The Woodlands Firefighters' Retirement System

Basic Financial Statements
for the year ended December 31, 2019
and Independent Auditors' Report

The Woodlands Firefighters' Retirement System

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Independent Auditors' Report

To the Board of Trustees of
The Woodlands Firefighters' Retirement System:

Report on the Financial Statements

We have audited the accompanying financial statements of The Woodlands Firefighters' Retirement System (the System), as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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 Woodlands Firefighters' Retirement System as of December 31, 2019, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on page 3 and the required supplementary information on pages 15-19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Additional Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedule of investments held as of December 31, 2019 on page 20 is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Blazek & Vetterling

Houston, Texas
April 9, 2020

The Woodlands Firefighters' Retirement System
Management's Discussion and Analysis
For the year ended December 31, 2019
(unaudited)

As sponsor for The Woodlands Firefighters' Retirement System (the System), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2019. This information should be considered in conjunction with the System's basic financial statements.

The System is a single-employer defined benefit plan created to provide retirement benefits to active paid firefighters of The Woodlands Township (the Township). Contributions to the System are contractually-determined. The Township and members of the System have made the contractually-determined contributions during 2019.

Financial Highlights:

- The fiduciary net position of the System at December 31, 2019 and 2018 was $42,315,851 and $32,950,794, respectively. This net position is restricted for the payment of future member retirement benefits.
- During the years ended December 31, 2019 and 2018, the System's net position increased by $9,365,057 and $664,003, respectively.
- Contributions to the System are made through contributions from the sponsor and members. These contributions totaled $2,881,798 and $2,796,840 for the years ended December 31, 2019 and 2018, respectively.
- Investment earnings, net of related investment expenses, totaled $6,761,762 and $(1,968,611) for the years ended December 31, 2019 and 2018, respectively.
- During the years ended December 31, 2019 and 2018, benefit payments, including refunds of member contributions, totaled $143,323 and $64,413, respectively. The System also pays administrative expenses related to the third-party administrator and other operating expenses of the System. Those expenses totaled $135,180 and $99,813 for the years ended December 31, 2019 and 2018, respectively.

Contacting the System's Financial Management

This financial report is designed to provide employees, creditors, and other interested parties with a general overview of the System's finances and to show accountability for the custodial duty it has undertaken. Questions concerning any of the information provided in this report or requests for additional information should be addressed to The Woodlands Firefighters' Retirement System, Jennifer Hanna, Plan Administrator, P. O. Box 1250, Conroe, Texas 77305.

The Woodlands Firefighters' Retirement System

Statement of Fiduciary Net Position as of December 31, 2019

ASSETS:	
Cash and cash equivalents	$ 668,182
Investments, at fair value:	
Mutual funds	30,815,840
Fixed-income securities	7,597,732
Limited partnership	3,051,667
Total investments, at fair value	41,465,239
Contributions receivable	157,318
Accrued interest and dividends receivable	37,644
TOTAL ASSETS	$ 42,328,383
LIABILITIES:	
Accounts payable	$ 12,532
FIDUCIARY NET POSITION:	
Fiduciary net position restricted for pensions	42,315,851
TOTAL LIABILITIES AND FIDUCIARY NET POSITION	$ 42,328,383

See accompanying notes to financial statements.

The Woodlands Firefighters' Retirement System

Statement of Changes in Fiduciary Net Position for the year ended December 31, 2019

ADDITIONS:	
Contributions:	
Employer contributions	$ 1,440,899
Member contributions	1,440,899
Total contributions	2,881,798
Investment income:	
Interest and dividends	1,095,557
Net appreciation in fair value of investments	5,813,823
Investment expenses	(147,618)
Total investment income	6,761,762
Total additions	9,643,560
DEDUCTIONS:	
Benefit payments, including refunds of member contributions	143,323
Administrative expenses	135,180
Total deductions	278,503
NET INCREASE IN FIDUCIARY NET POSITION	9,365,057
Fiduciary net position, beginning of year	32,950,794
Fiduciary net position, end of year	$ 42,315,851

See accompanying notes to financial statements.

NOTE 1 – DESCRIPTION OF PLAN

The following brief description of The Woodlands Firefighters' Retirement System (the System) is provided for general informational purposes only. Participants should refer to the System's plan document for a more complete description of the System's provisions.

