

Midland Firemen's Relief and Retirement Fund

Annual Financial Report
December 31, 2020

C O N T E N T S

Page

| | |
|--|----|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis (Unaudited)..... | 3 |
| Financial Statements | |
| Statements of Fiduciary Net Position | 7 |
| Statements of Changes in Fiduciary Net Position..... | 8 |
| Notes to Financial Statements..... | 9 |
| Required Supplementary Information (Unaudited) | |
| Schedule of Changes in Net Pension Liability and Related Ratios..... | 25 |
| Schedule of Contributions and Investment Returns..... | 26 |
| Notes to Required Supplementary Information..... | 27 |
| Supplementary Information (Unaudited) | 28 |



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Midland Firemen's Relief and Retirement Fund (the Plan), which comprise the statements of fiduciary net position as of December 31, 2020 and 2019, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The Plan's 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2020 and 2019, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Weaver and Tidwell, L.L.P.
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The Board of Trustees of
Midland Firemen's Relief and Retirement Fund

Emphasis of Matter

Investments with Values that are not Readily Determined

As discussed in Note 3, the financial statements include investments valued at \$39,397,939 and \$30,533,670 as of December 31, 2020 and 2019, 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.

Other Matters

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's financial statements. The Direct and Indirect Fees and Commissions is presented for purposes of additional analysis and is not a required part of the financial statements.

The Direct and Indirect Fees and Commissions is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Direct and Indirect Fees and Commissions is fairly stated, in all material respects, in relation to the financial statements as a whole.

The Direct and Indirect Fees and Commissions has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
July 30, 2021

Midland Firemen's Relief and Retirement Fund

Management's Discussion and Analysis (Unaudited)

December 31, 2020 and 2019

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, 2020 and 2019.

Financial Highlights

- The fiduciary net position at the close of the fiscal years ended December 31, 2020 and 2019, were \$86,345,309 and \$84,848,966, respectively;
- The fiduciary net position increased in 2020 by \$1,496,343. The changes in fiduciary net position were due mainly to increase in net appreciation in fair value of investments due to favorable investment market in 2020;
- In 2020 and 2019, the Plan reported cash and cash equivalents of \$17,975,717 and \$3,973,663, respectively. The decrease in 2020 was due mainly to timing, as one investment manager account was closed during the year, causing all assets to be moved to cash and cash equivalents; and
- The Plan received \$7.3 million in employer and member contributions during 2020 compared to \$7.1 million in 2019 due to growth in payroll.

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, 2020 and 2019

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 24 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 2020 and 2019 information. This information comes from the statements of fiduciary net position and changes in fiduciary net position for the years then ended.

Midland Firemen's Relief and Retirement Fund
Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

Condensed Statements of Fiduciary Net Position

| | 2020 | 2019 |
|---------------------------|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 17,975,717 | \$ 3,973,662 |
| Investments | 68,406,843 | 80,985,803 |
| Receivables | 19,044 | 132,115 |
| Total assets | 86,401,604 | 85,091,580 |
| Liabilities | | |
| Accounts payable | 56,295 | 242,614 |
| Total liabilities | 56,295 | 242,614 |
| Fiduciary net position | \$ 86,345,309 | \$ 84,848,966 |

Condensed Statements of Changes in Fiduciary Net Position

| | 2020 | 2019 |
|---|---------------|---------------|
| Additions | | |
| Contributions | \$ 7,351,660 | \$ 7,062,823 |
| Net investment income (loss) | 4,831,173 | 8,139,508 |
| Total additions | 12,182,833 | 15,202,331 |
| Deductions | | |
| Benefits paid directly to participants | 8,180,584 | 7,322,040 |
| Lump sum distributions | 2,175,861 | 2,654,338 |
| Wages expense and taxes | 139,225 | 171,028 |
| Administrative expenses | 190,820 | 219,379 |
| Total deductions | 10,686,490 | 10,366,785 |
| Changes in pension plan net position | 1,496,343 | 4,835,546 |
| Fiduciary net position, beginning of year | 84,848,966 | 80,013,420 |
| Fiduciary net position, end of year | \$ 86,345,309 | \$ 84,848,966 |

