

AUDITED
ANNUAL FINANCIAL REPORT
For The Year Ended August 31, 2019



Texas Emergency Services Retirement System

208 E. 10th Street, 3rd Floor, Suite 309

Austin TX 78701
(800) 919-3372
www.tesrs.texas.gov

TABLE OF CONTENTS

LETTER OF TRANSMITTAL

FINANCIAL SECTION:

| | |
|--|----|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | |
| Exhibit I – Governmental Fund Balance Sheet/Statement of Net Position.... | 8 |
| Exhibit II – Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities..... | 9 |
| Exhibit III – Statement of Fiduciary Net Position | 10 |
| Exhibit IV – Statement of Changes in Fiduciary Net Position..... | 11 |
| Notes to the Financial Statements: | |
| Note 1 – Summary of Significant Accounting Policies..... | 12 |
| Note 2 – Capital Assets..... | 16 |
| Note 3 – Deposits and Investments | 16 |
| Note 4 – Summary of Long Term Liabilities | 20 |
| Note 5 – Interfund Balances/Activities..... | 20 |
| Note 6 – Employees' Retirement Plan | 20 |
| Note 7 – Deferred Compensation..... | 21 |
| Note 8 – Contingent Liabilities..... | 21 |
| Note 9 – Continuance Subject to Review..... | 21 |
| Note 10 – Risk Financing and Related Insurance | 21 |
| Note 11 – Pension Disclosures | 22 |

REQUIRED SUPPLEMENTARY INFORMATION

| | |
|--|----|
| Schedule of Changes in the System's Net Pension Liability and Related Ratios..... | 26 |
| Schedule of Investment Returns | 27 |

OTHER SUPPLEMENTARY SCHEDULES

| | |
|---|----|
| Schedule 1 – Pension Fund Investments..... | 28 |
| Schedule 2 – Administrative Expenses for TESRS Trust Fund | 38 |
| Schedule 3 – Investing Activity Expenses..... | 39 |
| Schedule 4 – Board Members..... | 40 |

Texas Emergency Services Retirement System



Jenny Moore, Chairman
Kevin Deiters, Executive Director

P.O. Box 12577 Austin, TX 78711-2577

(800) 919-3372

www.tesrs.texas.gov

December 20, 2019

Honorable Greg Abbott, Governor
Honorable Dan Patrick, Lieutenant Governor
Honorable Dennis Bonnen, Speaker of the House
Honorable Glenn Hegar, Texas Comptroller
Mr. John McGeady, Assistant Director, Legislative Budget Board
Ms. Lisa Collier, First Assistant State Auditor

Dear Lady and Gentlemen:

I am pleased to submit the Audited Annual Financial Report of the Texas Emergency Services Retirement System for the year ending August 31, 2019, in compliance with the Texas Government Code Ann. 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Weaver and Tidwell, L.L.P. has audited the accompanying Annual Financial Report and their opinion of the financial statements is contained in this report.

If you have any questions, please contact L. Wayne Oberhoff, CFO at (512) 936-3422.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kevin B. Deiters".

Kevin B. Deiters
Executive Director

Independent Auditor's Report

To the Board of Trustees and Executive Director
Texas Emergency Services Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas Emergency Services Retirement System (the System), as of and for the year ended August 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

The System'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 fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Texas Emergency Services Retirement System, as of August 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Fund Financial Statements

As discussed in Note 1, the financial statements present only the System, a fiduciary fund of the State of Texas and do not purport to, and do not, present fairly the financial position of the State of Texas as of August 31, 2019 and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Investments With Values That Are Not Readily Determined

As discussed in Notes 1 and 3, the financial statements include investments valued at approximately \$13,225,000 as of August 31, 2019, 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, and schedule of investment returns as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The information in Schedules 1 through 4 as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Board of Trustees and Executive Director
Texas Emergency Services Retirement System

The information in Schedules 1 through 3 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. Such 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 in Schedules 1 through 3 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The information in Schedule 4 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.

Report on Summarized Comparative Information

We have previously audited the System's fiscal year 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Austin, Texas
December 20, 2019

MANAGEMENT’S DISCUSSION AND ANALYSIS

This discussion and analysis provides an overview of the financial activities of the Texas Emergency Services Retirement System (‘TESRS’ or the ‘System’) for the year ending August 31, 2019. Please review this narrative in conjunction with the Basic Financial Statements, which begin after this discussion.