General – The System was formed in accordance with the provisions of H.B. 258 passed by the Texas State Legislature in 1937, with the purpose of providing pension benefits to volunteer, part-time and full-time firefighters. The System is a governmental plan under Section 414(d) of the Internal Revenue Code of 1986, as amended, and is a single-employer defined benefit pension plan covering active paid firefighters of The Woodlands Township (the Township) for the purpose of providing these firefighters retirement, death, disability, and withdrawal benefits. The operation of the System is solely for the Township firefighters. As a governmental entity, the System is not subject to the provisions of the Employee Retirement Security Act of 1974 (ERISA).

Plan administration – The assets of the System are held in trust and are administered in accordance with State law by a volunteer Board of Trustees (the Board). The Board of the System is composed of seven members: the President or the President's designated representative, the Township's Chief Financial Officer or person designated by the Chief Financial Officer, three active members of the System elected by participating members, and two citizen members elected by the other members of the Board. The Board has general powers and duties to administer the System, including appointing an administrator to carry out the business of the Board, investing the assets of the System, making expenditures from the System, and determining eligibility for benefits.

Plan membership – At December 31, 2019, the System's plan membership consists of the following:

Inactive plan members or beneficiaries currently receiving benefits	2
Inactive plan members entitled to, but not yet receiving benefits	4
Active plan members	141
Total	147

Benefits – The System provides retirement, death, disability and withdrawal benefits for all firefighters of the Township, unless such employee was 36 years old or older and affirmatively made an irrevocable election in writing to not participate on January 1, 2015, the effective date of the System. A member who has been credited with 20 years or more of credited service is eligible to receive a normal retirement benefit upon the later of: (1) the member's termination of service with the fire department or (2) the attainment of age 52. The System provides a monthly benefit at retirement of the highest average monthly salary, times 2.5%, times 20, plus 3% of the highest monthly average salary for each year of service in excess of 20 years.

The normal form of benefit is monthly payments for the life of the member in an amount equal to the normal retirement benefit determined as discussed above; provided, however in the event that (1) a member dies following commencement of his or her normal retirement benefit, and (2) the member had not received 120 monthly benefit payments, then the member's eligible beneficiary will continue to receive monthly normal retirement benefit payments until 120 total monthly benefit payments have been made. Optional methods for payment also are available.

An active member will qualify for a disability retirement benefit if the Board determines that the member is unable to perform the duties of (1) his or her present position with the fire department or (2) a position offered to him or her in the fire department providing the member with pay that is greater than or equal to the pay the disabled member would have received in his or her present position with the fire department. The member's disability retirement benefit under the System is a monthly payment equal to their highest average monthly pay, times 2.5%, times credited service, but utilizing no less than 20 years of credited service.

In the event of death of a member while an active employee of the fire department, or after the member terminates employment with the fire department but before any other benefit payments have commenced, the member's eligible beneficiary will be eligible for a monthly benefit. The death benefit is a monthly benefit equal to 75% of the highest average monthly pay, times 2.5%, times 20, plus the highest average monthly pay, times 3%, times credited service in excess of 20 years, calculated as of the member's date of death, provided that the credited service utilized in applying such formula is not less than 20 years.

Certain members of the System are entitled to refunds of their accumulated contributions upon termination of employment with the Township, prior to being eligible for pension benefits.

<u>Deferred Retirement Option Program</u> – During 2018, the System was amended to add a Deferred Retirement Option Program (DROP). A member is eligible for this program after the attainment of age 52 and 20 years of credited service if an election to participate is made while the member is still in active service. Once the DROP is elected, the member is treated as if he or she has retired as of the elected date, although the member will continue to work, and his or her monthly annuity benefit is calculated as of the date of the election. The monthly annuity benefit will be deferred and will commence at the time of the member's actual retirement from the Township's fire department.

During the DROP period, certain amounts will be credited each month to a bookkeeping account under the member's name, under one of two options. Under the first option, a member's monthly annuity benefit amount during the DROP period will be credited each month to the DROP account and the member must continue to make the required contributions to the System, although no contributions will be credited to the account. Under the second option, the member's monthly annuity benefit amount, reduced by 5%, and the member's contributions will be credited each month to the DROP account. There is no balance in the DROP at December 31, 2019.

<u>Contributions</u> – The funding policy of the System requires contributions equal to 12% of pay by the firefighters, the rate elected by the firefighters on August 28, 2014. The Township currently contributes 12% of pay for each active firefighter. The actuarial valuation includes the assumption that the Township contribution rate will be 12% over the unfunded actuarial accrued liability (UAAL) amortization period.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of presentation</u> – These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles and reporting guidelines established by the Governmental Accounting Standards Board (GASB).