The Plan's fiduciary net position increased \$1.5 million or (1.8%) during 2020, versus a \$4.8 million, or 6%, increase during 2019. The increase in net position for 2020 was primarily driven by an increase of contributions of \$288,837, and a decrease in investment expenses of \$357,501. The Plan's overall portfolio recorded an investment return of 5.81% in 2020 due to favorable annual performance in equity markets. The overall total investment gain was \$4.8 million compared to an overall investment gain of \$8.1 million in 2019. Total contributions increased \$288,837, or 4%, primarily due to increases in pay. There was also an increase of \$380,067, or 4%, in benefits paid to members. The increase was mainly due to an increase in DROP payments paid out in 2020.

Midland Firemen's Relief and Retirement Fund
Management's Discussion and Analysis (Unaudited)
December 31, 2020 and 2019

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, P.O. Box 4296, Midland, Texas, 79704.

Financial Statements

Midland Firemen's Relief and Retirement Fund

Statements of Fiduciary Net Position

December 31, 2020 and 2019

| | 2020 | 2019 |
|---|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 17,975,717 | \$ 3,973,662 |
| Total cash and cash equivalents | 17,975,717 | 3,973,662 |
| Receivables | | |
| Accrued interest and declared dividends | 19,044 | 132,115 |
| Total receivables | 19,044 | 132,115 |
| Investments, at fair market value | | |
| Domestic equities | 8,435,625 | 8,614,902 |
| Foreign bonds | 24,760 | 5,254,614 |
| Corporate bonds | 9,865,269 | 23,630,913 |
| Mutual funds | 864,208 | 3,720,182 |
| Real estate | 17,649,283 | 15,169,312 |
| Hedge funds and venture capital | 11,471,439 | 9,022,106 |
| Government and agency obligations | 121,121 | 1,964,100 |
| International Equities | 19,975,138 | 13,084,999 |
| Municipal bonds | - | 524,675 |
| Total investments, at fair market value | 68,406,843 | 80,985,803 |
| Total assets | 86,401,604 | 85,091,580 |
| LIABILITIES | | |
| Accounts payable | 56,295 | 242,614 |
| Total liabilities | 56,295 | 242,614 |
| NET POSITION RESTRICTED FOR PENSION BENEFITS | \$ 86,345,309 | \$ 84,848,966 |

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, 2020 and 2019

| | 2020 | 2019 |
|--|---------------|---------------|
| ADDITIONS | | |
| Contributions | | |
| Employer contributions | \$ 4,483,675 | \$ 4,307,624 |
| Member contributions | 2,867,985 | 2,755,199 |
| Total contributions | 7,351,660 | 7,062,823 |
| Investment income | | |
| Net appreciation (depreciation) in fair value of investments | 4,693,757 | 7,008,485 |
| Interest | - | 402 |
| Dividends | 982,437 | 1,837,881 |
| Partnership | (49,342) | 425,280 |
| Rental income | 60,665 | 74,813 |
| Investment expenses | (857,506) | (1,215,007) |
| Net investment income | 4,830,011 | 8,131,854 |
| Other cash receipts | 1,162 | 7,654 |
| Total additions | 12,182,833 | 15,202,331 |
| DEDUCTIONS | | |
| Benefits paid including refunds of plan member contributions | 10,356,445 | 9,976,378 |
| Wages expense, benefits, and taxes | 139,225 | 171,028 |
| Administrative expenses | 190,820 | 219,379 |
| Total deductions | 10,686,490 | 10,366,785 |
| Changes in pension plan net position | 1,496,343 | 4,835,546 |
| NET POSITION RESTRICTED FOR PENSION BENEFITS, beginning of year | 84,848,966 | 80,013,420 |
| NET POSITION RESTRICTED FOR PENSION BENEFITS, end of year | \$ 86,345,309 | \$ 84,848,966 |

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

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 unless they are more than 35 years of age at the time they enter service.

