

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND**

TYLER, TEXAS

FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
DECEMBER 31, 2015 AND 2014**

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HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Tyler Firemen's Relief and Retirement Fund

Report on the Financial Statements

We have audited the accompanying financial statements of the Tyler Firemen's Relief and Retirement Fund (Plan) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Plan is considered part of the City of Tyler's (City) financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a Pension Trust Fund. 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Plan as of December 31, 2015 and 2014, and changes in Plan net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Henry + Peters, P.C.

Tyler, Texas
July 28, 2016

**TYLER FIREMEN'S RELIEF
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MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
DECEMBER 31, 2015**

The Management's Discussion and Analysis (MD&A) of the Tyler Firemen's Relief and Retirement Fund (Plan) for the year ended December 31, 2015 provides a summary of the financial position and performance of the Plan, including highlights and comparisons. The MD&A is presented as a narrative overview and analysis. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Plan's basic financial statements, which include the following components:

- Fund financial statements
- Notes to financial statements
- Required supplementary information

Collectively, this information presents the net position and summarizes the changes in net position of the Plan as of December 31, 2015. The information available in each of these sections is briefly summarized below.

- **Fund Financial Statements.** The financial statements presented include Fiduciary Fund statements. Fiduciary Fund statements represent the financial position and activities of the Pension Trust Fund. A Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position are presented for the Pension Trust Fund as of December 31, 2015 and for the year then ended. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries.
- **Notes to Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below:
 - Note 1 provides a general description of the Plan, including membership and benefit provisions, as well as a description of its reporting entity.
 - Note 2 provides a summary of significant accounting policies, including the basis of presentation and accounting and explanations of investment fair value estimates.
 - Note 3 provides a general description of the contributions, including the funding policy.
 - Note 4 provides information on the Plan's investment portfolio and established investment policy. Also included is information pertaining to the investment credit risk of the portfolio, concentrations, and rate of return.
 - Note 5 provides the components of the net pension liability of the employer, and summarizes the actuarial assumptions and discount rate used.
 - Note 6 explains that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code.
 - Note 7 provides a description of the required supplementary information.
 - Note 8 explains that the Plan is exposed to various investment risks.
 - Note 9 explains that the Plan has evaluated subsequent events through the date on which the financial statements were available to be issued.

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- Required Supplementary Information. Required supplementary schedules include schedules and related notes concerning the annual fluctuations in the net pension liability of the Plan and employer contributions required of the City of Tyler (City) to the Plan. Also included are certain actuarial assumptions that have an effect on the net pension liability and required contributions.

Financial Highlights

Fiduciary Fund – Pension Trust Fund

The following table displays a summary of assets, net position and changes in net position for the Plan at December 31, 2015 with comparative data.

	2015	2014
Cash and receivables	\$ 1,430,779	\$ 1,082,989
Investments	58,512,776	63,265,125
Accrued income	5,851	14,435
Plan net position	<u>\$ 59,949,406</u>	<u>\$ 64,362,549</u>
Change in plan net position	<u>\$ (4,413,143)</u>	<u>\$ 2,866,924</u>

Additions to net position restricted for pension benefits include employer and member contributions as well as investment income. Such amounts were as follows in 2015 with comparative data.

	2015	2014
Employer contributions	\$ 2,452,070	\$ 2,407,993
Member contributions	1,555,182	1,522,493
Net investment (loss) income	(2,928,287)	2,381,038
Other income	36,473	22,752
Total additions	<u>\$ 1,115,438</u>	<u>\$ 6,334,276</u>

Plan membership totaled 261 at December 31, 2015. During 2015 the member and employer contribution rates were 13.50% and 21.31%, respectively.

Investment income includes appreciation and depreciation in fair value of investments, and interest and dividends, net of expenses. The change in investment income for 2015 was due in large part to fluctuations of the market and economic conditions and an increase in investment expenses.

Deductions from net position restricted for pension benefits include payments of retirement benefits and refunds, as well as administrative and other expenses. Such amounts are as follows for 2015 with comparative data.

