

# Midland Firemen's Relief and Retirement Fund

Annual Financial Report  
December 31, 2023

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## Independent Auditor's Report

To the Board of Trustees of the  
Midland Firemen's Relief and Retirement Fund

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Midland Firemen's Relief and Retirement Fund (the Plan), as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as of December 31, 2023 and 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Emphasis of Matter - Investments with Values that are not Readily Determined

As discussed in Note 3, the financial statements include investments valued at \$5,668,071 and \$7,133,440 as of December 31, 2023 and 2022, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Contributions and Investment Returns on pages 4 - 6 and 26 - 28 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

The Board of Trustees of the  
Midland Firemen's Relief and Retirement Fund

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the Direct and Indirect Fees and Commissions but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
August 5, 2024

# Midland Firemen's Relief and Retirement Fund

## Management's Discussion and Analysis (Unaudited)

December 31, 2023 and 2022

### Introduction

The Midland Firemen's Relief and Retirement Fund (the Plan) is a single-employer, defined benefit pension plan covering substantially all fire department employees employed by the City of Midland, Texas. It is subject to the provisions of the Texas Local Firefighters' Retirement Act (Article 6243e, Vernon's Texas Civil Statutes 45th Legislature 1937) as amended. As management of the Plan, we offer readers of the Plan financial statements this narrative overview and analysis of the financial activities of the Plan for the fiscal years ended December 31, 2023 and 2022.

### Financial Highlights

- The fiduciary net position at the close of the fiscal years ended December 31, 2023 and 2022, were \$83,691,663 and \$80,979,438, respectively;
- The fiduciary net position increased in 2023 by \$2,712,225. The changes in fiduciary net position were due mainly to an increase in net appreciation in fair value of investments due to a favorable investment market in 2023;
- In 2023 and 2022, the Plan reported cash and cash equivalents of \$8,172,539 and \$13,657,931, respectively. The decrease in 2023 was due mainly to timing; and
- The Plan received \$9.2 million in employer and member contributions during 2023 compared to \$8.5 million in 2022 due to growth in payroll and active participants.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are comprised of statements of fiduciary net position, statements of changes in fiduciary net position, and notes to the financial statements. This report also contains other required supplementary information in addition to the financial statements themselves.

### Statement of Fiduciary Net Position

The statement of fiduciary net position is designed to provide a broad overview of the Plan's finances in a manner similar to other pension funds. This statement presents the financial position of the Plan. The financial position is assets (primarily investments) less liabilities, with the difference between the two reported as Fiduciary Net Position, which represents the amount of resources available to pay future benefits to retirees.

### Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position presents the additions to and deductions from the Plan's fiduciary net position during the year. The additions to fiduciary net position are divided into two types of categories, contributions and net investment income (loss). Contributions are shown from both employer and plan members. Net investment income (loss) is broken down by net appreciation (depreciation) in fair value of investments, interest, partnership income and dividend income, less investment expenses. The primary deductions are to pay benefits, which is the Plan's primary purpose. Deductions also include refunds to members who leave the Plan and administrative expenses.

# Midland Firemen's Relief and Retirement Fund

## Management's Discussion and Analysis (Unaudited)

December 31, 2023 and 2022

The change in the Plan's fiduciary net position during the year is added to or subtracted from the beginning balance of the Plan's fiduciary net position to obtain the balance of Plan's fiduciary net position at the end of the year. This figure ties directly to the last line of the statement of the Plan's fiduciary net position.

### Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional information that is essential to a full understanding of the data provided in the financial statements. Among other matters, the notes describe: (a) the Plan's purpose and its membership, (b) the significant accounting policies used to prepare the financial statements, (c) the nature of the Plan, including the membership and benefit provisions and contribution requirements, and (d) the Plan's investment authority and policies, how investments and related documentation are safeguarded, and selected details about various investment activity and balances.

The Notes to the Financial Statements can be found on pages 9 through 25 of this report.

### Required Supplementary Information

Governmental Accounting Standards Board (GASB) Statement No. 67, requires pension plans to calculate the net pension liability of the Plan, measured as the total pension liability less the amount of the plan's fiduciary net position. Please note that the net pension liability is based on actuarial assumptions about future events, and therefore, the figures presented are necessary estimates. GASB Statement No. 67 also requires additional supplemental schedules and certain assumptions used by the actuary, which are also included in the required supplementary information section.

### Summary and Analysis of the Financial Information

The following condensed statements of the fiduciary net position and changes in fiduciary net position present financial information comparing 2023 and 2022 information. This information comes from the statements of fiduciary net position and changes in fiduciary net position for the years then ended.

#### Condensed Statements of Fiduciary Net Position

	2023	2022
Assets		
Cash and cash equivalents	\$ 8,172,539	\$ 13,657,931
Investments	73,447,655	68,671,792
Receivables	3,002,757	73,944
	<hr/>	<hr/>
Total assets	84,622,951	82,403,667
Liabilities		
Accounts payable	121,206	96,229
DROP / QDRO payable	810,082	1,328,000
	<hr/>	<hr/>
Total liabilities	931,288	1,424,229
	<hr/>	<hr/>
Fiduciary net position	\$ 83,691,663	\$ 80,979,438

# Midland Firemen's Relief and Retirement Fund

Management's Discussion and Analysis (Unaudited)

December 31, 2023 and 2022

## Condensed Statements of Changes in Fiduciary Net Position

	2023	2022
Additions		
Contributions	\$ 9,149,865	\$ 8,527,807
Net investment income	5,483,462	(10,056,095)
Total additions	14,633,327	(1,528,288)
Deductions		
Benefits paid directly to participants	9,245,150	9,299,094
Lump sum distributions	2,276,363	1,576,250
Wages expense, benefits and taxes	129,040	165,496
Administrative expenses	270,549	223,281
Total deductions	11,921,102	11,264,121
Changes in pension plan net position	2,712,225	(12,792,409)
Fiduciary net position, beginning of year	80,979,438	93,771,847
Fiduciary net position, end of year	<u>\$ 83,691,663</u>	<u>\$ 80,979,438</u>

The Plan's fiduciary net position increased \$2.7 million or 3.3% during 2023, versus a \$12.8 million or (13.6%) decrease during 2022. The increase in net position for 2023 was primarily driven by an increase of contributions of \$622 thousand, and an increase in net investment income of \$15.5 million. The Plan's overall portfolio recorded an investment return of 6.89% in 2023 due to favorable annual performance in equity markets. The net investment income was \$5.5 million compared to (\$10.1) million in 2022. Total contributions increased \$622 thousand, or 7.3%, primarily due to increases in salary and active participants. There was also an increase of \$646 thousand, or 5.9%, in benefits paid to members. The increase was primarily due to an increase in DROP payments paid out or earned through December 31, 2023.