Plan membership consisted of the following as December 31:

| | 2020 | 2019 |
|---|------|------|
| Retirees and beneficiaries currently receiving benefits | 191 | 181 |
| Terminated employees entitled to but not yet receiving benefits | 1 | 6 |
| Active members | 227 | 210 |
| Total | 419 | 397 |

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 2020 and 2019. The City's contribution rate was 22.2% for the years ending December 31, 2020 and 2019. Plan member and employer contributions of \$2,867,985 and \$4,483,675, respectively, were made for the year ended December 31, 2020. Plan member and employer contributions of \$2,755,199 and \$4,307,624, respectively, were made for the year ended December 31, 2019.

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.

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

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.

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."

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

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, 2020 and 2019 was \$689,062 and \$510,201 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.

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, hedge funds, venture capital and equity securities. The Board's adopted asset allocation policy as of December 31, 2020 and 2019 was 1-10% in cash or cash equivalents, 10-30% in bonds, 15-25% in emerging and developed international equities, 20-30% in Real Estate Class, and 5-15% in alternative investments.

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, 2020 and 2019.

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, 2020 and 2019, the Plan had the following debt securities and their related maturities, respectively:

| Investment Type | Fair Value | 2020 Investment Maturities (in years) | | | |
|-------------------------|-------------------|---------------------------------------|------------------|-------------|-------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Foreign bonds | \$ 145,881 | \$ - | \$ 24,760 | \$ - | \$ 121,121 |
| Corporate bonds | - | - | - | - | - |
| U.S. gov't securities | - | - | - | - | - |
| Municipal bonds | - | - | - | - | - |
| Total fair value | \$ 145,881 | \$ - | \$ 24,760 | \$ - | \$ 121,121 |

| Investment Type | Fair Value | 2019 Investment Maturities (in years) | | | |
|-------------------------|----------------------|---------------------------------------|----------------------|---------------------|-------------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Foreign bonds | \$ 5,254,614 | \$ 623,778 | \$ 4,044,360 | \$ 413,712 | \$ 172,764 |
| Corporate bonds | 12,082,065 | - | 12,082,065 | - | - |
| U.S. gov't securities | 1,964,100 | - | - | 1,964,100 | - |
| Municipal bonds | 524,675 | - | 524,675 | - | - |
| Total fair value | \$ 19,825,454 | \$ 623,778 | \$ 16,651,100 | \$ 2,377,812 | \$ 172,764 |

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, 2020 and 2019, 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 hedge funds and venture capital 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.

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

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.

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, 2020 and 2019, respectively, using the Moody's, S&P, or Fitch rating scale are presented below:

| Investment Type | Moody's Ratings | December 31, 2020 Fair Value | Total |
|-----------------|-----------------|---------------------------------|---------|
| Foreign bonds | Ca NR | \$ 121,121 24,760 | 145,881 |
| Total | | \$ 145,881 | |

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

| Investment Type | Moody's Ratings | December 31, 2019 Fair Value | Total |
|-------------------------|-----------------|---------------------------------|--------------|
| Govt/agency obligations | Aaa | \$ 1,964,100 | \$ 1,964,100 |
| Municipal bonds | Aa1 | 524,675 | 524,675 |
| Corporate bonds | A2 | 1,474,489 | |
| | A3 | 1,969,151 | |
| | Aa1 | 258,610 | |
| | Ba1 | 255,605 | |
| | Ba2 | 509,585 | |
| | Baa1 | 3,015,443 | |
| | Baa2 | 3,580,348 | |
| | Baa3 | 1,018,834 | 12,082,065 |
| Foreign bonds | Aa1 | 328,682 | |
| | Aa3 | 623,778 | |
| | Aaa | 505,825 | |
| | B1 | 460,412 | |
| | B2 | 519,450 | |
| | B3 | 257,950 | |
| | Ba2 | 781,011 | |
| | Baa2 | 1,191,030 | |
| | Baa3 | 413,712 | |
| | Caa2 | 172,764 | 5,254,614 |
| Total | | \$ 19,825,454 | |

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. There were no concentrations that needed to be disclosed in 2020 and 2019.

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 2020 and 2019 assets were priced in U.S. dollars.

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

Rate of return: For the years ended December 31, 2020 and 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.81% and 10.39% respectively. The money-weighted rate of return expresses investment performance, net of plan investment expense, adjusted for the changing amounts actually invested.