	2015	2014
Benefits paid to members	\$ 5,498,546	\$ 3,413,612
Administrative & other expenses	30,035	53,740
Total deductions	<u>\$ 5,528,581</u>	<u>\$ 3,467,352</u>

**TYLER FIREMEN'S RELIEF
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Requests for Information

This financial report is designed to provide a general overview of the Tyler Firemen's Relief and Retirement Fund finances. Questions and requests for additional information should be addressed to the Fire Department Relief and Retirement Fund Board, 1710 W. Houston St., Tyler, TX 75702.

BASIC FINANCIAL STATEMENTS

**TYLER FIREMEN'S RELIEF
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STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,303,944	\$ 956,897
Receivables		
Employer contributions	76,987	77,177
Member contributions	49,848	48,915
Total receivables	126,835	126,092
Investments, at fair value		
Equity securities	4,189,219	13,598,616
Mutual funds	54,174,961	49,666,509
Alternative investments	148,596	-
Total investments	58,512,776	63,265,125
Accrued income	5,851	14,435
Total assets	59,949,406	64,362,549
 Net position - restricted for pension benefits	 \$ 59,949,406	 \$ 64,362,549

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ADDITIONS:		
Contributions		
Employer	\$ 2,452,070	\$ 2,407,993
Members	<u>1,555,182</u>	<u>1,522,493</u>
Total contributions	4,007,252	3,930,486
Investment income		
Net (depreciation) appreciation in fair value of investments	(3,936,444)	1,394,001
Interest and dividend income	1,172,576	1,142,808
Less: investment expense	<u>(164,419)</u>	<u>(155,771)</u>
Total investment (loss) income	(2,928,287)	2,381,038
Other income	<u>36,473</u>	<u>22,752</u>
Total additions	1,115,438	6,334,276
DEDUCTIONS:		
Benefits paid to members	5,498,546	3,413,612
Administrative expenses	<u>30,035</u>	<u>53,740</u>
Total deductions	<u>5,528,581</u>	<u>3,467,352</u>
Net (decrease) increase	(4,413,143)	2,866,924
Net position - restricted for pension benefits		
Beginning of year	<u>64,362,549</u>	<u>61,495,625</u>
End of year	<u>\$ 59,949,406</u>	<u>\$ 64,362,549</u>

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1: PLAN DESCRIPTION

BACKGROUND AND REPORTING ENTITY

The Tyler Firemen's Relief and Retirement Fund (Plan) was established pursuant to the Texas Local Firefighter's Retirement Act of 1937 (Act). The purpose of the Plan is to provide specific benefits to members at retirement or disability and to their beneficiaries in case of death.

The Plan is administered by a seven-member Board of Trustees (Board), which includes the mayor of the City of Tyler, Texas (City) or the mayor's designated representative, the City's Director of Finance/CFO or their designated representative, three active members of the Plan elected by participating members, and two citizens elected by the Board. The Board oversees the Plan and sets policies for its operation, including appointing management and directing investments.

The Plan is a single-employer defined benefit pension plan. The Plan is considered part of the City's financial reporting entity and is included in the City's Comprehensive Annual Financial Report as a Pension Trust Fund.

MEMBERSHIP

Firefighters in the Tyler Fire Department are covered by the Plan. The membership consisted of the following as of December 31:

	<u>2015</u>	<u>2014</u>
Inactive Plan members or beneficiaries currently receiving benefits	98	91
Inactive Plan members entitled to but not yet receiving benefits	-	1
Active Plan members	<u>163</u>	<u>155</u>
Total membership	<u><u>261</u></u>	<u><u>247</u></u>

BENEFIT PROVISIONS

The Plan provides service retirement, death, disability, and withdrawal benefits. These benefits fully vest after 20 years of credited service. Members become eligible for normal service retirement at age 50 with 25 years of service or age 55 with 20 years of service. If a terminated member has a vested benefit but is not eligible for normal retirement, he may elect an actuarially equivalent early retirement benefit or he may wait to retire starting on the date he would have first satisfied both age and service requirements for normal retirement if he had remained an active member. The plan provides a monthly normal service retirement benefit, payable in a Joint and Two-Thirds to Spouse form of annuity (except those who had 20 or more years of service as of January 1, 2005 have a normal form of a Joint and 100% to Spouse form), equal to 71.5% of the Highest 60-Month Average Salary plus \$113 for each year of service in excess of 20.