### Request for Information

This financial report is designed to provide a general overview of the finances of the Plan. As the City of Midland serves as fiscal agent for the Plan, questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Midland Firemen's Relief and Retirement Fund, 105 N. G. Suite 201, Midland, Texas 79701.

# **Financial Statements**

# Midland Firemen's Relief and Retirement Fund

## Statements of Fiduciary Net Position

December 31, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,172,539	\$ 13,657,931
Total cash and cash equivalents	8,172,539	13,657,931
Receivables		
Accrued interest and declared dividends	54,977	73,944
Miscellaneous receivables	2,947,780	-
Total receivables	3,002,757	73,944
Investments, at fair value		
Domestic equity	21,406,483	18,219,249
International equity	12,589,330	13,912,022
Fixed income	13,388,352	10,781,050
Real estate	9,062,370	11,506,345
Private equity and credit	17,001,120	14,253,126
Total investments, at fair value	73,447,655	68,671,792
Total assets	84,622,951	82,403,667
<b>LIABILITIES</b>		
Accounts payable	121,206	96,229
DROP payable	726,358	1,019,468
QDRO payable	83,724	308,532
Total liabilities	931,288	1,424,229
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b>	<b>\$ 83,691,663</b>	<b>\$ 80,979,438</b>

The Notes to Financial Statements are an integral part of these statements.

# Midland Firemen's Relief and Retirement Fund

## Statements of Changes in Fiduciary Net Position Years Ended December 31, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>ADDITIONS</b>		
Contributions		
Employer contributions	\$ 5,580,525	\$ 5,201,025
Member contributions	3,569,340	3,326,782
Total contributions	9,149,865	8,527,807
Investment income		
Net appreciation (depreciation) in fair value of investments	3,474,131	(11,248,985)
Interest	1,366,256	54,568
Dividends	299,798	903,936
Partnership	869,363	662,239
Rental income	89,831	72,022
Investment expenses	(616,170)	(500,264)
Net investment income	5,483,209	(10,056,484)
Other cash receipts	253	389
Total additions	14,633,327	(1,528,288)
<b>DEDUCTIONS</b>		
Benefits paid including refunds of plan member contributions	11,521,513	10,875,344
Wages expense, benefits, and taxes	129,040	165,496
Administrative expenses	270,549	223,281
Total deductions	11,921,102	11,264,121
Changes in pension plan net position	2,712,225	(12,792,409)
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS, beginning of year</b>	80,979,438	93,771,847
<b>NET POSITION RESTRICTED FOR PENSION BENEFITS, end of year</b>	\$ 83,691,663	\$ 80,979,438

The Notes to Financial Statements are an integral part of these statements.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Note 1. Summary of Significant Accounting Policies

City of Midland firefighters are members of the locally administered Midland Firemen's Relief and Retirement Fund (the Plan), established under the authority of the Texas Local Fire Fighters' Retirement Act passed in 1937 by the Texas State Legislature. The Plan is not a component unit of the City of Midland, Texas.

The Plan is governed by seven trustees composed of the Mayor or his designee, the Director of Finance of the City of Midland or his designee, three firefighters elected by majority vote of firefighters, and two citizens who are not officers or employees of the municipality and who must be elected by the majority vote of the board of trustees. The State of Texas Pension Review Board monitors the execution of the act.

The following are the significant accounting policies followed by the Plan:

#### **Basis of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized when due and the employer and plan member have made formal commitments to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

#### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

#### **Valuation of Investments**

Investments of the Plan are reported at fair value. Investments in equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Plan's investments that do not have a readily determinable fair value are valued at net asset value (NAV) (or its equivalent) per share. These investments allocate gains, losses, and expenses to the owners based on ownership percentage in the investments. Estimates are used by management in determining the fair value of these investments. The amount received upon the sale of these investments may differ significantly from the recorded amount.

Real estate assets classified as Level 3 are valued using the market approach and utilize significant unobservable inputs.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Fair Value Measurements

The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value 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. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

- Level 1 Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 Inputs (other than quoted prices within Level 1) that are observable for an asset and liability, either directly or indirectly.
- Level 3 Inputs are unobservable inputs for an asset or liability.

The remaining investments not categorized under the fair value hierarchy are shown at NAV per share. These are investments in entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

### Investment Gains or Losses

Investment gains or losses arising from increases or decreases in the fair values from the beginning of the year to the end of the year and investment gains or losses arising from the sale or maturity of investments are reported as net appreciation or depreciation in the fair value of investments in the statement of changes in fiduciary net position.

### Cash and Cash Equivalents

For financial reporting purposes, a portion of the investment portfolio is classified as equivalent to cash. Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and have original maturities of three months or less which present an insignificant risk of changes in value because of changes in interest rates.

### Interest and Dividends Receivable

Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Recording activity in such a manner results in interest and dividends receivable.

### Income Tax Status

The Plan obtained its latest determination letter dated October 25, 2011, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements under Section 401(a) of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Leases

#### Lessee

The Plan recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the financial statements. The Plan recognizes lease liabilities with an initial, individual value of \$5,000 or more.

At the commencement of a lease, the Plan initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the Plan determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Plan uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Plan generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the Plan is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The Plan monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

#### Lessor

The Plan is a lessor for noncancellable leases of property. The Plan recognizes a lease receivable and a deferred inflow of resources in the financial statements.