Cash equivalents include highly liquid financial instruments with original maturities of three months or less.

Investments and investment income – Investments are reported at fair value. Fair value is 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.

Purchases and sales of investments are recorded on the trade date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation in fair value of investments includes the System's gains and losses on investments bought and sold as well as held during the year.

Fiduciary net position represents assets and deferred outflows, less liabilities and deferred inflows. Fiduciary net position is reported as *restricted* when constraints placed on net position are either externally-imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Member and employer contributions are recognized when due, pursuant to formal commitments according to the System requirements and State statutes.

Benefit payments and refunds of member contributions are recognized when due and payable in accordance with the terms of the System.

Administrative expenses are paid by the System from current earnings pursuant to an annual fiscal budget approved by the Board of the System.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and the 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 vary from the estimates that were used.

NOTE 3 – NET PENSION LIABILITY OF THE SYSTEM

The components of the net pension liability of the System at December 31, 2019 are as follows:

Total pension liability	$ 39,546,188
System fiduciary net position	(42,315,851)
System's net pension asset	$ (2,769,663)
System fiduciary net position as a percentage of the total pension liability	107%

Actuarial Assumptions

The total pension liability was determined by actuarial valuation as of December 31, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	4.00%-11.50%
Investment rate of return	7.00%

Mortality rates were based on the PubS-2010 (above-median, amount-weighted) mortality tables projected generationally with Scale MP-2019.

The long-term expected rate of return on System investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of System investment expenses 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. The best estimate of current inflation is 2.50% per year. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2019 are as follows:

ASSET CLASS	LONG-TERM EXPECTED RATE OF RETURN
Equities	7.5%
Fixed-income	2.5%
Real Estate	4.5%

Discount rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions would equal 12% of compensation and that the Township's contributions would equal 12% of payroll. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current System members. Therefore, the long-term expected rate of return on pension investments of 7.00% was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to change in the discount rate – The following presents the net pension liability (asset), calculated using the discount rate of 7.00%, as well as the System's net pension liability (asset) as if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% DECREASE (6.00%)	CURRENT DISCOUNT RATE (7.00%)	1% INCREASE (8.00%)
Net pension liability (asset)	$3,509,152	$(2,769,663)	$(7,956,711)

Actuarial information – The System may adopt an actuarial valuation once every two years in order to determine whether the fund has an adequate contribution arrangement. The most recent actuarial valuation was completed for the year ended December 31, 2019. The Board has adopted and certified the December 31, 2019 actuarial valuation, based on an assumed total contribution rate of 24%, comprised of 12% by the firefighters and 12% by the Township. This total contribution rate exceeds the normal cost rate of 22.01%, leaving 1.99% available to amortize the UAAL. The total contributions are sufficient to pay the System's normal cost to amortize the System's UAAL, which is $(2,769,663) at December 31, 2019 based on the scheduled annual contribution rates.

The System's contribution rates and the actuarial information included in the notes and supplemental schedules are based on certain assumptions pertaining to interest rates, inflation rates, and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

NOTE 4 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The System's cash and cash equivalents at December 31, 2019 consist of the following:

Demand deposits	$ 3,956
Money market mutual funds	664,226
Total cash and cash equivalents	$ 668,182

The Board has contracted with Andco Consulting, LLC and Garcia Hamilton & Associates, L.P. as investment advisors for the System's investments, to provide advice and guidance on managing the System's assets. The System's investments are held at Front Bank, custodian of the assets.

Investment Policy

The System's policy for the allocation of invested assets is established and can be amended by the Board. It is the policy of the Board to pursue an investment strategy that earns a long-term rate of return on assets in excess of the long-term return assumption utilized in the System's actuarial valuation report. The following was the Board's adopted asset allocation policy as of December 31, 2019 and 2018:

ASSET CLASS	2019 TARGET ALLOCATION	2018 TARGET ALLOCATION
Equities	70%	73%
Fixed-income	22.5%	20%
Alternative investments	7.5%	5%
Cash		2%
Total	100%	100%

Concentrations of Credit Risk

Investments in any one organization that represent 5% or more of the System's fiduciary net position are considered concentrations of credit risk. The System's investments that represent 5% or more of the fair value of the System's fiduciary net position as of December 31, 2019 are as follows:

Vanguard Total Stock Market Index Fund	$19,195,004
American Funds EuroPacific Growth Fund	$6,413,175
Clarion Lion Properties Fund	$3,051,667
American Beacon Small Cap Value Fund	$2,153,209

Money-Weighted Rate of Return

The money-weighted rate of return is calculated as a rate of return on pension plan investments incorporating the timing and amount of cash flows. This return is calculated net of investment expenses. The annual money-weighted rate of return on plan investments for the year ended December 31, 2019 was 20.01%.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Interest rate risk inherent in the portfolio is measured by monitoring the segmented time distribution of the investments in the portfolio. The System invests in fixed-income securities with maturities greater than one year. The System's investment policy sets limits on exposure to certain securities as a way of managing its exposure to potential fair value losses arising from future changes in interest rates. As of December 31, 2019, the System had the following fixed-income securities subject to interest rate risk:

FIXED-INCOME MATURITY	FAIR VALUE	% OF FAIR VALUE
7 to 12 months	$ 174,990	2%
1 to 5 years	4,198,179	55%
6 to 10 years	1,640,456	22%
10 to 15 years	883,023	12%
25 to 30 years	701,084	9%
Total	$ 7,597,732	100%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to it. While the System has no formal policy regarding custodial credit risk, as of December 31, 2019, all cash deposits were fully insured by the Federal Deposit Insurance Corporation. The System's deposits are held by the custodian, Frost Bank.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent, but not in the System's name. At December 31, 2019, the System had no investments that were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System does not have a formal policy limiting investment credit risk, but rather mandates such limits within its investment policy.

As of December 31, 2019, the System's fixed-income securities had the following credit quality ratings:

	FAIR VALUE	MOODY'S	STANDARD AND POORS
United States Treasury Bonds	$ 1,228,795	AAA	AAA
Federal Home Loan Banks	1,044,485	AAA	AA+
United States Treasury Notes	855,470	AAA	AAA
JP Morgan Chase & Company	360,991	A2	A-
Bank of America Corporation	357,928	A2	A-
Morgan Stanley	354,302	A3	BBB+
Wells Fargo & Company	350,978	A3	A-
Goldman Sachs Group Incorporated	314,235	A2	BBB+
Citigroup Incorporated	308,526	A3	BBB+
Comcast Corporation	308,059	A3	A-
American Express Company	307,568	A3	BBB+
United Parcel Service Incorporated	271,112	AA2	A
Consolidated Edison Company of New York Incorporated	270,729	A2	A-
Bank of New York Mellon Corporation	254,360	A1	A
Qualcomm Incorporated	252,075	A2	A-
Apple Incorporated	252,063	AA1	AA+
Federal Farm Credit Banks	189,972	AAA	AA+
Intel Corporation	180,767	A1	A+
Allstate Corporation	135,317	A3	A-
Total fixed-income securities	$ 7,597,732		

Risks and Uncertainties

Investments are exposed to various risks such as interest rate, market, liquidity and credit risks. Because of the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position and statement of changes in fiduciary net position.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a hierarchy that prioritizes inputs used to measure fair value. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Mutual funds	$ 30,815,840			$ 30,815,840
Fixed-income securities:				
Corporate bonds		$ 4,279,010		4,279,010
U. S. Treasury securities	2,084,265			2,084,265
U. S. government agency bonds		1,234,457		1,234,457
Total assets measured at fair value hierarchy	$ 32,900,105	$ 5,513,467	$ 0	38,413,572
Investments measured at net asset value as practical expedient:				
Clarion Lion Properties fund (a)				3,051,667
Investments at fair value				$ 41,465,239

(a) The System has an interest in a limited partnership which is an open-end real estate fund that holds a strategically diversified portfolio of real estate assets across the four main property types in major markets located throughout the United States. The primary performance objective is to combine an attractive income yield with long-term growth. Redemption requests can be made quarterly with 90 days' notice. There are no unfunded commitments at December 31, 2019.

Following is a description of the valuation methods for assets measured at fair value. There have been no changes in methods used at December 31, 2019.