A retiring member eligible for normal service retirement with certain minimum combinations of years of service and age has the option to elect the Retroactive Deferred Retirement Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced monthly benefit.

**TYLER FIREMEN'S RELIEF
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NOTE 1: PLAN DESCRIPTION - CONTINUED

BENEFIT PROVISIONS - CONTINUED

The reduced monthly benefit is based on the service and Highest 60-Month Average Salary as if he had terminated employment on his selected RETRO DROP benefit calculation date, which is no earlier than the later of the date he meets the RETRO DROP eligibility requirements and the date preceding the date he actually retires by the maximum lump sum accumulation period (36 or 60 months, depending upon age and service). Upon retirement, the member will receive, in addition to his monthly retirement benefit, a lump sum equal to the sum of (1) the amount of monthly contributions the member has made to the fund after the RETRO DROP benefit calculation date plus (2) the total of the monthly retirement benefits the member would have received between the RETRO DROP benefit calculation date and the date he retired under the plan. There are no account balances. The lump sum is calculated at the time of retirement and distributed as soon as administratively possible.

There is no provision for automatic postretirement benefit increases. The Plan has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases. The benefit provisions of the Plan are authorized by the Act. The Act provides the authority and procedure to amend benefit provisions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND ACCOUNTING

The Plan financial statements are prepared in accordance with the standards of the Governmental Accounting Standards Board (GASB) for pension trust funds, with the financial activities recorded in a separate fund. The financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investment transactions are recorded as of the date a transaction is agreed upon, and investment income from interest and dividends is recorded when earned or declared. All other expenses are recognized when incurred.

ESTIMATES

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

INVESTMENTS

Investments are reported at fair value. The Plan determines the fair value of investments as follows:

- Debt and equity securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.
- Debt securities not traded on national or international exchanges are reported at estimated fair value based on equivalent values of comparable securities with similar yield and risk.
- Investments in open-ended mutual funds are based on the funds' current share price.
- Investments in partnerships or other alternative investments that are not traded on national or international exchanges are valued at the last reported share value.

Investment gains and losses arising from increases and decreases in the current market values from the beginning of the year to the end of the year, and investment gains and losses arising from the sale or maturity of investments are reported as a net appreciation (depreciation) in fair value of investments in the Statement of Changes in Fiduciary Net Position.

**TYLER FIREMEN'S RELIEF
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

ADMINISTRATIVE COSTS

Administrative costs are paid by the Plan. A percentage of actuarial and annual audit fees are reimbursed by the City and included in other income on the Statement of Changes in Fiduciary Net Position.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which improves the financial reporting of public employee pensions. This statement was implemented for the Plan year ending December 31, 2014 and the effects are detailed in Note 5 and in the Required Supplementary Information.

RECLASSIFICATION

Certain items in the 2014 financial statements have been reclassified in order to be consistent with the current year's presentation.

NOTE 3: CONTRIBUTIONS

The contribution provisions of the Plan are authorized by the Act. The Act provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each member and a percentage of payroll by the City.

The funding policy of the Plan requires contributions by the members at the rate elected by the members according to the Act. The City's contribution rate is based on the Texas Municipal Retirement System's formula. Contributions for the years ended December 31 were as follows:

	2015		2014	
	Amount	Percentage	Amount	Percentage
Employer	\$ 2,452,070	21.31%	\$ 2,407,993	21.31%
Members	1,555,182	13.50%	1,522,493	13.50%

The Plan's December 31, 2013 actuarial valuation assumes that the City's contribution rate will average 19.5% over the unfunded actuarial accrued liability (UAAL).