At the commencement of a lease, the Plan initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments related to leases include how the Plan determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Plan uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

The Plan monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

### Note 2. Description of Plan

The following brief description of the Midland Firemen's Relief and Retirement Fund is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

#### General

The Midland Firemen's Relief and Retirement Fund is a single employer, defined benefit plan covering substantially all fire department employees employed by the City of Midland, Texas (the City). It is subject to the provisions of the Texas Local Firefighters' Retirement Act (Article 6243e, Vernon's Texas Civil Statutes 45th Legislature 1937) as amended.

All fire department employees become members of the Plan as a condition of their appointment.

Plan membership consisted of the following as December 31:

	<u>2023</u>	<u>2022</u>
Retirees and beneficiaries currently receiving benefits	199	193
Terminated employees entitled to but not yet receiving benefits	7	7
Active members	<u>248</u>	<u>230</u>
Total	<u><u>454</u></u>	<u><u>430</u></u>

#### Contributions

Texas Local Fire Fighters Retirement Act, Texas Vernon's Civil Statutes, Article 6243e, Section 29, establishes the statutory authority for Plan member and employer contributions. While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Plan must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. This financing arrangement includes consideration of the Plan's funding status on a going-concern basis and progress made in accumulating sufficient assets to pay benefits when due. Using the entry age actuarial cost method, the Plan's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the Plan's UAAL, and the number of years needed to amortize the Plan's UAAL is determined using a level percentage of payroll method. For years in which actuarial valuations are not performed, estimates are made using the actuarial methods and principles. All members are required to contribute a percentage of their total pay to the Plan. The member contribution rate was 14.2% for 2023 and 2022. The City's contribution rate was 22.2% for the years ending December 31, 2023 and 2022. Plan member and employer contributions of \$3,569,340 and \$5,580,525, respectively, were made for the year ended December 31, 2023. Plan member and employer contributions of \$3,326,782 and \$5,201,025, respectively, were made for the year ended December 31, 2022.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Administration

The Plan is administered by a Board of Trustees (the Board) which is authorized to determine all retirement applications, disability claims, and beneficiary designations.

### Pension Benefit Provisions

#### Normal Service Retirement Benefit

Texas Local Fire Fighters Retirement Act, Texas Vernon's Civil Statutes, Article 6243e, Section 29, establishes the statutory authority and procedure to amend Plan benefit provisions. A member is eligible for service retirement upon completion of 20 years of service and attainment of age 50. Service retirement benefits are payable for the member's lifetime. Service retirement benefits are calculated as 75% of the retiree's highest 60-month average salary while employed and \$80 per month for each whole year of service in excess of 20 years of service. In the event that the member's death precedes that of the member's spouse, 75% of the member's pension will be continued to the spouse for the spouse's lifetime. A member who has completed at least 25 years of service is also eligible for the above service retirement benefit even though he or she has not yet attained age 50.

#### Supplemental Retirement Benefit

In addition to the regular service retirement benefit, a member who retires after attaining age 50 and completing 20 years of service will also receive a supplemental benefit of \$500 per month. The supplemental benefit is payable for the member's lifetime. In the event the member's death precedes that of his or her spouse, 75% of the supplemental benefit will be continued to the spouse for the spouse's lifetime. However, the supplemental benefit is not payable to members who take service retirement prior to age 50. In lieu of the monthly service retirement benefit described above, a member may elect to receive his or her benefits under one of the Deferred Retirement Option Plan (DROP) provisions.

#### Cost of Living Adjustment

Effective October 1, 2008, the participating members of the Plan voted to amend the plan document. The new plan provides that eligible firefighters and beneficiaries who are entitled to the cost of living adjustment will become payable to these individuals on August 1 following the fifth full audited year of receipt of benefits by a firefighter and following a firefighter's physical departure from the Fire Department, provided the Plan's rolling audited 5-year average return is greater than 8.25%.

#### Deferred Retirement Option Plan (DROP)

Effective November 1, 2002, the participating members of the Plan voted to amend the plan document. The new plan provides that under the DROP, and DROP Plan Benefits, Option 1 (Forward DROP), a firefighter must retire within three years of DROP election.

Upon retirement under Option 2 (Reverse DROP) of the DROP Plan Benefits, a firefighter may elect to receive 90% of his regular monthly benefit, including the Supplemental Retirement Benefit, if applicable (with all survivor benefits appropriately reduced) for life and a lump sum equal to 24 times this reduced benefit. This amount must be paid within three years in no more than three installments.

Under a third Option (Retroactive DROP) to the DROP Plan Benefits, the Retroactive DROP provides that if a firefighter has at least 20 years of service and is at least 50 years old the firefighter may, at any time after that, elect to retire and have his "effective retirement date" no earlier than the date he actually had at least 20 years of service and was at least 50 years old.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

The period of time between his "effective retirement date" and his actual retirement date will be the DROP period and will not exceed three years. His monthly benefit will be calculated based upon his salary and service at the time of his "effective retirement date."

The sum of his employee contributions during the DROP period plus the product of his monthly benefit amount times the number of months of the DROP period plus 4% interest compounded annually, using the balance at year end of each year of the DROP, will be paid to him on his actual retirement date or, at his election, within three years in no more than three installments.

The new plan also provides a fourth Option Combined (Forward and Retroactive) DROP Plan Benefit. The Combined (Forward and Retroactive) DROP options state that the firefighter must retire within three years of his Combined (Forward and Retroactive) DROP. The monthly benefit he will receive from the Plan will be determined based upon his salary and service at the beginning of his DROP period. At the conclusion of the DROP period, the firefighter will be paid an amount which is the sum of his employee contributions from the Forward DROP portion of the period plus the product of his monthly benefit amount (including the Supplemental Retirement Benefit, if applicable) times the number of months of the Forward DROP portion of the Combined (Forward and Retroactive) DROP period. In addition, a monthly benefit calculated based upon the firefighter's salary and service at the time of his "effective retirement date" consisting of his contributions during the Retroactive portion of the Combined (Forward and Retroactive) DROP period plus the product of his monthly benefit amount (including the Supplemental Retirement Benefit, if applicable) times the number of months of the Retroactive DROP period.