The following tables summarize the Plan's financial instruments measured at fair value as of December 31, 2020 and 2019, respectively, based on the three-tier hierarchy:

| | December 31, | 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 equities | \$ 2,459,136 | \$ 2,459,136 | \$ - | \$ - |
| Foreign bonds | 24,760 | - | 24,760 | - |
| Corporate bonds | - | - | - | - |
| Mutual funds | 864,208 | 864,208 | - | - |
| Real estate | 10,023,154 | - | - | 10,023,154 |
| Hedge funds and venture capital | 2,248,555 | 2,248,555 | - | - |
| Government and agency obligations | 121,121 | - | 121,121 | - |
| International equities | 15,546,110 | 15,546,110 | - | - |
| Total investments by fair value level | 31,287,044 | <u>\$ 21,118,009</u> | <u>\$ 145,881</u> | <u>\$ 10,023,154</u> |
| Investments measured at NAV | | | | |
| Domestic equities | 5,976,489 | | | |
| International Equities | 4,429,028 | | | |
| Corporate bonds | 9,865,269 | | | |
| Real estate | 7,626,129 | | | |
| Hedge funds and venture capital | 9,222,884 | | | |
| Total investments at NAV | <u>37,119,799</u> | | | |
| Total investments at fair value | <u>\$ 68,406,843</u> | | | |

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

| | December 31, 2019 | 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 equities | \$ 2,930,228 | \$ 2,930,228 | \$ - | \$ - |
| Foreign bonds | 5,254,614 | - | 5,254,614 | - |
| Corporate bonds | 12,082,065 | - | 12,082,065 | - |
| Mutual funds | 3,720,182 | 3,720,182 | - | - |
| Real estate | 7,177,630 | - | - | 7,177,630 |
| Hedge funds and venture capital | 3,713,640 | 3,713,640 | - | - |
| Government and agency obligations | 1,964,100 | - | 1,964,100 | - |
| International equities | 13,084,999 | 13,084,999 | - | - |
| Municipal bonds | 524,675 | - | 524,675 | - |
| Total investments by fair value level | 50,452,133 | <u>\$ 23,449,049</u> | <u>\$ 19,825,454</u> | <u>\$ 7,177,630</u> |
| Investments measured at NAV | | | | |
| Domestic equities | 5,684,674 | | | |
| Corporate bonds | 11,548,848 | | | |
| Real estate | 7,991,682 | | | |
| Hedge funds and venture capital | 5,308,466 | | | |
| Total investments at NAV | <u>30,533,670</u> | | | |
| Total investments at fair value | <u>\$ 80,985,803</u> | | | |

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, 2020 and 2019.

Domestic and international equities/real estate/hedge funds and venture capital (level 1): Valued at the closing price reported on the active market on which the individual securities are traded.

Foreign/Corporate/Municipal bonds (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.

Mutual funds (level 1): Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Government and agency obligations (level 2): Valued using pricing models maximizing the use of observable inputs for similar securities.

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.

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

Additional information related to investments measured at the net asset value (NAV) per share (or its equivalent) as of December 31, 2020 and 2019, respectively, is presented on the following tables:

| | December 31, 2020 Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---------------------------------|------------------------------------|-------------------------|-------------------------|--|
| Common stock | | | | |
| Westwood U.S. large cap | \$ 3,007,196 | \$ - | A Not limited | Up to 30 days notice |
| Westwood U.S. small mid cap | 2,969,293 | - | B Not limited | Up to 30 days notice |
| Corporate bonds | | | | |
| Loomis NHIT: multisector | 9,865,269 | - | D Daily | 4:00 p.m. prior to trade date |
| International Equities | | | | |
| Alkeon | 4,429,028 | - | E Quarterly | Last business day of month before 12 months holding |
| Real estate | | | | |
| CDK - various partnerships | 6,660,519 | - | F n/a | n/a |
| Davis investment ventures | 965,610 | 207,498 | G n/a | n/a |
| Hedge funds and venture capital | | | | |
| Greenspring alternative invest | 6,409,525 | 2,499,045 | H n/a | n/a |
| Glendower alternative invest | 2,813,359 | 2,535,007 | H Not limited | See Note H below |
| Reported at net asset value | <u>\$ 37,119,799</u> | <u>\$ 5,241,550</u> | | |