Ultimately the funding policy also depends upon the total return of the Plan's assets, which varies from year to year. See Note 4 for the money-weighted rate of return.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the Plan must first be approved by an eligible actuary. The actuary certifies that the contribution commitment by the members and the City provides an adequate financing arrangement.

Using the entry age actuarial cost method, the Plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's UAAL. The number of years needed to amortize the Plan's UAAL is actuarially determined using an open, level percentage of payroll method.

**TYLER FIREMEN'S RELIEF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 4: INVESTMENTS

INVESTMENT POLICY

The Board has established, and has the authority to amend, the following investment guidelines:

Equity Holdings

Type of Securities – Only individual equity securities, no-load domestic and international equity funds, alternative mutual funds, no-load equity and alter collective funds, and/or exchange traded funds are permitted. Individual equity securities shall mean domestic/international common stocks, etc. Individual alternative holdings shall mean funds that include Real Estate Investment Trusts and Commodity markets. No direct derivative type products may be used for equity or alternative holdings. Any use of a financial derivative must be in the structure of a fund. A financial derivative is a financial instrument, the value of which is based on the value or values of one or more underlying assets or indexes of assets.

Diversification – For equity holdings, a high level of diversification across industry and individual holdings will be maintained. The maximum exposure to any industry shall be 30% of the total portfolio's market value and the maximum exposure to an individual security shall be 5% of the portfolio's market value. For alternative holdings, a high level of diversification across all industries of the real estate and commodities market will be maintained through no-load mutual and collective funds and/or exchange traded funds. No individual direct exposure to alternatives can be used. Alternative holdings may not exceed 15% of the portfolio's market value.

Quality – Prudent standards of quality will be developed and maintained by the investment managers. Companies invested in should exhibit a strong financial position and have a record of profitable operating results. The trustees have a preference of high quality dividend paying securities. The stocks must have a quality rating of B+ or better as a group as measured by Standard & Poor's rating service.

Fixed Income Holdings

Type of Securities – Only fixed income securities of any U.S. or Global entity not otherwise prohibited, no-load mutual funds, collective funds, separately managed accounts or certificates of deposit with maturities greater than one year are permitted for the Plan's investment portfolio. No direct investment into financial derivative type products may be used. Any use of a financial derivative must be in the structure of a fund. A financial derivative is a financial instrument, the value of which is based on the value or values of one or more underlying assets or indexes of assets.

Diversification – Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 10% from any given issuer (valued at market). Also, with exception of U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 25% of any given industry or sector.

Maturities – At managers' discretion, a maximum of 20% of the fixed income portion of the portfolio may be invested in long-term maturities not to exceed 25 years; otherwise, maturities should be limited to 15 years or less, excluding convertibles. The average maturity of the fixed income portion of the portfolio must not exceed 10 years.

**TYLER FIREMEN'S RELIEF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 4: INVESTMENTS - CONTINUED

Cash Equivalents

Quality – The average quality rating of the fixed income portion of the portfolio should be A rated or better at the time of purchase. The total percentage of the fixed income portion of the portfolio rated less than A may not exceed 10%.

Type of Securities – Only debt securities of any U.S. entity not otherwise prohibited, U.S. government issues, no-load money market mutual funds, short-term investment funds or certificates of deposit with maturities of less than one year are permitted.