This Combined (Forward and Retroactive) DROP amount shall include interest at an annual rate of 4% determined as of the end of each year or partial year of the Combined (Forward and Retroactive) DROP period and may be paid to the retired firefighter on his actual retirement date or, at his election, within three years in no more than three installments. Interest will be calculated using the balance at year-end. No interest shall be paid after the conclusion of the DROP period. The balance of amounts held by the Plan pursuant to the Reverse DROP at December 31, 2023 and 2022 was \$353,012 and \$1,019,468 respectively.

### Early Service Retirement Benefit

A member is eligible for early retirement upon completion of 20 years of service and attainment of age 45. Early retirement benefits are payable for the member's lifetime. Early retirement benefits are calculated as a percentage of the retiree's highest 60-month average salary while employed and an additional benefit each month for each year of service in excess of 20 years of service. In the event the member's death precedes that of his spouse, 75% of the member's pension will be continued to the member's spouse for the spouse's lifetime. The supplemental benefit is not payable to members who take early retirement.

### Disability Retirement Benefit

An active member who becomes disabled for either physical or mental reasons (except for a pre-existing condition) may receive a monthly disability benefit. Disability benefits are payable in the same form as service retirement benefits. However, disability benefits will be reduced or stopped if a member recovers to the point the member no longer meets the definition of disability under the Plan.

### Death Benefits

If a member dies while in active service, the widow (or widower) will receive an immediate monthly benefit, payable for as long as the widow (or widower) is alive. The amount of the benefit will be equal to 75% of the service retirement the member would have been entitled to receive based on the member's salary and service at the time of the member's death. In addition, a \$10,000 lump sum benefit is payable to the designated beneficiary of a member.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Vested Termination Benefit

A Plan member who terminates employment after completing at least ten years of service, but prior to the date the member completes 20 years of service, will be entitled to receive a monthly benefit starting on the date the member would have both attained age 50 and completed 20 years of service had the member remained in active service with the fire department. However, this benefit will not commence later than the date the member reaches age 60. A Plan member who terminates employment prior to completing ten years of service will be entitled to the return of the excess of the member's contributions to the fund over the amount of any benefits the member has received from the fund.

In lieu of the monthly service, disability or vested termination benefit described above, a member may elect to receive a modified monthly retirement benefit payable for his or her lifetime with 100% of such modified monthly amount continued for as long as either the member or the member's spouse is living. Such election does not affect the supplemental benefit, 75% of which is continued to the surviving spouse for the lifetime of the surviving spouse.

### **Termination of the Plan**

A retirement system for a fire department not consisting exclusively of volunteers may not be terminated or merged into another retirement system without the approval of the Board of Trustees of the retirement system and the approval of the participating members of the system in the manner described in subdivision (2) of Subsection (b) of Section 7 of this Act provided 51 % of the participating members first petition the Board for such a change.

The priority order of participants' claims to the Plan's assets upon Plan termination is pursuant to the Texas Local Fire Fighters' Retirement Act (Article 6243e. Vernon's Texas Civil Statutes 45111 Legislature 1937) as amended.

### **Plan Amendment**

On July 27, 2023, the Board ratified the Plan member's approval of a Plan Amendment changing the way retirement benefits are calculated. The following is a summary of the approved plan amendment effective January 1, 2024:

#### **Highest 60-Month Average**

- For those hired 2013 and before (but see grandfathering exception below):
  - Select the highest **consecutive** 60 months of pay **over entire career**
  - Determine the average of the above
- For those hired 2014 and after:
  - Select the **last consecutive** 60 months of pay **before termination date (or DROP date)**
  - Determine the average of the above

#### **Unscheduled OT Pay**

- Excluded beginning in 2024 for the months in the above average

#### **Grandfathering**

- For those within two years of retirement eligibility (or already eligible) on December 31, 2023, both of the above changes would NOT be applicable.

#### **Minimum Protected Benefit**

- For all firefighters, the new monthly benefit determined with Amendment 1 will not be less than "Frozen Accrued Minimum Monthly Benefit." This frozen minimum will be determined on December 31, 2023 with Present Plan provisions as if termination on December 31, 2023 with service and pay history frozen on that date.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Note 3. Cash and Investments

*Investment Policy:* The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Board or Trustees by a majority vote of its members. Substantially all of the Plan's investments are held by its trustee/custodians. The Plan's Board of Trustees authorizes various portfolio managers to manage investments within certain policies as set forth by the Board. These policies mandate a diversified portfolio, which includes investments, either directly or in commingled accounts, in real estate, cash, money market funds, bonds, venture capital and equity securities. The Board adopted a new investment policy on November 9, 2023. One of the changes was an update to the approved asset allocation policy. The following was the Board's adopted asset allocation policy as of December 31, 2023 and December 31, 2022:

As of December 31, 2023:	
Asset Class	Target Allocation
Domestic equity	10%
International equity	20%
Alternative equity	15%
Real estate	10%
Fixed income	15%
Private equity / venture capital	15%
Private credit	5%
Cash equivalents	10%
	100%
As of December 31, 2022:	
Asset Class	Target Allocation
Domestic equity	20%
International equity	20%
Alternative equity	35%
Fixed income	20%
Cash equivalents	5%
	100%

Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment to GASB Statement No. 3 (GASB 40)*, addresses common deposit and investment risks including custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Required disclosures related to these risks are presented below.

## Midland Firemen's Relief and Retirement Fund

### Notes to Financial Statements

Custodial Credit Risk – Deposits: Deposits with financial institutions are fully secured by federal deposit insurance coverage at December 31, 2023 and 2022.

The Plan's investment policies are governed by state statutes and by Board adoption. Cash funds are deposited in Federal Deposit Insurance Corporation insured banks. The Plan is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and government agencies, commercial paper, and certain repurchase agreements.

