

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

**TYLER, TEXAS**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2014 AND 2013**

**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
DECEMBER 31, 2014 AND 2013**

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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 basic financial statements of the Tyler Firemen's Relief and Retirement Fund (Plan), 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 basic financial statements referred to above present fairly, in all material respects, the net position of the Plan as of December 31, 2014 and 2013, 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***

The Management's Discussion and Analysis and the required supplementary schedules on pages 4 through 6, and 20 through 22, respectively, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

*Henry + Peters, P.C.*

Tyler, Texas  
July 30, 2015

**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014**

The Management's Discussion and Analysis (MD&A) of the Tyler Firemen's Relief and Retirement Fund (Plan) for the year ended December 31, 2014 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, 2014. 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, 2014 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, summarizes actuarial assumptions and discount rate.
  - 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.

**TYLER FIREMEN'S RELIEF  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(CONTINUED)**

- Required Supplementary Schedules. 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 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, 2014 with comparative data.

	2014	2013
Cash and receivables	\$ 1,082,989	\$ 1,551,579
Investments	63,265,125	59,935,865
Accrued income	14,435	8,181
Plan net position	<u>\$ 64,362,549</u>	<u>\$ 61,495,625</u>
Change in plan net position	\$ 2,866,924	\$ 8,948,736

Additions to net position restricted for pension benefits include employer and member contributions as well as investment income. Such amounts were as follows in 2014 with comparative data.

	2014	2013
Employer contributions	\$ 2,407,993	\$ 2,218,688
Member contributions	1,522,493	1,442,898
Net investment income	2,381,038	9,263,068
Other income	22,752	462
Total additions	<u>\$ 6,334,276</u>	<u>\$ 12,925,116</u>

Plan membership totaled 247 at December 31, 2014. The employer contribution was increased during 2014 to 21.31% in an effort to better match benefits and contributions.

Investment income includes appreciation and depreciation in fair value of investments, and interest and dividends, net of expenses. The change in investment income for 2014 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 2014 with comparative data.

	2014	2013
Benefits paid to members	\$ 3,413,612	\$ 3,951,160
Administrative & other expenses	53,740	25,220
Total deductions	<u>\$ 3,467,352</u>	<u>\$ 3,976,380</u>

**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2014  
(CONTINUED)**

**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 Board, 1710 W. Houston St., Tyler, TX 75702.

## **BASIC FINANCIAL STATEMENTS**



**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
STATEMENTS OF FIDUCIARY NET POSITION  
DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 956,897	\$ 1,443,532
Receivables		
Employer contributions	77,177	66,144
Member contributions	48,915	41,903
Total receivables	126,092	108,047
Investments, at fair value		
Common stocks	13,330,806	10,916,591
Foreign stocks	267,810	170,251
Mutual funds	49,666,509	47,617,968
Alternative investments	-	1,231,055
Total investments	63,265,125	59,935,865
Accrued income	14,435	8,181
Total assets	64,362,549	61,495,625
Net position - restricted for pension benefits	\$ 64,362,549	\$ 61,495,625

**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>ADDITIONS:</b>		
Contributions		
Employer	\$ 2,407,993	\$ 2,218,688
Members	1,522,493	1,442,898
Total contributions	3,930,486	3,661,586
Investment income		
Net appreciation in fair value of investments	1,394,001	8,460,271
Interest and dividend income	1,142,808	942,358
Less: investment expense	(155,771)	(139,561)
Total investment income	2,381,038	9,263,068
Other income	22,752	462
Total additions	6,334,276	12,925,116
<b>DEDUCTIONS:</b>		
Benefits paid to members	3,413,612	3,951,160
Administrative expenses	53,740	25,220
Total deductions	3,467,352	3,976,380
Net increase	2,866,924	8,948,736
Net position - restricted for pension benefits		
Beginning of year	61,495,625	52,546,889
End of year	\$ 64,362,549	\$ 61,495,625

**TYLER FIREMEN'S RELIEF  
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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>2014</u>	<u>2013</u>
Inactive Plan members or beneficiaries currently receiving benefits	91	92
Inactive Plan members entitled to but not yet receiving benefits	1	1
Active Plan members	<u>155</u>	<u>155</u>
Total membership	<u><u>247</u></u>	<u><u>248</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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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
CONTINUED**

**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.

**TYLER FIREMEN'S RELIEF  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**INVESTMENTS - CONTINUED**

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 plan net position.