The Plan's investments at December 31, 2015 are summarized below:

	<u>Fair Value</u>
<u>Cash Equivalents</u>	
Money market funds	\$ 1,303,944
Total cash equivalents	<u>1,303,944</u>
<u>Equity Holdings</u>	
Equity securities	4,189,219
Mutual funds	54,174,961
Alternative investments	148,596
Total equity holdings	<u>58,512,776</u>
Total investments and cash equivalents	<u>\$ 59,816,720</u>

The Plan's investments at December 31, 2014 are summarized below:

<u>Cash Equivalents</u>	
Money market funds	\$ 956,897
Total cash equivalents	<u>956,897</u>
<u>Equity Holdings</u>	
Equity securities	13,598,616
Mutual funds	49,666,509
Total equity holdings	<u>63,265,125</u>
Total investments and cash equivalents	<u>\$ 64,222,022</u>

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 4: INVESTMENTS - CONTINUED

Credit Risk – Prudent standards of quality have been developed and are maintained by the investment manager. Equity holdings should exhibit a strong financial position and have a record of profitable operating results. The trustees have a preference of high quality dividend paying securities. The stocks must have a quality rating of B+ or better as a group as measured by Standard & Poor's rating service. The average quality rating of the fixed income portion of the portfolio should be A rated or better at time of purchase. The total percentage of the fixed income portion of the portfolio rated less than A may not exceed ten percent (10%).

Interest Rate Risk – In order to reduce or limit interest rate risk, a maximum of 20% of the fixed income portion of the portfolio may be invested in long-term maturities not to exceed 25 years; otherwise, maturities should be limited to 15 years or less, excluding convertibles. The average maturity of the fixed income portion of the portfolio must not exceed ten years. In addition, the Plan prohibits any derivative type products (i.e. options, futures, etc.).

Concentration of Credit Risk – The investment objectives of the Plan require a high level of diversification across industries and individual holdings. The maximum exposure to any industry is 30% of the total portfolio's market value and the maximum exposure to an individual security shall be 5% of the portfolio's market value. Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 10% from any given issuer (valued at market). Also, with the exception of U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 25% of any given industry or sector (example: utilities, energy, industrials, etc.).

CONCENTRATIONS

The Plan did not hold investments in any one organization that represented 5 percent or more of the Plan's fiduciary net position.

RATE OF RETURN

For the year ending December 31, 2015, the money-weighted rate of return was -4.55%. This measurement of the investment performance is net of investment expenses and reflects the estimated effect of the timing of the contributions received and the benefits paid during the year.

NOTE 5: NET PENSION LIABILITY OF THE EMPLOYER

The Plan's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by the roll forward procedure of the total pension liability in the actuarial valuation as of December 31, 2013.

**TYLER FIREMEN'S RELIEF
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NOTES TO FINANCIAL STATEMENTS
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NOTE 5: NET PENSION LIABILITY OF THE EMPLOYER - CONTINUED

The components of the net pension liability of the employer on December 31, 2015 were as follows:

Total pension liability	\$ 84,526,143
Plan fiduciary net position	<u>(59,949,406)</u>
Employer's net pension liability	<u>\$ 24,576,737</u>
 Plan fiduciary net position as a percentage of total pension liability	 70.92%

ACTUARIAL ASSUMPTIONS

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.75%
Salary increases	3.75% plus promotion, step, and longevity increases that vary by service
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females, projected to 2024 by scale AA.

The long-term expected rate of return on Plan investments for the December 31, 2013 actuarial valuation was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the December 31, 2013 asset allocation percentage (currently resulting in 4.14%) and by adding expected inflation (3.75%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a margin of 0.14% for adverse deviation.

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NOTE 5: NET PENSION LIABILITY OF THE EMPLOYER - CONTINUED

ACTUARIAL ASSUMPTIONS - CONTINUED

The December 31, 2013 allocation and expected arithmetic net real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long term expected real rate of return</u>
Equities		
Large cap domestic	29.60%	5.23%
Mid cap domestic	10.90%	5.37%
Small cap domestic	9.30%	5.92%
International developed	7.10%	5.49%
International developing	4.70%	5.83%
Alternatives		
Real estate	4.70%	3.47%
Commodities	3.70%	3.10%
Fixed income		
Total return	15.20%	1.79%
Domestic core	4.10%	1.36%
Domestic high yield	3.90%	2.73%
Global	4.50%	1.73%
Cash	2.30%	0.10%
Total	<u>100.00%</u>	
Weighted average		4.14%

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the December 31, 2013 actuarial valuation showed that expected contributions would pay the normal cost and amortize the UAAL in 23 years. That UAAL was based on an actuarial value of assets that was \$4.9 million less than the Plan's fiduciary net position as of December 31, 2013. Because of the 23-year amortization period with the lower value of assets, the Plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on Plan investments of 7.75% was applied to all periods of projected benefit payments as the discount rate to determine the total pension liability.