As required by GASB 40, investments included in assets whose use is limited and long-term investments are categorized by investment type. As of December 31, 2023 and 2022, the Plan had the following debt securities and their related maturities, respectively:

Investment Type	Fair Value	2023 Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Mutual bond funds	\$ 8,331,509	\$ -	\$ 2,407,544	\$ 4,454,864	\$ 1,469,101
Total fair value	<u>\$ 8,331,509</u>	<u>\$ -</u>	<u>\$ 2,407,544</u>	<u>\$ 4,454,864</u>	<u>\$ 1,469,101</u>

Investment Type	Fair Value	2022 Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Foreign bonds	\$ 130,236	\$ 37,021	\$ -	\$ 1,953	\$ 91,262
Total fair value	<u>\$ 130,236</u>	<u>\$ 37,021</u>	<u>\$ -</u>	<u>\$ 1,953</u>	<u>\$ 91,262</u>

Custodial Credit Risk: Custodial credit risk is the risk that in the event of failure of the counterparty, the Plan would not be able to recover the value of its investments. The Plan does not have a formal policy for custodial credit risk. As of December 31, 2023 and 2022, all investments are registered in the name of the Midland Firemen's Relief and Retirement Fund or in the name of the Plan's custodian, established through a master trust custodial agreement, with the exception of investments in real estate and commingled funds, which are recorded as venture capital funds in the accompanying statement of fiduciary net position.

Interest Rate Risk: In compliance with the Plan's investment policy, the Plan minimizes the interest rate risk related to the decline in fair value of securities due to rising interest rates in the portfolio by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity and monitoring credit ratings of portfolio positions.

The Plan's investments in U.S. and foreign government agency obligations are subject to credit risk. Under the Texas Local Firefighters' Retirement Act, the Board's general investment policy is to apply the following prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income and preserve capital. In terms of diversification, the Plan should not invest more than 5% of the total assets in the stock or bonds of one company.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

Credit Risk: Under the Texas Local Firefighters' Retirement Act, the Board's general investment policy is to apply the prudent-person rule. As a matter of course, the Board expects to be notified promptly of the following:

1. A significant change in investment strategy and portfolio structure;
2. A material change in the ownership, personnel, financial condition, or investment approach of the organization;
3. Any changes in the regulatory environment that would affect the Plan or organization's role in its management; and
4. Any litigation or violation of securities regulation in which the investment manager is involved.

The Plan's rated debt investments as of December 31, 2023 and 2022, respectively, using the Moody's, S&P, or Fitch rating scale are presented below:

	December 31,	
	2023	2022
AAA	\$ 2,621,605	\$ -
AA	2,881,322	-
A	483,891	-
BBB	1,473,260	-
BB	366,734	-
B	197,661	-
Below B	273,483	130,236
Not rated	33,553	-
	<u>\$ 8,331,509</u>	<u>\$ 130,236</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in accordance with the allocation range stated below and within the limitations so noted. The Asset Mix Policy established by the Board of Trustees represents a long-term view (a full market cycle). As such, rapid and sudden market movements may cause the Fund's actual asset mix to fall outside the stated policy range. Any such divergence, however, should be short-term in nature and must be ratified by the Board of Trustees at the first regularly scheduled Board meeting following this occurrence.

Concentrations: GASB Statement No. 67 *Financial Reporting for Pension Plans* (GASB 67), requires the disclosure of concentrations of investments in any one organization that represent 5% or more of the pension plan's fiduciary net position. The plan had investment holdings in excess of 5% of the pension plan's fiduciary net position with StepStone and Radcliffe as of December 31, 2023, and StepStone as of December 31, 2022.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchanged rates will adversely affect the fair value of an investment or deposit. All 2023 and 2022 assets were priced in U.S. dollars.

Rate of return: For the years ended December 31, 2023 and 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.89% and -10.88% respectively. The money-weighted rate of return expresses investment performance, net of plan investment expense, adjusted for the changing amounts actually invested.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

The following tables summarize the Plan's financial instruments measured at fair value as of December 31, 2023 and 2022, respectively, based on the three-tier hierarchy:

	December 31, 2023	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value				
Domestic equity	\$ 12,674,459	\$ 12,674,459	\$ -	\$ -
International equity	12,589,330	12,589,330	-	-
Master limited partnerships	8,732,024	8,732,024	-	-
Fixed income	8,331,509	8,331,509	-	-
Real estate / private REIT	5,668,071	-	-	5,668,071
Total investments by fair value level	47,995,393	\$ 42,327,322	\$ -	\$ 5,668,071
Investments measured at NAV				
Fixed income	5,056,843			
Real estate / private REIT	3,394,299			
Private equity and credit	17,001,120			
Total investments at NAV	25,452,262			
Total investments at fair value	\$ 73,447,655			

	December 31, 2022	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value				
Domestic equity	\$ 211,675	\$ 211,675	\$ -	\$ -
International equity	7,340,839	7,340,839	-	-
Master limited partnerships	8,975,569	8,975,569	-	-
Fixed income	2,143,325	2,013,089	130,236	-
Real estate / private REIT	7,202,393	68,953	-	7,133,440
Total investments by fair value level	25,873,801	\$ 18,610,125	\$ 130,236	\$ 7,133,440
Investments measured at NAV				
Domestic equity	9,032,005			
International equity	6,571,183			
Fixed income	8,637,725			
Real estate / private REIT	4,303,952			
Private equity and credit	14,253,126			
Total investments at NAV	42,797,991			
Total investments at fair value	\$ 68,671,792			

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022.

Domestic and international equity/real estate and master limited partnerships (level 1): Valued at the closing price reported on the active market on which the individual securities are traded.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

Fixed income (level 2): Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Real estate (level 3): Investments are comprised of equity interests in partially and wholly owned real estate entities and are reflected at their estimated fair values in accordance with GASB 72.

