RETIREMENT PLAN FOR THE EMPLOYEES OF THE TOWN OF SURFSIDE

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

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INDEPENDENT AUDITORS' REPORT

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Pension Board and Plan Administrator
Retirement Plan for Employees of the Town of Surfside

Report on the Financial Statements

We have audited the accompanying financial statements of the Retirement Plan for Employees of the Town of Surfside (the Plan), which comprise the statement of fiduciary net position as of September 30, 2017, and the related statement of changes in fiduciary net position for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

MARCUMGROUP
MEMBER

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the Plan, as of September 30, 2017, and the respective changes in fiduciary net position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

We have previously audited the Plan's 2016 financial statements, and our report dated June 30, 2017, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended September 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of changes in the Town's net pension liability and related ratios, Town's contributions, and investment returns on pages 4 to 7 and 26 to 28, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of administrative and investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Marcum LLP

Miami, FL
June 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Retirement Plan for Employees of the Town of Surfside (the Plan) provides an overview of the financial activities and funding conditions for the fiscal years ended September 30, 2017 and 2016. Please review this discussion and analysis in conjunction with the financial statements and the notes to the financial statements which follow this discussion.

OVERVIEW OF FINANCIAL STATEMENTS

Financial Statements

The Plan presents select comparative financial information as of and for the fiscal years ended September 30, 2017 and 2016. The financial statements are prepared using the accrual basis of accounting in accordance with the Governmental Accounting Standards Board (GASB) pronouncements. The two financial statements are the statement of fiduciary net position and the statement of changes in fiduciary net position.

The statement of fiduciary net position presents information on all of the Plan's assets and liabilities with the difference between the two reported as net position restricted for pension benefits. This represents the value of net position held in trust to pay pension benefits. The Plan did not have any deferred outflows or inflows as of September 30, 2017 or 2016.

By contrast, the statement of changes in fiduciary net position presents information showing how the Plan's net position changed, on a comparative basis, with additions (revenues) and deductions (expenses) for the fiscal year.

Notes to Financial Statements

The notes to financial statements are an integral part of the financial statements and provide additional information and schedules that are essential for a full understanding of the Plan provided in the financial statements. Among other things, information in the notes discloses the method used to value investments, a general description of the Plan, contribution information and investment information.

Required Supplementary Information

Because of the long-term nature of a defined benefit plan, the Plan provides three required schedules of historical trends based on the actuarial valuations performed by the Plan's actuary and analysis of investment returns by the Plan's investment consultant.

Other Supplementary Information

Other schedules provided are the schedules of administrative and investment expenses (supplementary information) incurred by the Plan.

FINANCIAL HIGHLIGHTS

The Plan's fiduciary net position restricted for pension benefits held in trust increased by $2,541,150 from $18,751,451 for the fiscal year ended September 30, 2016, to $21,292,601 for the fiscal year ended September 30, 2017, (an increase of 13.6% over the prior year) as a result of the current year's activities.

The required contribution from the Town for the fiscal year ended September 30, 2017, increased by $40,055 to $797,359, an increase of approximately 5.3% based on the annual required contribution delineated in the October 1, 2015, actuarial valuation.

The Plan's investments had net investment income for the fiscal year ended September 30, 2017, of $2,017,750 compared with the net investment income of $1,850,415 for the fiscal year ended September 30, 2016, an increase of $167,335, or 9%, due to continued positive market conditions and additional amounts invested in 2017 over 2016.

Benefit payments for the fiscal year ended September 30, 2017, were $572,055, a decrease of $(12,663) or (2.2%) from the fiscal year ended September 30, 2016.

FINANCIAL ANALYSIS

The total fund investment performance for the investments under management for the fiscal years ended 2017 and 2016 was 10.61% and 11.08% respectively. The actuarial assumed investment rate of return was unchanged at 7.25%.

PLAN NET POSITION

The table below shows a comparative summary of Fiduciary Net Position:

	September 30,		Increase (Decrease) 2016 to 2017	
	2017	2016	Amount	Percent
Investments	$ 21,278,611	$ 18,762,815	$ 2,515,796	13.4%
Other assets	91,156	101,072	(9,916)	-9.8%
Total Assets	21,369,767	18,863,887	2,505,880	13.3%
Total Liabilities	77,166	112,436	(35,270)	-31.4%
Net Position Restricted for Pension Benefits	$ 21,292,601	$ 18,751,451	$ 2,541,150	13.6%

Plan liabilities increased primarily as a result of special consulting services required for an Experience Study and Actuarial Impact Statements for amending the pension Ordinance.