Using this Annual Financial Report

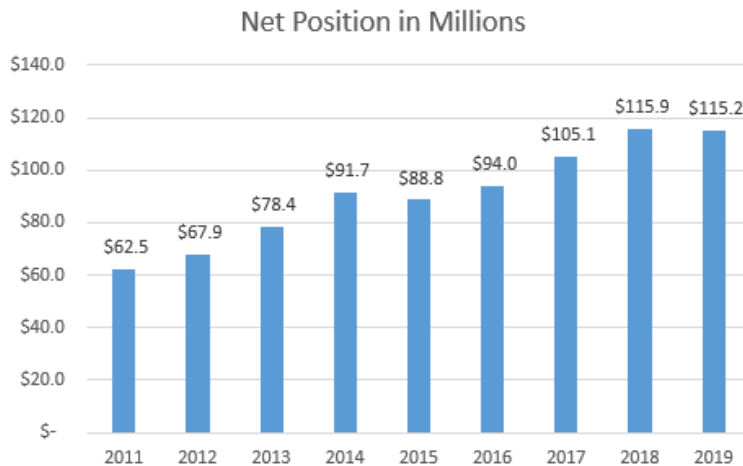
The Texas Emergency Services Retirement System administers death, disability, and pension benefits, to eligible volunteer fire and emergency services personnel and their beneficiaries from member departments statewide. At the close of fiscal year 2019, there were 237 member departments in the System.

This discussion and analysis is intended to serve as an introduction to the System’s basic financial presentation, which presents the net position held in trust for pension benefits as of August 31, 2019, and summarizes the changes. The information available in each of these sections is briefly summarized below.

- **Financial Statements** – Fund Financial statements are presented as of August 31, 2019, and reflect the resources available to pay benefits to retirees and other beneficiaries for covered plan participants, and for System administration costs.
- **Notes to the Financial Statements** – The notes to the financial statements provide information essential to a full understanding of the financial statements.
- **Required Supplementary Information** -- Required supplementary information consists of a Schedule of Changes in the System’s Net Pension Liability and Related Ratios and a Schedule of Investment Returns.
- **Other Supplementary Schedules** – Other schedules include information on System investments, administrative expenses, investing expenses, and Trustees.

Statement of Plan Net Position

Net position held in trust at the end of fiscal year 2019 totaled \$115.2 million, which represents a decrease of \$708 thousand over funds held at the close of fiscal year 2018.



The majority of plan assets are held as investments. The money weighted net real rate of return on investments was 1.00% as of August 31, 2019.

As part of its investment Policy, the Board of Trustees sets asset allocation targets for each of its investment strategies. Actual asset allocations are monitored by staff and reviewed by the Trustees on a regular basis. Amounts invested in funding categories are considered for rebalancing when actual allocations fall outside of the approved target ranges. At the close of fiscal year 2019, system investment details were as follows:

| Summary of Assets as of August 31, 2019 | | | | |
|--|-----------------------|--------------------------|--------------------------|-------------------------|
| Investment Category | Actual Amounts | Actual Allocation | Target Allocation | Allocation Range |
| Cash and equivalents | \$818,318 | 0.7% | 0.0% | 0%-10% |
| Short Term Investments | \$2,184,256 | 1.9% | 0.0% | 0.0% |
| US Market Equities-Large Cap | | | | |
| Value | \$16,641,161 | 14.7% | 15.0% | 11%-21% |
| Growth | \$17,145,245 | 15.1% | 15.0% | 11%-21% |
| US Market Equities-Small/Mid Cap | | | | |
| Value | \$7,786,612 | 6.9% | 7.5% | 2.5%-12.5% |
| Growth | \$7,900,366 | 7.0% | 7.5% | 2.5%-12.5% |
| International Equity-Developed Markets | | | | |
| | \$15,759,188 | 13.9% | 15.0% | 10%-20% |
| International Equity-Emerging Markets | | | | |
| | \$5,118,562 | 4.5% | 5.0% | 0%-10% |
| Core Fixed Income | | | | |
| | \$24,914,654 | 22.0% | 20.0% | 10%-25% |
| Master Limited Partnerships (Energy) | | | | |
| | \$4,015,734 | 3.5% | 5.0% | 0%-10% |
| US Core Real Estate | | | | |
| | \$5,130,394 | 4.5% | 5.0% | 0%-10% |
| Multi-Asset Investments | | | | |
| | \$5,804,196 | 5.1% | 5.0% | 0%-10% |
| Other | | | | |
| Payables and other liabilities | -\$101,461 | N/A | N/A | N/A |
| Receivables | \$2,038,251 | N/A | N/A | N/A |
| Total assets as of August 31, 2019 | \$115,155,476 | 100.0% | 100.0% | |

Statement of Fiduciary Net Position

The TESRS System is a pension program exclusively for volunteer fire and emergency services personnel, which is financed by local contributions (each department must have a political subdivision designated as its 'governing entity' that enters into an irrevocable agreement with the System on behalf of the department), state contributions, and investment income.