Additional information related to investments measured at the net asset value (NAV) per share (or its equivalent) as of December 31, 2023 and 2022, respectively, is presented on the following tables:

	2023 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Fixed Income				
Radcliffe	\$ 5,056,843	\$ -	K Monthly	40 days
Real estate / private REIT				
Harvest Interest Fund II	2,881,236	-	D n/a	n/a
Davis Investment Ventures Fund II-B	122,998	207,498	E n/a	n/a
Blackstone Real Estate	390,065	-	H Monthly	Repurchases at discretion of partner
Private equity and credit				
Bloomfield Capital	4,018,052	-	I n/a	n/a
Greenspring alternative invest	7,529,788	362,970	F n/a	n/a
Glendower alternative invest	2,930,556	1,434,188	F Not limited	See Note H below
Serenitas Credit Gamma	2,522,724	-	J Quarterly	Last business day of month
Reported at net asset value	<u>\$ 25,452,262</u>	<u>\$ 2,004,656</u>		
	2022 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic equity				
Westwood U.S. large cap	\$ 3,490,996	\$ -	A Not limited	Up to 30 days notice
Westwood U.S. small mid cap	3,251,525	-	A Not limited	Up to 30 days notice
Alkeon	2,289,484	-	C Quarterly	Last business day of month before 12 months holding
International equity				
Lazard international	6,571,183	-	G Daily	3 business days
Fixed income				
Loomis NHIT: multisector	8,637,725	-	B Daily	4:00 p.m. prior to trade date
Real estate / private REIT				
Harvest Interest Fund II	2,773,638	-	D n/a	n/a
Davis investment ventures	283,895	207,498	E n/a	n/a
Blackstone Real Estate	1,246,419	-	H Monthly	Repurchases at discretion of partner
Private equity and credit				
Bloomfield Capital	2,787,440	1,217,778.00	I n/a	n/a
Greenspring alternative invest	8,139,487	501,970	F n/a	n/a
Glendower alternative invest	3,326,199	1,434,188	F Not limited	See Note H below
Reported at net asset value	<u>\$ 42,797,991</u>	<u>\$ 3,361,434</u>		

The Fund seeks to provide long-term growth through capital appreciation and income by investing in securities issued by high quality, financially sound domestic companies with market capitalizations greater than \$5 billion. The fair values of the investments in this type have been determined using the NAV per share of the investments.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

- A. These funds seek to provide long-term growth through capital appreciation by investing in domestic common stocks or similar equity securities of high quality, financially secure companies listed on principal exchanges. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- B. The Trust's investment objective is total return from Bonds and Notes and to outperform the Bloomberg Capital U.S. Government/Credit Index. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- C. The fund's investment objective is to achieve maximum capital appreciation. The Master Fund pursues this objective by investing its assets primarily in equity securities of U.S. and foreign companies. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- D. This type includes investments in real estate funds that develop, own, and operate multiple property types as well as multifamily projects, all located in the U.S. These investments can never be redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated. There is no set redemption schedule for the funds. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- E. The real estate fund's investment objective is to acquire and originate debt and equity investments in real estate and real estate-related assets. This investment can never be redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- F. This type includes investments in 5 venture capital funds with the goal of investment returns from capital appreciation. Investments in the Greenspring investments in this type can never be redeemed. It is expected the fund will be liquidated on December 13, 2025. Investments in the Glendower investment can be redeemed with 30 days' notice, but only to another limited partner. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- G. This type's investment objective is to achieve long-term capital appreciation by investing, using a relative value approach, primarily in equity and equity-related securities of issuers that are located in, or do significant business in countries other than the United States, including emerging market countries. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- H. The Real Estate Income Trust (REIT) invests primarily in stabilized income-generating commercial real estate in the United States. To a lesser extent, the REIT may invest outside the U.S. and in real estate debt. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- I. This type's investment targets middle market real estate opportunities, investing in both debt and equity investments. The investment strategy has a primary focus on private credit and specialty finance assets with short to intermediate-term durations and often contractual cash flows. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- J. The fund's investment strategy is to trade and invest in a broad range of listed and unlisted credit securities.
- K. This type's investment objective is to generate risk-adjusted returns by trading primarily in short-term, non-investment grade corporate debt securities.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

### Note 4. Net Pension Liability

The components of the net pension liability of the Plan at December 31, 2023 and 2022, were as follows:

	2023	2022
Total pension liability	\$ 311,425,736	\$ 301,112,861
Plan fiduciary net position	83,691,663	80,979,438
Net pension liability	\$ 227,734,073	\$ 220,133,423
 Plan fiduciary net position as a percentage of total pension liability	26.87%	26.89%

Actuarial assumptions: The total pension liability was determined by an actuarial valuation dated as of December 31, 2023, using the following actuarial assumptions, applied to all periods included in the measurement. Update procedures were used to roll forward the total pension liability from the actuarial valuation date to the pension plan's fiscal year-end.

Inflation	2.75%	
Salary increases	3.00%	plus promotion, step and longevity increases that vary by service
Investment rate of return	7.00%	net of investment related expenses

Mortality rates were based on the Pub S-2010 MP-2019 updated Public Service mortality tables for males and for females (sex distinct) for all three types of mortality: pre-retirement, post-retirement, and post-disability.

Discount rate: The discount rate used to measure the total pension liability as of December 31, 2023 was 3.99%, which is a decrease of the December 31, 2022 discount rate of 4.11%. This single blended discount rate produced the present value of projected benefits that was equivalent to the sum of (a) the present value of benefits through 2045 discounted at the long-term expected rate of return of 7.0% and (b) the present value of benefits after 2045 discounted using 3.26% based on the Bond Buyer Index of general obligation bonds with 20 years to maturity at or near December 31, 2023. This method was used in accordance with GASB 67, as the amount of the Plan's fiduciary net position was not projected to be greater than or equal to the benefit payments that are projected to be made in that period.