CHANGES IN PLAN NET POSITION

The table below shows a comparative summary of the changes in the fiduciary net position and reflects the activities of the Plan.

	2017	2016	Increase (Decrease) 2016 to 2017 Amount	Increase (Decrease) 2016 to 2017 Percent
Employer contributions	$ 797,359	$ 757,304	$ 40,055	5.3%
Member contributions	462,846	383,619	79,227	20.7%
Net investment income	2,017,750	1,850,415	167,335	9.0%
Total Additions	$ 3,277,955	$ 2,991,338	$ 286,617	9.6%

	2017	2016	Increase (Decrease) 2016 to 2017 Amount	Increase (Decrease) 2016 to 2017 Percent
Benefit payments	$ 572,055	$ 584,718	$ (12,663)	-2.2%
Refund of contributions	79,232	17,972	61,260	340.9%
Administrative expenses	85,518	130,686	(45,168)	-34.6%
Total Deductions	$ 736,805	$ 733,376	$ 3,429	0.5%

Administrative expenses increased primarily as a result of special consulting services required for an Experience Study and Actuarial Impact Statements for amending the pension Ordinance.

Refunds of contributions increased due to more employees terminating or leaving during fiscal year 2017.

PLAN MEMBERSHIP

The table below reflects the Plan membership as of the actuarial valuation dates noted below:

CHANGES IN PLAN MEMBERSHIP

	October 1, 2017	October 1, 2016	Change
Current Employees			
Inactive plan members and beneficiaries currently receiving benefits	37	35	2
Inactive plan members entitled but not yet receiving benefits	5	5	--
Active plan members	87	89	(2)
Total	129	129	--

FUNDING PROGRESS

Of primary concern to most Plan participants is the amount of money available to pay benefits. Historically, defined benefit pension plans have been underfunded when the employer failed to make annual actuarially required contributions to the Plan. The Town has traditionally contributed the annual required contribution as determined by the Plan's Actuary, as required by state law.

ASSET ALLOCATION

The following table indicates the asset allocations at fair value as of September 30, 2017 and 2016.

	September 30,			
	2017		2016	
Money market funds	$ 504,118	2.4%	$ 345,158	1.8%
Certificate of deposits	300,984	1.4%	397,529	2.1%
U.S. Treasury securities	203,499	1.0%	285,384	1.5%
U.S. Government agency bonds	502,984	2.4%	592,439	3.2%
Municipal obligations	805,974	3.8%	117,639	0.6%
Corporate bonds	2,693,039	12.7%	3,680,385	19.6%
Mortgage backed securities	320,760	1.5%	316,351	1.7%
Equities				
Common stock, ADR's, and EFT's	8,180,226	38.4%	9,846,158	52.5%
Mutual funds	5,656,847	26.6%	1,484,142	7.9%
Real estate investment trusts	136,323	0.6%	48,077	0.3%
Master limited partnerships	645,958	3.0%	653,545	3.5%
Core real estate fund	1,327,899	6.2%	996,008	5.3%
Total Investment Assets	$ 21,278,611	100.0%	$ 18,762,815	100.0%

INVESTMENT ACTIVITIES

Investment income is vital to the Plan's continued financial stability. Therefore, the Board of Trustees have a fiduciary responsibility to act prudently and discretely when making Plan investment decisions. To assist the Board in this area, a comprehensive formal Investment Policy is reviewed periodically. The last amendment to the Investment Policy was on September 12, 2014.

The Board reviews portfolio performance quarterly. Performance is evaluated and monitored by an independent investment consultant as to manager style, collectively by investment type, and for the aggregate portfolio. Investment types include domestic and international equities and fixed income obligations.

CONTACTING THE PLAN'S FINANCIAL MANAGEMENT

The financial report is designed to provide residents, taxpayers, Plan participants, and other interested parties with an overview of the Plan's finances and the prudent exercise of the Board's oversight. If you have any questions regarding this report or need additional financial information, please contact the Pension Plan Administrator, 9293 Harding Avenue, Surfside, Florida 33154.