| | 2019 Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---------------------------------|----------------------|-------------------------|-------------------------|-------------------------------|
| Common stock | | | | |
| Westwood U.S. large cap | \$ 2,935,387 | \$ - | A Not limited | Up to 30 days notice |
| Westwood U.S. small mid cap | 2,749,287 | - | B Not limited | Up to 30 days notice |
| Corporate bonds | | | | |
| Westwood U.S. High Income | 3,019,656 | - | C Not limited | Up to 30 days notice |
| Loomis NHIT: multisector | 8,529,192 | - | D Daily | 4:00 p.m. prior to trade date |
| Real estate | | | | |
| CDK - various partnerships | 7,053,751 | - | F n/a | n/a |
| Davis investment ventures | 937,931 | 300,000 | G n/a | n/a |
| Hedge funds and venture capital | | | | |
| Greenspring alternative invest | 3,289,210 | 480,000 | H n/a | n/a |
| Glendower alternative invest | 2,019,256 | 3,272,902 | H Not limited | See Note I below |
| Reported at net asset value | <u>\$ 30,533,670</u> | <u>\$ 4,052,902</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.

- A. The Fund seeks to provide long-term growth through capital appreciation by investing in foreign and domestic common stocks or similar equity securities of high quality, financially secure companies listed on principal exchanges that typically fall within the market capitalization range of the Russell 2500 Index. 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

- B. The Fund seeks to provide a high total return, through the compounding of income and preservation of principal. Capital appreciation is a secondary objective. The Fund invests primarily in a variety of income-producing securities, including high-yield corporate bonds, convertible bonds, preferred stock, foreign debt securities and private placements. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- C. The Trust's investment objective is total return from Bonds and Notes and to outperform the Bloomberg Barclays Capital U.S. Government/Credit Index (the "Index"). The fair values of the investments in this type have been determined using the NAV per share of the investments.
- D. The Master 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 that the Investment Manager believes are well positioned to benefit from demand for their products or services, including companies that can innovate or grow rapidly relative to their peers in their markets. The Master Fund also pursues its objective through securities sold, not yet purchased (short sales) when the Investment Manager believes that the market price of a security is above its estimated intrinsic or fundamental value. The fair values of the investments in this type have been determined using the NAV per share of the investments.
- E. This type includes investments in 11 real estate funds that develop, own, and operate multiple property types as well as multifamily projects, all located in the U.S. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. These investments can never be redeemed with the funds. 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. Because it is not probable that any individual investment will be sold, the fair value of each individual investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital.
- F. The real estate fund's investment objective is to acquire and originate debt and equity investments in real estate and real estate-related assets, primarily in the northeast U.S. The fair value of the investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital. This investment can never be redeemed. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is expected that the fund will be liquidated in January 2021. Because it is not probable that any individual investment will be sold, the fair value of the investment has been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partners' capital.
- G. This type includes investments in 3 hedge funds that invest both long and short primarily in U.S. private equity, with the goal of investment returns from capital appreciation. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments in the Greenspring investments in this type can never be redeemed. It is expected the fund will be liquidated in December 13, 2025. Investments in the Glendower investment can be redeemed with 30 days' notice, but only to another limited partner.

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, 2020 and 2019, were as follows:

| | 2020 | 2019 |
|--|----------------|----------------|
| Total pension liability | \$ 336,376,749 | \$ 237,690,193 |
| Plan fiduciary net position | 86,345,309 | 84,848,966 |
| Net pension liability | \$ 250,031,440 | \$ 152,841,227 |
| Plan fiduciary net position as a percentage of total pension liability | 25.67% | 35.70% |

Actuarial assumptions: The total pension liability was determined by an actuarial valuation dated as of December 31, 2019, 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 | 3.00% |
| Salary increases | 3.25% plus promotion, step and longevity increases that vary by service |
| Investment rate of return | 7.50% net of investment related expenses |

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2008 - December 31, 2013. Mortality rates were based on the PubS-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, 2020 was 2.95%. 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 2040 discounted at the long-term expected rate of return of 7.5% and (b) the present value of benefits after 2040 discounted using 2.12% based on the Bond Buyer Index of general obligation bonds with 20 years to maturity at/near December 31, 2020. 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.