**TYLER FIREMEN'S RELIEF
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NOTE 5: NET PENSION LIABILITY OF THE EMPLOYER - CONTINUED

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

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.75%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
Employer's net pension liability	\$ 33,453,987	\$ 24,576,737	\$ 17,015,793

NOTE 6: TAX STATUS

The Internal Revenue Service has determined and informed the Plan by a letter dated June 17, 2013, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC).

NOTE 7: REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information for the Plan includes the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Investment Returns, and the Notes to the Required Supplementary Schedules. These are presented in order to demonstrate the Plan's ability to pay the net pension liability and its progress in doing so. Certain schedules should include a ten-year history of information. As provided for in GASB Statement No. 67, this historical information is only presented for the years in which the information was measured in conformity with the requirements of the standard. The full trend information will be accumulated over the next eight years as the necessary information becomes available.

NOTE 8: RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect amounts reported in the financial statements.

NOTE 9: SUBSEQUENT EVENTS

The Plan has evaluated subsequent events through July 28, 2016, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS***

	<u>12/31/15</u>	<u>12/31/14</u>
Total pension liability		
Service cost	\$ 2,215,179	\$ 2,135,428
Interest	6,277,350	5,987,025
Employee contributions	<u>(5,498,546)</u>	<u>(3,413,612)</u>
Net change in total pension liability	2,993,983	4,708,841
Total pension liability - beginning	<u>81,532,160</u>	<u>76,823,319</u>
Total pension liability - ending (a)	<u><u>\$ 84,526,143</u></u>	<u><u>\$ 81,532,160</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 2,452,070	\$ 2,407,993
Contributions - members	1,555,182	1,522,493
Net investment (loss) income	(2,891,814)	2,403,790
Benefit payments	(5,498,546)	(3,413,612)
Administrative expense	<u>(30,035)</u>	<u>(53,740)</u>
Net change in plan fiduciary net position	(4,413,143)	2,866,924
Plan fiduciary net position - beginning	<u>64,362,549</u>	<u>61,495,625</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 59,949,406</u></u>	<u><u>\$ 64,362,549</u></u>
 Net pension liability - ending (a) - (b)	<u><u>\$ 24,576,737</u></u>	<u><u>\$ 17,169,611</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	70.92%	78.94%
 Covered employee payroll	\$ 11,519,867	\$ 11,277,726
Net pension liability as a percentage of covered employee payroll	213.34%	152.24%

* - See note 7.

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS ***

	<u>12/31/2015</u>	<u>12/31/2014</u>
Annual money-weighted rate of return net of investment expense	-4.55%	3.89%

* - See note 7.

**TYLER FIREMEN'S RELIEF
AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES**

Actuarial valuation

Valuation date: 12/31/2013
Actuarially determined contribution rates are calculated as of December 31, one year prior to the end of the fiscal year in which contributions are reported.

**Methods and assumptions used
to determine contribution rates:**

Funding method: Entry age normal actuarial cost method.
Actuarial asset method: Fair market value, net of investment-related expenses.
Salary increases: 3.75% plus promotion, step, and longevity increases that average 1.81% per year over a 30-year career.
Inflation: 3.75%
Investment rate of return: 7.75%, net of pension plan investment expense, including inflation

Schedule of Changes in Net Pension Liability and Related Ratios

Total pension liability: Determined total pension liability as of 12/31/2013 using the roll forward procedure allowed for by GASB 67.

Schedule of Investment Returns

Money-weighted rate of return: Expresses investment performance, net of investment expenses, reflecting the estimated effect of the contributions received and the benefits paid during the year.