FINANCIAL STATEMENTS

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

STATEMENT OF FIDUCIARY NET POSITION

SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS AS OF SEPTEMBER 30, 2016)

	2017	2016
Assets		
Total Investments	$ 21,278,611	$ 18,762,815
Receivables		
Accrued interest and dividends	40,089	55,454
Employee contributions	26,807	22,146
Other receivables	21,972	21,972
Total Receivables	88,868	99,572
Prepaid Expenses	2,288	1,500
Total Assets	21,369,767	18,863,887
Liabilities		
Accounts payable	27,646	80,555
Refunds due to members	49,520	31,881
Total Liabilities	77,166	112,436
Net Position Restricted for Pension Benefits	$ 21,292,601	$ 18,751,451

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

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017
(WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED SEPTEMBER 30, 2016)

	2017	2016
Additions		
Contributions		
Plan members	$ 462,846	$ 383,619
Town	797,359	757,304
	1,260,205	1,140,923
Investment Income		
Net appreciation in fair value of investments	1,657,511	1,482,313
Interest and dividends	462,340	458,616
	2,119,851	1,940,929
Less investment expenses	(102,101)	(90,514)
Net Investment Income	2,017,750	1,850,415
Total Additions	3,277,955	2,991,338
Deductions		
Benefit payments	572,055	584,718
Refunds of contributions	79,232	17,972
Administrative expenses	85,518	130,686
Total Deductions	736,805	733,376
Change in Net Position	2,541,150	2,257,962
Net Position Restricted for Pension Benefits		
Beginning	18,751,451	16,493,489
Ending	$ 21,292,601	$ 18,751,451

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying financial statements of the Retirement Plan for Employees of the Town of Surfside (the Plan) are prepared using the economic resources measurement focus and accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

METHOD USED TO VALUE INVESTMENTS AND INVESTMENT INCOME RECOGNITION

Investments are reported at fair value with the exception of money market funds which are at amortized cost. Net appreciation (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 basis. Interest and dividends are recorded as earned on the accrual basis. For more detail regarding the methods used to measure the fair value of investments refer to the fair value hierarchy in Note 3.

Within certain limitations as specified in the Plan, the investment policy is determined by the pension Board of Trustees (the Board) and is implemented by its investment manager.

CONTRIBUTION REFUNDS

The defined benefit plan is contributory and employee contributions are one hundred percent refundable with interest at the rate of four percent per annum to terminated non-vested participants as well as vested former participants who elect to forfeit all rights to any benefits of the Plan.

NET POSITION RESTRICTED FOR PENSION BENEFITS

The net position restricted for pension benefits is the difference between the total plan assets and the total plan liabilities, and is held in trust for pension benefits.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PLAN EXPENSES

In accordance with the provisions of the Plan, investment and administrative expenses of the Plan may be paid either by the Town or the Plan. The established policy is that the Plan pays all of the investment and administration expenses of the Plan as well as the actuarial fees for annual actuarial valuations. It has been the Town's policy to pay the fees for any additional actuarial services provided.

USE OF ESTIMATES

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

COMPARATIVE INFORMATION

The financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Plan's financial statements for the fiscal year ended September 30, 2016, from which the comparative information was derived. Certain amounts in the 2016 columns have been reclassified to conform to September 30, 2017 financial statement presentation.

NOTE 2 – PLAN DESCRIPTION

PLAN DESCRIPTION

The Retirement Plan was established by a Town Ordinance approved by the Commissioners and effective January 1, 1962. The Plan is subject to certain provisions of Chapter 112, Florida Statutes. The benefit provisions, amendments thereto, and all other requirements are established by Town Ordinance. Participants should refer to the Plan document for more complete information.

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

The Retirement Plan is a contributory defined benefit single-employer retirement plan covering substantially all employees of the Town of Surfside. To be eligible to participate in the Plan you must be a police officer or other employee and be a regular full-time employee whose customary employment is for 32 hours or more per week, and for six (6) months or more of the year. During 2011, the Town passed Ordinance 11-1580, which grants the right to Charter Officers to opt out of the Plan at any time. The administration of the Plan is under the responsibility of a five-member pension Board, which is subject to the ultimate authority of the Town Commission.