**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.

**RECLASSIFICATIONS**

Certain amounts in the 2013 statement of changes in fiduciary net position have been reclassified to conform to the presentation in 2014.

**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 has been implemented for the Plan year ending December 31, 2014 and the effects are detailed in note 5 and RSI.

**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:

	2014		2013	
	Amount	Percentage	Amount	Percentage
Employer	\$ 2,407,993	21.31%	\$ 2,218,688	20.74%
Members	1,522,493	13.50%	1,442,898	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.

**TYLER FIREMEN'S RELIEF  
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NOTES TO FINANCIAL STATEMENTS  
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CONTINUED**

**NOTE 3: CONTRIBUTIONS - CONTINUED**

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.

**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.

**TYLER FIREMEN'S RELIEF  
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**NOTE 4: INVESTMENTS - CONTINUED**

**Fixed Income Holdings - continued**

**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.

**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, 2014 are summarized below:

	<u>Fair Value</u>
<b><u>Cash Equivalents</u></b>	
Money market funds	\$ 956,897
Total cash equivalents	<u>956,897</u>
<b><u>Equity Holdings</u></b>	
Common stocks	13,330,806
Foreign stocks	267,810
Mutual funds	49,666,509
Alternative investments	-
Total equity holdings	<u>63,265,125</u>
Total investments and cash equivalents	<u>\$ 64,222,022</u>

The Plan's investments at December 31, 2013 are summarized below:

	<u>Fair Value</u>
<b><u>Cash Equivalents</u></b>	
Money market funds	\$ 1,443,532
Total cash equivalents	<u>1,443,532</u>
<b><u>Equity Holdings</u></b>	
Common stocks	10,916,591
Foreign stocks	170,251
Mutual funds	47,617,968
Alternative investments	1,231,055
Total equity holdings	<u>59,935,865</u>
Total investments and cash equivalents	<u>\$ 61,379,397</u>

**TYLER FIREMEN'S RELIEF  
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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% any given industry or sector (example: utilities, energy, industrials, etc.).

**CONCENTRATIONS**

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

**RATE OF RETURN**

For the year ending December 31, 2014, the money-weighted rate of return was 3.89%. 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, 2014, 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.

The components of the net pension liability of the employer on December 31, 2014 were as follows:

Total pension liability	\$ 81,532,160
Plan fiduciary net position	<u>(64,362,549)</u>
Employer's net pension liability	<u>\$ 17,169,611</u>

Plan fiduciary net position as a percentage of total pension liability	78.94%
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**TYLER FIREMEN'S RELIEF  
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**NOTE 5: NET PENSION LIABILITY OF THE EMPLOYER - CONTINUED**

**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 average 1.81% per year over a 30-year career

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's 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:

Asset class	12/31/2013 Allocation	Long term expected real rate of return
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	100.00%	
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's 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	\$ 25,695,737	\$ 17,169,611	\$ 9,903,291

**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 (RSI) 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 Information. These are presented in order to demonstrate the City's ability to pay the Net Pension Liability and its progress in doing so. Since this is the year of adoption of the new Standard GASB Statement No. 67, only the first year is presented in this section. The full trend information will be accumulated over the next nine 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 30, 2015, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY SCHEDULES**

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

	12/31/14
<b>Total pension liability</b>	
Service cost	\$ 2,135,428
Interest	5,987,025
Changes in benefit terms	-
Differences between expected and actual experience	-
Assumption changes	-
Employee contributions	(3,413,612)
Net change in total pension liability	4,708,841
Total pension liability - beginning	76,823,319
Total pension liability - ending (a)	\$ 81,532,160
 <b>Plan fiduciary net position</b>	
Contributions - employer	\$ 2,407,993
Contributions - members	1,522,493
Net investment income	2,381,038
Benefit payments	(3,413,612)
Administrative expense	(53,740)
Other	22,752
Net change in plan fiduciary net position	2,866,924
Plan fiduciary net position - beginning	61,495,625
Plan fiduciary net position - ending (b)	\$ 64,362,549
 Net pension liability - ending (a) - (b)	\$ 17,169,611
 Plan fiduciary net position as a percentage of the total pension liability	78.94%
 Covered employee payroll	\$ 11,348,079
Net pension liability as a percentage of covered Employee payroll	151.30%

\* - See note 7.

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

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

\* - See note 7.

**TYLER FIREMEN'S RELIEF  
AND RETIREMENT FUND  
REQUIRED SUPPLEMENTARY SCHEDULES - 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.