The discount rate as of December 31, 2019 was revised from the December 31, 2017 actuarial valuation from 4.37% to 2.95%, as the Plan's fiduciary net position was not projected to benefit payments, as mentioned above. The Plan is currently in the process of preparing a funding soundness restoration plan, in accordance with Texas House Bill No. 3310 Section 5. Certain disclosures related to the net pension liability were revised in these financial statements to reflect the situation described above.

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, 2020 and 2019, calculated using the discount rate of 2.95% and 4.37%, 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 (1.95%, 3.37%) or 1 - percentage-point higher (3.95%, 5.37%) than the rate used for the December 31, 2020 and 2019 valuation:

| | 1% Decrease (1.95%) | Current Discount Rate (2.95%) | 1% Increase (3.95%) |
|-----------------------------------|------------------------|-------------------------------------|------------------------|
| 2020 Plan's net pension liability | \$ 309,688,686 | \$ 250,031,440 | \$ 203,014,661 |
| | | Current Discount Rate (4.37%) | 1% Increase (5.37%) |
| 2019 Plan's net pension liability | \$ 185,571,165 | \$ 152,841,225 | \$ 126,053,540 |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2020 and 2019, are summarized in the following tables, respectively:

| Asset Class | December 31, 2020 Long-Term Expected Real Rate of Return | Allocation to Asset Class* |
|------------------------|--|-------------------------------|
| Domestic equities | | |
| Large cap | 5.50% | 14.00% |
| Small/mid cap | 6.00% | 3.00% |
| International equities | | |
| Developed | 6.00% | 13.00% |
| Emerging markets | 7.00% | 4.00% |
| Fixed income | 1.30% | 15.00% |
| Alternatives | | |
| Real estate | 4.50% | 23.00% |
| Private equity | 7.00% | 23.00% |
| Cash | 0.00% | 5.00% |
| | | 100.00% |

* As measured for the December 31, 2019 valuation.

Midland Firemen's Relief and Retirement Fund

Notes to Financial Statements

| Asset Class | December 31, 2019 Long-Term Expected Real Rate of Return | Allocation to Asset Class* |
|------------------------|--|-------------------------------|
| Domestic equities | | |
| Large cap | 5.65% | 15.00% |
| Small/mid cap | 6.15% | 5.00% |
| International equities | | |
| Developed | 6.15% | 15.00% |
| Emerging markets | 7.65% | 5.00% |
| Fixed income | 1.45% | 20.00% |
| Alternatives | | |
| Real estate | 4.65% | 25.00% |
| Private equity | 7.65% | 10.00% |
| Cash | 0.00% | 5.00% |
| | | 100.00% |

* As measured for the December 31, 2017 valuation.

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.