The Plan is administered by a pension Board comprised of:

a. Two Town Commissioner Appointees
b. One police officer elected by a majority of police officers
c. A general employee elected by his or her fellow general employees
d. The Town Manager (a permanent member of the Board)

Membership consisted of the following as of October 1, 2016, the date of the latest actuarial valuation:

Inactive plan members and beneficiaries currently receiving benefits	35
Inactive plan members entitled but not yet receiving benefits	5
Active plan members	89
Total members	129

CONTRIBUTIONS AND FUNDING POLICY

Funding of the Plan is provided by contributions from the Town and the employees. The Town's funding policy provides for annual actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due.

Prior to September 30, 2016, with the exception of one general employee who contributed 5%, the general employees were required to contribute 6% of their covered compensation; police officers were required to contribute 8%.

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

CONTRIBUTIONS AND FUNDING POLICY (CONTINUED)

Effective October 1, 2016, the employee contribution for general employees and senior management increased to 8%. The employee previously contributing 5% of their covered compensation is now required to contribute 7%. Police officers continue to contribute 8%.

BENEFITS PROVIDED

The Plan provides normal retirement, early retirement, delayed retirement, disability retirement, death benefits and termination benefits. The Plan considers creditable service and average final compensation as part of the benefit calculation.

Creditable Service
All service of a Plan member measured in years and completed months since latest date of hire with the Town.

Average Final Compensation (AFC)
The average of basic compensation during the highest three years (five years for general employees) of the ten years preceding termination of employment; does not include bonuses, overtime, lump sum payments of unused leave or other nonregular compensation.

Normal Retirement
Eligibility – For sworn police officers, the earliest of (1) age 52 with 20 years of creditable service, (2) age 62 with 5 years of creditable service, (3) completion of 25 years of creditable service or (4) the completion of 15 years and 4 months of service if hired on a full time basis in March 2003. For the Town Manager and Attorney, age 64 with 7 years of creditable service. For all other employees, the earlier of (1) age 62 with 15 years of creditable service or (2) age 65 with 10 years of creditable service.

	Benefit Accrual Rate per Year of Service Based on Employee Contribution Rate of			
Period of Service	5%	6%	7%	8%
Before 10/1/1979	1 2/3%	N/A	N/A	N/A
10/1/1979 - 6/30/1996	1 2/3%	N/A	2%	N/A
7/1/1996 - 1/31/2003	1 2/3%	N/A	2%	2.5%
2/1/2003 - 9/30/2005	2%	2.5%	N/A	N/A
10/1/2005 - 9/30/2006	2%	2.5%	N/A	3%*
10/1/2006 - 9/30/2016	2%	2.5%	N/A	3.5%*
After 10/1/16	N/A	N/A	2.65%	3.5%**

* For police officers only.

** 3.5% for police officers, 3.0% for Senior Management and 2.8% for general employees

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

BENEFITS PROVIDED (CONTINUED)

Normal Retirement (continued)
Effective October 1, 2016, the maximum benefit is 90% of AFC (68% of AFC for general employees and 80% of AFC for Senior Management).

Early Retirement
Eligibility – The earlier of (a) age 55 with creditable service regardless of age.

Benefit – 15 years of creditable service, or (b) 20 years of creditable service as normal retirement benefit using AFC and creditable service as of early retirement date but payable at normal retirement date assuming continued employment. Alternatively, benefits may commence immediately after reduction of 0.5% for each month early retired.

Delayed Retirement
Eligibility – Retirement after normal retirement date.

Benefit – Calculated in the same manner as normal retirement benefit using AFC and creditable service as of delayed retirement date.

Disability Retirement

1. Service Connected:
   a) Eligibility – Total and permanent disability incurred prior to normal retirement date as a direct result of performance of service to the Town and eligible for social security disability benefits.
   b) Benefit – 75% (if injury) or 45% (if disease) of the rate of pay in effect on date of disability payable for life or until recovery. For general employees, less social security disability benefits; there is an offset for workers' compensation to the extent that the disability benefit plus the workers' compensation benefit exceed 100% of pre-retirement salary.

2. Non-Service Connected:
   a) Eligibility – Total and permanent disability not incurred as a direct result of performance of service to the Town.
   b) Benefit – Accrued pension benefit.

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

BENEFITS PROVIDED (CONTINUED)

Death Benefit

1. Pre-Retirement – Refund of accumulated contributions.
2. After normal retirement date but before actual retirement – Survivor benefit payable in accordance with optional form of benefit chosen by member.
3. After Retirement – Refund of any remaining accumulated contributions or optional survivor's benefits if elected.

