Administrative Code. The rule requires that once the landfill ceases to receive waste, the closure escrow account should be able to fully fund the facility’s closing costs.

The following is a schedule of restricted assets and the activity of the closure escrow account in the Landfill Closure special revenue fund, presented on a cash basis, as of the year ended September 30, 2017:

Restricted assets:	
Cash in bank (money market fund at City National Bank)	<u>\$ 10,369,358</u>
Beginning balance, October 1, 2016	\$ 10,683,173
Interest	33,957
Disbursements	<u>(347,772)</u>
Ending balance, September 30, 2017	<u>\$ 10,369,358</u>

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 12. ENVIRONMENTAL MATTERS (Munisport Landfill Site) (Continued)

The schedule of restricted assets and activity is only intended to present the activity of restricted assets segregated for the purpose of complying with Rule 62-701.630(5)(c), Florida Administrative Code. The schedule of restricted assets was prepared on the basis of cash receipts and disbursements (cash basis), which is a comprehensive basis of accounting other than generally accepted accounting principles. All funds on deposit are restricted for landfill closure.

Long-term Care Escrow Account

The City opened a second escrow account for the purpose of funding the landfill's long term care costs. This account will remain dormant until the time of facility closing where it will be funded in accordance with Rule 62-701.630(5)(c), Florida Administrative Code. Therefore, as of September 30, 2017, the balance in this escrow account is \$0.

Compliance with Rule 62-701.630(5)(c), Florida Administrative Code

As provided by Rule 62-701.630(5)(c), Florida Administrative Code, the City is required to annually submit to the Florida Department of Environmental Protection an audit of the landfill closure account with a list of all deposits and disbursements made. For the year ended September 30, 2017, disbursements of \$347,772 were made from the account, and no additional deposits, other than interest received of \$33,957 were made.

Overall Outlook

The agreement provided for development of the site with the City receiving income from sales of units and from an annual ground lease (see Note 14 Biscayne Landing Lease). It is the City's opinion that any ultimate loss to the City concerning the environmental matters pertaining to the former Munisport site will be offset by revenues generated from the future use of the land.

NOTE 13. CONDUIT DEBT

The following conduit debt does not constitute a debt or liability of the City within the meaning of any constitutional or statutory limitation and, accordingly, are not reflected in the accompanying financial statements.

Health Care Facilities Revenue Bonds

In January 2007, the City issued \$26,257,603 in Health Care Facilities Revenue Bonds, Series 2006 (Series 2006A, Subordinate Series 2006B-1, and Subordinate Series 2006B-2) to provide funds to the Affordable Community Housing Trust, a non-profit public benefit corporation operating an independent elderly living facility (Imperial Club) located within the geographic boundaries of Miami-Dade County, Florida. The Series 2006B-2 bonds included in the issuance are accretion bonds. The Series 2006 bonds were issued to refund the outstanding City of North Miami Health Care Facilities Revenue Bonds (the Imperial Club Project), Series 1998A and Subordinate Series 1998B bonds and to provide financing for the cost of certain additional capital improvements to the health care facility.

CITY OF NORTH MIAMI, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE 13. CONDUIT DEBT (Continued)

The combined outstanding debt as of September 30, 2017, for the Series 2006A and Subordinate Series 2006B-1 and Series 2006B-2 was \$23,727,602.

Subsequent Event

In January of 2018, the City was notified by the Trustee that Affordable Community Housing Trust-Alpha, Inc., (the “Company”), was in default of the indenture agreement for failure to make the required semi-annual interest payments on the Subordinate Series 2006B-1 Bonds and Subordinate SeriesB-2 Bonds. Further, the Company failed to make the full required interest payments or the required principal sinking fund payments due on the Series 2006A Bonds.

Because the City is not liable for any of the conduit debt, no amounts owed or due on debt are reflected in the accompanying financial statements as stated in GASB Interpretation No.2, *Disclosure of Conduit Debt Obligations*. The Company continues to make partial payments on the past due amounts to the sole bondholder. The project continues to fully function so the bondholder has not filed for any default remedies outlined in the bond indenture.

NOTE 14. BISCAYNE LANDING LEASE

In 2012, an agreement was signed for the site known as Munisport (Biscayne Landing). The agreement contemplated development of the site with the City receiving income from the sale of residential units and from an annual ground lease. The agreement called for a 99-year lease of the site to the developer (Oleta Partners), with a 100-year renewal. The initial development program for Biscayne Landing has been modified in accordance with subsequent changes to the initial agreement. The City will also receive rent on the commercial space based on 50% of the net profits. Detailed information on the changes to the initial agreement are available on the City’s website at northmiamifl.gov.

In Fiscal Year 2017, the City reported basic rents, additional rents and bifurcated lease payments of approximately \$1,572,178.

NOTE 15. CONTINGENCIES

Lawsuits

- The Florida Supreme Court ruled in favor of drivers who brought a class action lawsuit claiming that municipal enacted red-light camera traffic violations were unlawful. The ruling relates to fines based on cameras installed before the State Legislature authorized them in July 2010. The City of North Miami is named as a defendant in similar lawsuits, along with American Traffic Solutions, the supplier of the camera equipment and related maintenance. The ruling did not order an ultimate refund of fines collected by the City and the dispute over the mechanism is expected to continue. We estimate that the potential loss ranges between \$200,000 to \$1.2 million. Accordingly, the City has recorded a potential liability at the government-wide level financial statements of approximately \$295,000 related to this matter.

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NOTE 15. CONTINGENCIES (Continued)

- The City is a defendant in several other lawsuits as of September 30, 2017, incidental to its operations, the outcomes of which are uncertain at this time. However, in the opinion of management and legal counsel, the ultimate outcome of such actions will not have a material adverse effect on the financial condition or operations of the City.

Grantor Agencies

Federal and state programs in which the City participates were audited in accordance with the provisions of the U.S. Office of Management and Budget Uniform Guidance and the State of Florida Single Audit Act. Pursuant to those provisions, financial assistance programs were tested for compliance with applicable grant requirements. Grantor agencies may subject grant programs to additional compliance tests, which could result in disallowed expenditures. In the opinion of management, future disallowances, if any, of grant program expenditures would not have a material adverse effect on the financial condition or operations of the City.

NOTE 16. SPECIAL ITEM

The North Miami Community Redevelopment Agency (a component unit of the City) had a long outstanding liability payable to the City dating back to fiscal year 2014, relating to expenditures incurred by the City on its behalf. The City forgave the total liability of \$317,965 in fiscal year 2017. The transaction meets the accounting criteria for classification as “special item” and is reported as such in the fund financial statements.