Required Supplementary Information

Midland Firemen's Relief and Retirement Fund

Schedule of Changes in Net Pension Liability and Related Ratios*

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| TOTAL PENSION LIABILITY | | | | | | | |
| Service cost | \$ 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) | 10,542,067 | 11,146,672 | 10,263,125 | 11,265,786 | 10,654,714 | 10,022,772 | 9,442,123 |
| Differences between expected and actual experience | - | 4,109,296 | - | (5,933,150) | - | (800,260) | - |
| Changes of assumptions | 27,206,943 | 75,415,005 | (9,374,280) | 66,944,828 | - | 1,104,367 | - |
| Benefit payments, including refunds of employee contributions | (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 | 39,981,834 | 87,762,676 | (341,244) | 68,556,770 | 8,147,631 | 7,839,587 | 6,984,950 |
| Total pension liability - beginning | 296,394,915 | 208,632,239 | 208,973,483 | 140,416,713 | 132,269,082 | 124,429,495 | 117,444,545 |
| TOTAL PENSION LIABILITY - ENDING (a) | \$ 336,376,749 | \$ 296,394,915 | \$ 208,632,239 | \$ 208,973,483 | \$ 140,416,713 | \$ 132,269,082 | \$ 124,429,495 |
| PLAN FIDUCIARY NET POSITION | | | | | | | |
| Contributions - employer | \$ 4,483,675 | \$ 4,307,624 | \$ 3,900,148 | \$ 3,555,264 | \$ 3,582,056 | \$ 3,729,857 | \$ 3,318,107 |
| Contributions - employee | 2,867,985 | 2,755,199 | 2,339,699 | 2,113,940 | 2,129,871 | 2,258,218 | 2,055,503 |
| Net investment income | 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 | (10,356,445) | (9,976,378) | (8,609,277) | (8,252,601) | (6,843,836) | (6,684,894) | (6,301,043) |
| Administrative expenses | (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 | 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 | 84,848,966 | 80,013,420 | 89,754,731 | 82,664,948 | 80,942,385 | 82,552,420 | 80,950,814 |
| PLAN FIDUCIARY NET POSITION - ENDING (b) | 86,345,309 | 84,848,966 | 80,013,420 | 89,754,731 | 82,664,948 | 80,942,385 | 82,552,420 |
| TOTAL NET PENSION LIABILITY - ENDING (a)-(b) | \$ 250,031,440 | \$ 211,545,949 | \$ 128,618,819 | \$ 119,218,752 | \$ 57,751,765 | \$ 51,326,697 | \$ 41,877,075 |
| Plan fiduciary net position as a percentage of the total pension liability | 25.67% | 28.63% | 38.35% | 42.95% | 58.87% | 61.20% | 66.34% |
| Covered payroll | \$ 20,196,734 | \$ 19,403,712 | \$ 17,568,234 | \$ 16,014,703 | \$ 16,135,387 | \$ 17,089,837 | \$ 15,559,705 |
| Plan net pension liability as a percentage of covered payroll | 1237.98% | 1090.23% | 732.11% | 744.43% | 357.92% | 300.33% | 269.14% |

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Midland Firemen's Relief and Retirement Fund

Schedule of Contributions* and Schedule of Investment Returns*

Schedule of Contributions:

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|--------------|--------------|--------------|--------------|
| Actuarially determined contribution ⁽¹⁾ | \$ 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 | 4,483,675 | 4,307,624 | 3,900,148 | 3,555,264 | 3,582,056 | 3,729,857 | 3,318,107 |
| Contribution deficiency (excess) | <u>\$ 3,069,904</u> | <u>\$ 1,874,399</u> | <u>\$ 1,697,091</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$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% | 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 of 37.40%. 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% |

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Midland Firemen's Relief and Retirement Fund

Notes to Required Supplementary Information

| | |
|-------------------------------|--|
| Valuation date | December 31, 2019 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of payroll contributions |
| Remaining amortization period | PubS-2010 (public safety) Total Dataset Mortality Tables, projection scale MP-2019 |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Payroll growth | 3.25%, reflecting future department growth and a competitive pay environment |
| Inflation | 3.00% |
| Cost-of-living adjustments | None |
| Salary increases | 3.25% general annual compensation increase plus an average of 2.57% per year for pay increase due to promotions and longevity over a 25-year career. |
| Retirement age | Average expected age of 53.2 |
| Mortality | PubS-2010 (public safety) Total Dataset Mortality Tables, projection scale MP-2019 |

Changes in Actuarial Assumptions

The changes in assumptions in the December 31, 2019 actuarial valuation from the December 31, 2017 valuations are as follows:

- Long term expected rate of return changed from 7.75% to 7.5%. Aggregate payroll increase assumption changed from 3.25% to 3%.
- General compensation decreased assumption for future projections from 3.5% to 3.25%.
- Aggregate payroll increase assumption used for determining UAAL amortization period decreased from 4% to 3.25%.
- Administrative expenses increased from 1.4% to 1.7%.
- Mortality assumptions changed from RP-2000 Combined Healthy Mortality tables projected by Scale AA to 2024 to PubS-2010 (public safety) total dataset mortality tables for employees and for retirees, projected for mortality improvement generationally using the projection scale MP-2019.