Termination Benefit

Upon termination prior to normal or early retirement date a member shall be entitled to choose (1) or (2) below, where:

1. A refund of accumulated contributions.
2. The benefit as for normal retirement using AFC and creditable service as of date of termination multiplied by the applicable percentage, commencing upon the earliest date a member would have attained normal retirement had the member remained in service (age 65 for general employees).

Cost-of-Living Adjustment

Beginning January 1, 2004 and each January 1 thereafter, a 1.5% automatic annual cost of living increase is provided for all current and future retirees, disableds, beneficiaries and vested terminated members.

INVESTMENT POLICY

The following was the Board's adopted asset allocation policy target allocation during the fiscal year ended September 30, 2017:

Asset Class	Target Allocation
Domestic Equity	52%
International Equity	10
Fixed Income	25
Real Estate	10
Cash	3
Total	100%

NOTE 2 – PLAN DESCRIPTION (CONTINUED)

INVESTMENT POLICY (CONTINUED)

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on Plan investments, net of pension plan investment expense, was 10.87%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Inputs to the dollar-weighted rate of return calculation are determined on a monthly basis.

DEFERRED RETIREMENT OPTION PROGRAM

Police Officers

The Town maintains a Deferred Retirement Option Program (DROP) initially for police officers and dispatchers only. The eligibility requirement is attainment of normal retirement date. The maximum period of participation in the DROP is five years. A police officer's account shall be credited with interest based upon the actual fund investment return. No payments may be made from the DROP until the employee actually separates from service with the Town. One (1) police officer is currently participating in the DROP program as of September 30, 2017.

General Employees

Effective August 13, 2013, the Town Commission passed an Ordinance, which amended the Deferred Retirement Option Program (DROP) to include all members of the Plan who reach the earliest normal retirement age whereby such member shall be eligible to participate in the DROP plan. The maximum period of participation in the DROP is sixty months. Two (2) general employees are currently participating in the DROP as of September 30, 2017.

As of September 30, 2017 and 2016, the combined balance in the DROP account was $353,607 and $247,828, respectively. These amounts are included in the total investment balance presented on the statement of fiduciary net position.

NOTE 3 – INVESTMENTS

The investment activity of the Plan is directed by an investment consultant. All investments made or held by the Plan shall be limited to the following, as per the Plan's investment policy:

1. Cash equivalents.

2. Obligations issued by the United States Government or obligations guaranteed as to principal and interest by the United States Government or by an agency of the United States Government.

3. Bonds issued by the State of Israel. Foreign equity investments shall not exceed 10% of the Plan assets.

4. Bonds or other evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state, organized territory of the United States, or District of Columbia provided the corporation is listed on the recognized national stock exchanges or on the National Market System of the NASDAQ stock market, the issuer has an investment quality rating within the top three rating classifications by at least two major services (Standard and Poor's, Moody's or Fitch). Up to 10% of the bond portfolio may be invested in the fourth rating classification (by two of the above rating services).

5. Equity investments (common stock, convertible bonds and preferred stocks) in a corporation listed on one or more of the recognized national exchanges or on the National Market System of the NASDAQ stock market and ETF exchange-traded funds.

6. Commingled equity, bond, real estate, or money market funds whose investments are restricted to securities meeting the criteria of this section. Investments in equities are not to exceed 70% of the Plan assets at market, and no more than 5% at cost of the equities may be invested in a single company.

7. Master Limited Partnerships.

NOTE 3 – INVESTMENTS (CONTINUED)

Investments held in trust for Plan benefits consisted of the following as of September 30:

	2017	2016
Investments		
Money market funds	$ 504,118	$ 345,158
Certificates of deposit	300,984	397,529
U.S. Treasury securities	203,499	285,384
U.S. Government agency bonds	502,984	592,439
Municipal obligations	805,974	117,639
Corporate bonds	2,693,039	3,680,385
Mortgage backed securities	320,760	316,351
Equities		
Common stock and American depositary receipts and exchange traded funds	8,180,226	9,846,158
Mutual funds	5,656,847	1,484,142
Real estate investment trusts	136,323	48,077
Master limited partnerships	645,958	653,545
Core real estate fund	1,327,899	996,008
Total	$ 21,278,611	$ 18,762,815

INTEREST RATE RISK

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. In accordance with its investment policy, the Plan manages its exposure to declines in the fair value of its securities through a conservative approach of managing portfolio exposure to duration, maturity and sector relative to market indices.