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the Plan at December 31, 2023 and 2022, calculated using the discount rate of 3.99% and 4.11%, respectively, 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 or 1 - percentage-point higher than the rate used for the December 31, 2023 and 2022 valuation:

	1% Decrease 2.99%	Current Discount Rate 3.99%	1% Increase 4.99%
2023 Plan's net pension liability	\$ 277,803,578	\$ 227,734,073	\$ 187,775,229

  

	1% Decrease 3.11%	Current Discount Rate 4.11%	1% Increase 5.11%
2022 Plan's net pension liability	\$ 268,050,148	\$ 220,133,423	\$ 182,269,127

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2023 and 2022, are summarized in the following tables, respectively:

Asset Class	December 31, 2023 Long-Term Expected Real Rate of Return	Allocation to Asset Class
Domestic equities		
Large cap	5.25%	20.00%
Small/mid cap	5.75%	5.00%
International equities	5.75%	15.00%
Fixed income	0.75%	15.00%
Alternatives		
Real Estate	4.25%	10.00%
Venture Capital/Private Equity	7.25%	15.00%
Master Limited Partnerships	6.75%	10.00%
Private Credit	3.75%	5.00%
Cash	0.00%	5.00%
		<u>100.00%</u>

# Midland Firemen's Relief and Retirement Fund

## Notes to Financial Statements

Asset Class	December 31, 2022 Long-Term Expected Real Rate of Return	Allocation to Asset Class
Domestic equities		
Large cap	5.25%	17.00%
Small/mid cap	5.75%	3.00%
International equities		
Developed	5.75%	15.00%
Emerging markets	7.25%	5.00%
Fixed income	1.05%	15.00%
Alternatives		
Real estate	4.25%	17.00%
Private equity	7.25%	18.00%
Cash	0.00%	10.00%
		100.00%

### Note 5. Risks and Uncertainties

The Plan invests in 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 values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of fiduciary net position.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

### Note 6. Administration

The financial affairs of the Plan are administered by a bank trust department, multiple investment managers engaged by the Plan's Board of Trustees, and a plan administrator employed by the Plan. Investments are held at a separate institution for safekeeping. The expense of such services, legal, actuarial and auditing costs are paid by the Plan.

### Note 7. Reclassification

Several investment categories on the statement of fiduciary net position from 2022 were reclassified to match the 2023 investment classifications. Several Investment classifications in the fair value tables in the note disclosures were reclassified to match the 2023 investment classifications. Investment classifications were updated to better align with the Fund's new investment policy adopted November 9, 2023.

### Note 8. Subsequent Events

The City of Midland's City Council approved a 2% increase to the employer contribution from 22.2% to 24.2% effective January 1, 2024.

## **Required Supplementary Information**

# Midland Firemen's Relief and Retirement Fund

## Schedule of Changes in Net Pension Liability and Related Ratios

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>TOTAL PENSION LIABILITY</b>										
Service cost	\$ 12,273,369	\$ 18,447,677	\$ 15,104,164	\$ 12,589,269	\$ 7,068,081	\$ 7,379,188	\$ 4,531,907	\$ 4,336,753	\$ 4,197,602	\$ 3,843,870
Interest (includes interest on service cost)	12,643,407	9,980,243	10,181,819	10,542,067	11,146,672	10,263,125	11,265,786	10,654,714	10,022,772	9,442,123
Change of benefit terms	(16,980,187)	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	5,764,982	-	(3,100,310)	-	4,109,296	-	(5,933,150)	-	(800,260)	-
Changes of assumptions	8,132,817	(80,042,659)	17,709,555	27,206,943	75,415,005	(9,374,280)	66,944,828	-	1,104,367	-
Benefit payments, including refunds of employee contributions	(11,521,513)	(10,875,344)	(12,669,033)	(10,356,445)	(9,976,378)	(8,609,277)	(8,252,601)	(6,843,836)	(6,684,894)	(6,301,043)
Net change in total pension liability	10,312,875	(62,490,083)	27,226,195	39,981,834	87,762,676	(341,244)	68,556,770	8,147,631	7,839,587	6,984,950
Total pension liability - beginning	301,112,861	363,602,944	336,376,749	296,394,915	208,632,239	208,973,483	140,416,713	132,269,082	124,429,495	117,444,545
<b>TOTAL PENSION LIABILITY - ENDING (a)</b>	<b>\$ 311,425,736</b>	<b>\$ 301,112,861</b>	<b>\$ 363,602,944</b>	<b>\$ 336,376,749</b>	<b>\$ 296,394,915</b>	<b>\$ 208,632,239</b>	<b>\$ 208,973,483</b>	<b>\$ 140,416,713</b>	<b>\$ 132,269,082</b>	<b>\$ 124,429,495</b>
<b>PLAN FIDUCIARY NET POSITION</b>										
Contributions - employer	\$ 5,580,525	\$ 5,201,025	\$ 4,907,065	\$ 4,483,675	\$ 4,307,624	\$ 3,900,148	\$ 3,555,264	\$ 3,582,056	\$ 3,729,857	\$ 3,318,107
Contributions - employee	3,569,340	3,326,782	3,138,754	2,867,985	2,755,199	2,339,699	2,113,940	2,129,871	2,258,218	2,055,503
Net investment income	5,483,462	(10,056,095)	12,456,242	4,831,173	8,139,508	(7,141,143)	9,949,122	3,106,027	(708,892)	2,747,881
Benefit payments, including refunds of employee contributions	(11,521,513)	(10,875,344)	(12,669,033)	(10,356,445)	(9,976,378)	(8,609,277)	(8,252,601)	(6,843,836)	(6,684,894)	(6,301,043)
Administrative expenses	(399,589)	(388,777)	(406,490)	(330,045)	(390,405)	(230,738)	(279,569)	(251,621)	(211,442)	(222,705)
Other	-	-	-	-	(2)	-	3,627	66	7,118	3,863
Net change in plan fiduciary net position	2,712,225	(12,792,409)	7,426,538	1,496,343	4,835,546	(9,741,311)	7,089,783	1,722,563	(1,610,035)	1,601,606
Plan fiduciary net position - beginning	80,979,438	93,771,847	86,345,309	84,848,966	80,013,420	89,754,731	82,664,948	80,942,385	82,552,420	80,950,814
<b>PLAN FIDUCIARY NET POSITION - ENDING (b)</b>	<b>83,691,663</b>	<b>80,979,438</b>	<b>93,771,847</b>	<b>86,345,309</b>	<b>84,848,966</b>	<b>80,013,420</b>	<b>89,754,731</b>	<b>82,664,948</b>	<b>80,942,385</b>	<b>82,552,420</b>
<b>TOTAL NET PENSION LIABILITY - ENDING (a)-(b)</b>	<b>\$ 227,734,073</b>	<b>\$ 220,133,423</b>	<b>\$ 269,831,097</b>	<b>\$ 250,031,440</b>	<b>\$ 211,545,949</b>	<b>\$ 128,618,819</b>	<b>\$ 119,218,752</b>	<b>\$ 57,751,765</b>	<b>\$ 51,326,697</b>	<b>\$ 41,877,075</b>
Plan fiduciary net position as a percentage of the total pension liability	26.87%	26.89%	25.79%	25.67%	28.63%	38.35%	42.95%	58.87%	61.20%	66.34%
Covered payroll	\$ 25,136,197	\$ 23,428,041	\$ 22,103,901	\$ 20,196,734	\$ 19,403,712	\$ 17,568,234	\$ 16,014,703	\$ 16,135,387	\$ 17,107,712	\$ 15,571,992
Plan net pension liability as a percentage of covered payroll	906.00%	939.62%	1220.74%	1237.98%	1090.23%	732.11%	744.43%	357.92%	300.02%	268.93%