- *Mutual funds* are valued at the net asset value (NAV) of the shares held by the System at year end.
- *Corporate bonds* and *U. S. government agency bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.
- *U. S. Treasury securities* are valued using prices obtained from active market makers and inter-dealer brokers on a daily basis.
- *Clarion Lion Properties Fund* is valued at the NAV of the shares held by the System. The NAV is used as a practical expedient to estimate the fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – TAX STATUS

The System has received a determination letter from the Internal Revenue Service (IRS) dated November 10, 2016, stating that the System was in compliance with the applicable requirements of the Internal Revenue Code (the Code) and, therefore, the System is exempt from taxation. Subsequent to this determination by the IRS, the System was amended and restated. Once qualified, the System is required to operate in conformity with the Code to maintain its qualification. The plan administrator believes the

System is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the System, as amended and restated, is qualified.

NOTE 7 – PLAN TERMINATION

The System may only be terminated in accordance with Section 31 of the Texas Local Fire Fighters Retirement Act with the approval of the Board and the participating members of the System.

NOTE 8 – SUBSEQUENT EVENTS

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession and the U. S. stock market has experienced a significant decline and remains volatile. Were the System's financial statements prepared subsequent to December 31, 2019, the value of investments would be substantially lower which would have resulted in a significant reduction in the System's fiduciary net position and net pension assets.

Management has evaluated subsequent events through April 9, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

The Woodlands Firefighters' Retirement System

Schedule of Changes in the System's Net Pension Liability (unaudited)

	2019	2018	2017	2016	2015
Total pension liability:					
Service cost	$ 2,432,667	$ 2,313,411	$ 2,339,051	$ 2,231,125	$ 2,082,564
Interest	2,514,662	2,010,932	2,014,981	1,689,051	141,034
Changes of benefit terms		(1,968,666)			
Differences between expected and actual experience	430,210	(208,947)	(535,534)	632,469	(654,318)
Changes in assumptions	749,231	1,215,535			20,468,906
Contributions – buy back					
Benefit payments, including refunds of member contributions	(143,323)	(64,413)		(8,867)	(135,573)
Net change in total pension liability	5,983,447	3,297,852	3,818,498	4,543,778	21,902,613
Total pension liability – beginning	33,562,741	30,264,889	26,446,391	21,902,613	
Total pension liability – ending	$ 39,546,188	$ 33,562,741	$ 30,264,889	$ 26,446,391	$ 21,902,613
System fiduciary net position:					
Contributions – buy back					$ 20,468,906
Contributions – employer	$ 1,440,899	$ 1,398,420	$ 1,341,931	$ 1,313,411	1,184,257
Contributions – member	1,440,899	1,398,420	1,341,931	1,313,411	1,184,257
Net investment return	6,761,762	(1,968,611)	3,426,958	1,531,275	(387,995)
Administrative expenses	(135,180)	(99,813)	(74,619)	(82,751)	(129,741)
Benefit payments, including refunds of member contributions	(143,323)	(64,413)		(8,867)	(135,573)
Net change in System fiduciary net position	9,365,057	664,003	6,036,201	4,066,479	22,184,111
System fiduciary net position – beginning	32,950,794	32,286,791	26,250,590	22,184,111	
System fiduciary net position – ending	$ 42,315,851	$ 32,950,794	$ 32,286,791	$ 26,250,590	$ 22,184,111
Net pension liability (asset) – ending	$ (2,769,663)	$ 611,947	$ (2,021,902)	$ 195,801	$ (281,498)

(continued)

The Woodlands Firefighters' Retirement System

Schedule of Changes in the System's Net Pension Liability (unaudited) *(continued)*

	2019	2018	2017	2016	2015
System fiduciary net position as a percentage of total pension liability	107.00%	98.18%	106.68%	99.26%	101.29%
Covered employee payroll	$12,007,492	$11,482,958	$11,153,108	$10,687,680	$9,868,808
Net pension liability (asset) as a percentage of covered employee payroll	(23.07%)	5.33 %	(18.13)%	1.83%	(2.85%)

Notes to Schedule:

	2019	2018	2017	2016	2015
Benefit changes	None	Addition of Deferred Retirement Option Plan (DROP)	None	None	None
Changes of assumptions – Mortality rates	Updated to project generationally with Scale MP-2019 tables	Updated to reflect PubS-2010 tables	None	None	None
Retirement rates	None	Updated to reflect DROP participation	None	None	None

Note: The above is intended to provide information for 10 years; however, the System began effective January 1, 2015, and the above only presents information for those years that the System has been in existence.