As of September 30, 2017 and 2016, the Plan had the following investments and maturities subject to interest rate risk:

	Fair Value		Sector Distribution	
Investment Type	2017	2016	2017	2016
Corporate bonds	$ 2,693,039	$ 3,680,385	59.5%	73.7%
U.S. Government agency bonds	502,984	592,439	11.1%	11.9%
U.S. Treasury securities	203,499	285,384	4.5%	5.7%
Mortgage backed securities	320,760	316,351	7.1%	6.3%
Municipal obligations	805,974	117,639	17.8%	2.4%
Total Fair Value	$ 4,526,256	$ 4,992,198	100.0%	100.0%

NOTE 3 – INVESTMENTS (CONTINUED)

INTEREST RATE RISK (CONTINUED)

Maturity Distribution		
Years	% of Fixed Income Securities 2017	% of Fixed Income Securities 2016
0-1	2.0%	2.0%
1-5	34.7%	52.5%
5-10	26.6%	29.3%
10+	36.7%	16.2%
	100.0%	100.0%

Credit Quality Distribution		
Rating	% of Fixed Income Securities 2017	% of Fixed Income Securities 2016
AAA	2.0%	2.0%
AA	46.9%	44.4%
A	36.8%	38.4%
BBB	12.3%	10.1%
Not Rated	2.0%	5.1%
	100.0%	100.0%

CUSTODIAL CREDIT RISK

Custodial credit risk is defined as the risk that the Plan may not recover cash and investments held by another party in the event of financial failure. Custodial credit risk is limited since investments are held in independent custodial safekeeping accounts in the name of the Plan.

CREDIT RISK

State law limits investments in commercial paper to the two top ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Plan's policy to limit its investments in this investment type to the top two ratings issued by NRSROs. The Investment Policy of the Plan states it is permitted to invest in corporate bonds with an investment quality rating with the top three rating classifications by at least two major rating services (Standard & Poor’s (S&P), Moody's or Fitch) and up to 10% of the bond portfolio may be invested in the 4th rating classification (by two of the noted rating services). The corporate bonds held by the Plan met the rating classifications and ranged from BBB to AAA under S&P and from BAA1 to A1 under Moody’s. The mortgage backed securities were rated AA+ and Aaa by S&P and Moody's, respectively. U.S. Government Agency obligations or obligations guaranteed by an agency of the U.S. Government are not subject to credit risk.

NOTE 3 – INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK

The Plan’s investment policy does not allow for an investment in any one issuer, other than U.S. Government securities, that is in excess of five percent (5%) of the Plan’s total investments. No investment in any one organization represents five percent (5%) or more of the fiduciary net position restricted for pension benefits.

RISKS AND UNCERTAINTIES

The Plan has investments in a combination of stocks, bonds, government securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect balances and the amounts reported in the statement of fiduciary net position and the statement of changes in fiduciary net position. The Plan, through its investment consultant, monitors the Plan’s investments and the risks associated therewith on a regular basis, which the Plan believes minimizes these risks.

FAIR VALUE HIERARCHY

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

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

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

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

NOTE 3 – INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

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

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. This includes domestic and foreign common stock, American depository receipts (ADR), and exchange traded funds (ETF).

Debt securities classified in Level 2 of the fair value hierarchy 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. Treasury and Government Agency bonds, corporate bonds, municipal bonds and mortgage backed securities.

The following is a summary of the fair value hierarchy of investments as of September 30, 2017:

		Fair Value Measurements Using		
	9/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities				
U.S. Treasury securities	$ 203,499	$ --	$ 203,499	$ --
Corporate bonds	2,693,039	--	2,693,039	--
Municipal obligations	805,974	--	805,974	--
Mortgage backed securities	320,760	--	320,760	--
U.S. Government agency bonds	502,984	--	502,984	--
Total debt securities	4,526,256	--	4,526,256	--
Equity securities				
Common stock, ADR's, and ETF's	8,180,226	8,180,226	--	--
Mutual funds	5,656,847	5,656,847		
Real Estate Investment Trusts	136,323	136,323	--	--
Total equity securities	13,973,396	13,973,396	--	--
Total investments at fair value	18,499,652	$ 13,973,396	$ 4,526,256	$ --
Investments Measured at Net Asset Value (NAV)*				
Core real estate fund	1,327,899			
Master limited partnerships	645,958			
Total investments measured at NAV	1,973,857			
Money market funds (exempt)	504,118			
Certificates of deposit (exempt)	300,984			
Total investments	$ 21,278,611			

NOTE 3 – INVESTMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

* Certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investment line item in the Statement of Fiduciary Net Position.