The Notes to Required Supplementary Financial Statements are an integral part of these statements.

# Midland Firemen's Relief and Retirement Fund

## Schedule of Contributions and Schedule of Investment Returns

### Schedule of Contributions:

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution <sup>(1)</sup>	\$ 10,532,067	\$ 10,659,759	\$ 8,266,859	\$ 7,553,579	\$ 6,182,023	\$ 5,597,239	\$ 3,555,264	\$ 3,582,056	\$ 3,729,857	\$ 3,318,107
Contributions in relation to the actuarially determined contribution	5,580,525	5,201,025	4,907,065	4,483,675	4,307,624	3,900,148	3,555,264	3,582,056	3,729,857	3,318,107
Contribution deficiency (excess)	\$ 4,951,542	\$ 5,458,734	\$ 3,359,794	\$ 3,069,904	\$ 1,874,399	\$ 1,697,091	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 25,136,197	\$ 23,428,041	\$ 22,103,901	\$ 20,196,734	\$ 19,403,712	\$ 17,568,234	\$ 16,014,703	\$ 16,135,387	\$ 17,089,837	\$ 15,559,705
Contributions as a percentage of covered payroll	22.20%	22.20%	22.20%	22.20%	22.20%	22.20%	22.20%	22.20%	21.83%	21.32%

(1) For 2019 and beyond the actuary did not provide an actuarially determined contribution. The actuary provided a contribution rate that would put the plan in compliance with Texas HB 3310 30 year maximum amortization period. The actuarially determined contribution reported for 2019 and onward is the covered payroll times the actuarially determined contribution rate.

### Schedule of Investment Returns:

Year Ending December 31,	Annual Money-Weighted Rate of Return Net of Investment Expense
2014	3.38%
2015	-0.85%
2016	3.87%
2017	12.28%
2018	-8.07%
2019	10.39%
2020	5.81%
2021	14.86%
2022	-10.88%
2023	6.89%

# Midland Firemen's Relief and Retirement Fund

## Notes to Required Supplementary Information

Valuation date	December 31, 2023
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll contributions
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Payroll growth	3.00%, reflecting future department growth and a competitive pay environment
Inflation	2.75%
Cost-of-living adjustments	None
Mortality	Pub S-2010 (public safety) Total Dataset Mortality Tables, projection scale MP-2019

# Midland Firemen's Relief and Retirement Fund

## Other Information (Unaudited)

### December 31, 2023

#### Direct and Indirect Fees and Commissions

ASSET CLASS	MANAGEMENT FEES PAID FROM TRUST	MANAGEMENT FEES NETTED FROM RETURNS	TOTAL INVESTMENT MANAGEMENT FEES (Management Fees Netted from Returns + Management Fees Paid From Trust)	BROKERAGE FEES/COMMISSIONS	PROFIT SHARE/CARRIED INTEREST	TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS (Management Fees + Brokerage Fees/Commissions + Profit Share)
Public Equity	\$ 167,429	\$ 546,637	\$ 714,066	\$ -	\$ -	\$ 714,066
Fixed Income	\$ 89,714	\$ 3,372	\$ 93,086	\$ -	\$ -	\$ 93,086
Real Assets	\$ 66,358	\$ -	\$ 66,358	\$ -	\$ -	\$ 66,358
Alternative/Other	\$ 301,267	\$ 18,510	\$ 319,777	\$ -	\$ (25,897)	\$ 293,880
<b>TOTAL</b>	<b>\$ 624,768</b>	<b>\$ 568,519</b>	<b>\$ 1,193,287</b>	<b>\$ -</b>	<b>\$ (25,897)</b>	<b>\$ 1,167,390</b>

#### Alternative/Other

#### Investment Managers

List of Alternative/Other Investments*	List of Investment Manager Names*	
Glendower Capital Secondary Opp. Fd IV	Westwood LCV	StepStone VC
StepStone VC	Westwood SMID Value	Bloomfield V
CNB	Vanguard 500	Loomis Sayles - Multisector Full Discretion Tr
Frost Bank (R&D)	Waycross Core Equity	Seacrest Diversified Income
Westwood Cash	Lazard Intl Strat Equity	Seacrest Global Income
	Morgan Stanley Intl Advantage	PIMCO Flexible Credit Income
	Morgan Stanley Emerging Mkts	Raddiffe Ultra Short Duration
	American Intl Growth & Inc	Serenitas Credit Gamma Fund
	Alkeon Growth Offshore	Dodge & Cox Income
	Blackstone REIT	PIMCO Income Fund Instl
	NBW Capital	
	Davis Investment Ventures Fund II-B, LP	
	Greenway Carbon Investments	
	Harvest Interest	
	Midland Property	
	Moriah Real Estate Co	
	Silverado Interests	
	Glendower Capital Secondary Opp. Fd IV	

#### Total Investment Expenses

<b>Total Direct and Indirect Fees and Commissions</b>	<b>\$ 1,167,390</b>
<b>Investment Services</b>	
Custodial	\$ 6,648
Analytic	\$ 33,589
Investment Consulting	\$ 35,267
Legal	\$ 10,096
<b>Total</b>	<b>\$ 85,600</b>
<b>Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)</b>	<b>\$ 1,252,990</b>