The Woodlands Firefighters' Retirement System

Schedule of Employer Contributions (unaudited)

	2019	2018	2017	2016	2015
Contractually-required contributions	$ 1,440,899	$ 1,398,420	$ 1,341,931	$ 1,313,411	$ 1,184,257
Actual contributions	(1,440,899)	(1,398,420)	(1,341,931)	(1,313,411)	(1,184,257)
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0	$ 0
Covered employee payroll	$12,007,492	$11,482,958	$11,153,108	$10,687,680	$9,868,808
Contributions as a percentage of covered employee payroll	12%	12%	12%	12%	12%

Notes to Schedule:

Contribution requirements are not actuarially determined; however, Texas Local Firefighters Retirement Act requires that each change in plan benefits be first approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed Township contributions provide an adequate contribution arrangement to support the proposed change. There have been no changes in System benefits since the inception of the System that would require an actuarial evaluation of contribution requirements. The contractually agreed contribution requirements are 12% of covered payroll for both the employer and employee.

Methods and assumptions used to determine contribution rates:

Mortality: PubS-2010 (above-median, amount weighted) rates with mortality table projected generationally using Scale MP-2019.

Investment rate of return: 7.00% annually, net of investment-related expenses. This is supported by the target asset allocation of the trust and the expected long-term return by asset class.

Termination: Age-based. Sample rates are shown below.

AGE	PROBABILITY
20	9.8%
30	2.8%
40	0.4%
50	0.2%

Disability: Age-based. Sample rates are shown below.

AGE	PROBABILITY
20	0.07%
30	0.09%
40	0.15%
50	0.50%

(continued)

The Woodlands Firefighters' Retirement System

Schedule of Employer Contributions (unaudited) *(continued)*

Retirement:

AGE	SERVICE 20-23 YEARS	SERVICE 24+ YEARS
52	11.67%	11.67%
53	6.67%	6.67%
54	6.67%	6.67%
55	6.67%	6.67%
56	8.33%	75.00%
57	8.33%	75.00%
58	10.00%	76.67%
59	10.00%	76.67%
60	16.67%	83.33%
61	16.67%	83.33%
62	33.33%	100.00%

Salary increases:

SERVICE	INCREASE
0-4	11.5%
5-9	6.3%
10-14	5.0%
15+	4.0%

Payroll growth:	None (for purposes of amortizing the UAAL).
Cost-of-living adjustment:	None.
Marital status:	75% of active participants are assumed to be married. Males are assumed to be three years older than females.
Actuarial cost method:	Individual entry age normal, level % of pay.
Actuarial asset method:	Fair market value.

Note: The above is intended to provide information for 10 years; however, the System began effective January 1, 2015, and the above only presents information for those years that the System has been in existence.

The Woodlands Firefighters' Retirement System

Schedule of Money-Weighted Investment Returns (unaudited)

	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	20.01%	(5.89)%	12.50%	6.61%	(2.39)%

Note: The above is intended to provide information for 10 years; however, the System began effective January 1, 2015, and the above only presents information for those years that the System has been in existence.

The Woodlands Firefighters' Retirement System

Schedule of Investments Held as of December 31, 2019 (unaudited)

Description of Investment	Fair Value
Mutual funds:	
Vanguard Total Stock Market Index Fund	$ 19,195,004
American Funds Europacific Growth Fund	6,413,175
American Beacon Small Cap Value Fund	2,153,209
Conestoga Small Cap Fund	2,021,562
Pacific Funds Floating Rate Income Fund	1,032,890
Total mutual funds	30,815,840
Fixed-income securities:	
United States Treasury Bonds	1,228,795
Federal Home Loan Banks	1,044,485
United States Treasury Notes	855,470
JP Morgan Chase & Company	360,991
Bank of America Corporation	357,928
Morgan Stanley	354,302
Wells Fargo & Company	350,978
Goldman Sachs Group Incorporated	314,235
Citigroup Incorporated	308,526
Comcast Corporation	308,059
American Express Company	307,568
United Parcel Service Incorporated	271,112
Consolidated Edison Company of New York Incorporated	270,729
Bank of New York Mellon Corporation	254,360
Qualcomm Incorporated	252,075
Apple Incorporated	252,063
Federal Farm Credit Banks	189,972
Intel Corporation	180,767
Allstate Corporation	135,317
Total fixed-income securities	7,597,732
Limited partnership:	
Clarion Lion Properties Fund	3,051,667
Total investments	$ 41,465,239