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

Investments Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Core Real Estate Fund [1]	$ 1,327,899	$ --	Quarterly	N/A
Master limited partnerships [2]	$ 645,958	$ --	3 Day Notice	N/A

(1) *Core real estate fund*. This fund is an open-end core real estate fund with a diversified portfolio of income producing institutional properties throughout the U.S. This investment is valued at NAV and is redeemable on a quarterly basis.

(2) *Master limited partnerships*. This fund invests primarily in master limited partnerships as well as domestic common stocks or similar equity securities of high quality, financially secure companies listed on principal exchanges. This investment is valued at NAV and is redeemable with 3 day notice.

NOTE 4 – TAX STATUS

The Board believes that the Plan is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

NOTE 5 – NET PENSION LIABILITY OF THE TOWN

The components of the Town's net pension liability at September 30, 2017:

Total pension liability	$ 23,887,133
Plan fiduciary net position	(21,292,601)
Net Pension Liability	$ 2,594,532
Plan fiduciary net position as a percentage of the total pension liability	89.14%

SIGNIFICANT ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of October 1, 2016 rolled forward to September 30, 2017 using the following actuarial assumptions applied to all measurement periods.

Inflation	2.50%
Investment rate of return	7.25%

RP 2000 Annuitant Combined Healthy – Sex Distinct. For disabled participants, the RP 2000 Combined Disabled Mortality Table was used with separate rates for males and females with fully generational mortality improvements projected to each future decrement date with Scale BB.

NOTE 5 – NET PENSION LIABILITY OF THE TOWN (CONTINUED)

LONG-TERM EXPECTED RATE OF RETURN

The long-term expected rate of return on Plan investments was determined based upon the historical average (means returns) which best-estimate ranges of expected future real rates of return. In order to determine the real rates of return, it is necessary to subtract the expected inflation rate from the nominal investment return and investment expenses. The long-term expected rate of return for the Plan was calculated by weighting the expected future rates of return of each asset class by the corresponding target allocation percentages. Best estimates of real rates of return for each major asset class included in the Plan's target asset allocation as of September 30, 2017 is summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	7.10%
International Equity	2.80%
Fixed Income	3.90%
Real Estate	5.70%
Cash	0.70%

DISCOUNT RATE

The discount rate for September 30, 2017 used to measure the total pension liability was 7.25%. This discount rate was based on the expected rate of return on Plan investments for September 31, 2017 and 2016 and was of 7.25% and 7.25%, respectively. The projection of cash flow used to determine this discount rate assumed that Plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability of the Town.

NOTE 5 – NET PENSION LIABILITY OF THE TOWN (CONTINUED)

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

The following presents the Town's net pension liability of the Plan sponsor for September 30, 2017, calculated using the following discount rates below:

	Net Pension Liability (Asset) September 30, 2017		
	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability (Asset)	$ 6,100,796	$ 2,594,532	$ (259,577)

REQUIRED SUPPLEMENTARY INFORMATION

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

REQUIRED SUPPLEMENTARY INFORMATION

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

Measurement Date, September 30,	2017	2016	2015	2014
Total Pension Liability				
Service cost	$ 1,052,014	$ 932,365	$ 901,998	$ 888,988
Interest	1,646,114	1,458,652	1,336,817	1,227,596
Benefit changes	282,066	--	--	35,244
Difference between actual and expected experience	297,252	(35,527)	100,031	170,264
Changes of assumptions	93,312	402,653	--	--
Benefit payments, including refunds of member contributions	(651,287)	(602,692)	(665,019)	(545,746)
Net Change in Total Pension Liability	2,719,471	2,155,451	1,673,827	1,776,346
Total Pension Liability - Beginning	21,167,662	19,012,211	17,338,384	15,562,038
Total Pension Liability - Ending (a)	$ 23,887,133	$ 21,167,662	$ 19,012,211	$ 17,338,384
Plan Fiduciary Net Position				
Contributions - Town	$ 797,359	$ 757,304	$ 727,022	$ 631,584
Contributions - Members	462,846	383,619	387,678	349,600
Net investment income	2,017,750	1,850,415	(128,796)	1,396,431
Benefit payments, including refunds of member contributions	(651,287)	(602,690)	(665,019)	(545,746)
Administrative expense	(85,518)	(130,686)	(85,426)	(80,194)
Net Change in Plan Fiduciary Net Position	2,541,150	2,257,962	235,459	1,751,675
Plan Fiduciary Net Position - Beginning	18,751,451	16,493,489	16,258,030	14,506,355
Plan Fiduciary Net Position - Ending (b)	$ 21,292,601	$ 18,751,451	$ 16,493,489	$ 16,258,030
Net Pension Liability - Ending (a) - (b)	$ 2,594,532	$ 2,416,211	$ 2,518,722	$ 1,080,354
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.14%	88.59%	86.75%	93.77%
Covered Employee Payroll	$ 5,766,823	$ 5,710,172	$ 5,321,296	$ 5,305,109
Net Pension Liability as a Percentage of Covered-Employee Payroll	44.99%	42.31%	47.33%	20.36%

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

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF TOWN CONTRIBUTIONS LAST 10 FISCAL YEARS

Fiscal Year End 9/30	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2008	$ 384,905	$ 384,416	$ 489	$ 3,978,291	9.66%
2009	423,747	423,747	--	4,568,544	9.28%
2010	553,919	553,919	--	4,059,522	13.64%
2011	625,963	625,963	--	4,016,852	15.58%
2012	515,440	515,440	--	4,053,208	12.72%
2013	534,209	534,209	--	4,359,957	12.25%
2014	631,584	631,584	--	5,305,109	11.91%
2015	727,022	727,022	--	5,321,296	13.66%
2016	757,304	757,304	--	5,710,172	13.26%
2017	797,359	797,359	--	5,766,823	13.83%

Notes to the schedule
Actuarially determined contribution rates are calculated as of October 1, two years prior to the end of the fiscal year in which contributions are reported.

Significant methods and assumptions based on the October 1, 2015 actuarial valuation were used to determine contribution rates for fiscal year end September 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed
Asset valuation method	5 year smoothed market
Salary increases	4.0% - 8.0%
Inflation	2.5%
Cost of living adjustments	1.5%
Investment rate of return	7.25%

Mortality rates were based on the RP 2000 Annuitant Combined Healthy – Sex Distinct. For disabled participants, the RP 2000 Combined Disabled Mortality Table was used with separate rates for males and females with fully generational mortality improvements projected to each future decrement date with Scale BB.

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

September 30,	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	10.87%	11.30%	-0.30%	9.80%

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

SUPPLEMENTARY INFORMATION

RETIREMENT PLAN FOR EMPLOYEES OF THE TOWN OF SURFSIDE

SCHEDULES OF ADMINISTRATIVE AND INVESTMENT EXPENSES

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017 (WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016)

	2017	2016
Administrative Expenses		
Professional Services		
Actuarial	$ 18,443	$ 83,829
Attorney	17,046	15,050
Auditing services	15,500	2,726
Memberships	600	--
Secretarial and other	16,537	7,058
Plan Administrator	12,814	16,673
Total Professional Services	80,940	125,336
Insurance Expense		
Fiduciary liability insurance	4,578	5,350
Total Administrative Expenses	$ 85,518	$ 130,686
Investment Expenses		
Investment Manager		
Highland Capital Management	$ 37,700	$ 33,148
New Tower Trust	10,694	8,402
Westwood Trust	6,328	4,083
Total Investment Manager fees	54,722	45,633
Investment Consultant Fees		
Burgess Chambers	25,000	25,000
Custodian Fees		
SunTrust Bank	22,379	19,881
Total Investment Expenses	$ 102,101	$ 90,514

REPORTING SECTION

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

To the Pension Board and the Plan Administrator
Retirement Plan for Employees of the Town of Surfside

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Retirement Plan for Employees of the Town of Surfside (the Plan), as of and for the fiscal year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

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

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

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

MARCUMGROUP
MEMBER

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Marcum LLP

Miami, FL
June 18, 2018