Governing entities contribute a minimum of \$36 per member per month based on rosters of active participants – these payments are reflected as 'Dues' in the financial statements. Additionally, within two years of joining the System, member departments may purchase up to ten years credit for active volunteers with service prior to a department's entry into the System. Payments made of this nature, are shown as 'Prior Service' in the financial statements. The following illustrates the changes in the fiduciary net position from fiscal years 2018 to 2019:

| Description | 2019 | 2018 | Increase/ (Decrease) | % Change |
|---------------------------|----------------------|----------------------|-------------------------|--------------|
| Total Assets | \$115,256,937 | \$116,099,661 | -\$842,724 | -0.7% |
| Total Liabilities | -\$101,461 | -\$235,767 | -\$134,306 | -57.0% |
| Total Net Position | \$115,155,476 | \$115,863,894 | -\$708,418 | -0.6% |

Statement of Changes in Fiduciary Net Position of Pension Fund

Additions

The primary additions as of August 31, 2019 are shown below, along with those same categories in fiscal year 2018 for comparative purposes. The amount shown as Net Investment Income is comprised of net appreciation in fair value of investments, plus treasury interest, plus interest and investment income, less investing activities expenses. Additions (as well as deductions) may all be found on Exhibit IV in the Combined Statement of Changes in Fiduciary Net Position.

| Description | 2019 | 2018 | Increase/ (Decrease) | % Change |
|-------------------------|-------------|--------------|-------------------------|----------|
| Original Appropriations | \$1,329,224 | \$1,329,224 | \$0 | 0.0% |
| Dues | \$3,476,063 | \$3,876,450 | -\$400,387 | -10.3% |
| Prior Service | \$4,446 | \$222,385 | -\$217,939 | -98.0% |
| Net Investment Income | \$1,136,801 | \$11,309,991 | -\$10,173,190 | -89.9% |

Deductions

Total deductions are comprised of benefit payments and the cost of administering the system, as shown below.

| Description | 2019 | 2018 | Increase/ (Decrease) | % Change |
|-------------------------|-------------|-------------|-------------------------|----------|
| Death Benefits | \$226,682 | \$266,034 | -\$39,352 | -14.8% |
| Retirement Benefits | \$5,645,189 | \$5,019,686 | \$625,503 | 12.5% |
| Disability Benefits | \$27,050 | \$35,450 | -\$8,400 | -23.7% |
| Survivor Benefits | \$533,003 | \$518,450 | \$14,553 | 2.8% |
| Administrative Expenses | \$226,806 | \$158,142 | \$68,664 | 43.4% |

Actuarial Status

On November 29, 2018, the Board received and accepted the August 31, 2018 actuarial valuation report from Rudd and Wisdom, Inc. that concluded that the System has an adequate contribution arrangement, assuming that:

- the state will continue to appropriate the maximum annual contribution as needed in accordance with the state law governing the System;
- the state will contribute \$725,000 each year to pay for part of the System's administrative expenses; and

- due to the funded status of the System and the expectation of continued state contributions, the actuary determined that the additional Part Two contribution from member Departments is not necessary to ensure an adequate contribution arrangement.

The calculated August 31, 2018 amortization period needed to pay for the \$22,845,636 in unfunded actuarial accrued liabilities of the system is 24 years. The funding ratio is 83.4%.

It should be noted that without expected appropriations from the state and the expected additional contributions from participating departments, the System would have an inadequate contribution arrangement because the unfunded actuarial accrued liability (UAAL) will never be amortized, but instead will increase every year. According to state statute, the state must contribute the sum necessary to make the fund actuarially sound each year, with the caveat that the state's contribution may not exceed the amount of one-third of the total of all contributions by governing bodies in one year.

The Schedule of Changes in the System's Net Pension Liability and Related Ratios for the Last 10 fiscal Years (under Section II-Required Supplementary Information) shows a total Net Pension Liability of \$28,345,563 and a related funding ratio of 80.2% for the fiscal year ending August 31, 2019. The difference between these numbers and those reflected in the August 31, 2018 actuarial valuation is due to the valuation methodology of investment assets. The actuarial valuation utilizes a smoothing method which tends to produce less volatility than the market value method, which is required in the Annual Financial Report.

Request for Information

This financial report is designed to provide a general overview of the Texas Emergency Services Retirement System finances for those with an interest in the System. Questions concerning any of the information provided in this report should be emailed to info@tesrs.texas.gov.

AUDITED

Texas Emergency Services Retirement System
Exhibit I - Governmental Fund Balance Sheet/Statement of Net Position
August 31, 2019

| | General Fund | | | |
|---|-----------------------|--------------|-----------------------------------|-----------------------------------|
| | Balance Sheet 2019 | Adjustments* | Statement of Net Position 2019 | Statement of Net Position 2018 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Legislative Appropriations | \$ 91,638 | \$ - | \$ 91,638 | \$ 83,857 |
| Consumable Inventories | 2,251 | - | 2,251 | 2,793 |
| Total Current Assets | 93,889 | - | 93,889 | 86,650 |
| Non-Current Assets: | | | | |
| Capital Assets: | | | | |
| Depreciable: | | | | |
| Other Capital Assets (Note 2) | - | - | - | - |
| Less Accumulated Depreciation (Note 2) | - | - | - | - |
| Total Non-Current Assets | - | - | - | - |
| Total Assets | \$ 93,889 | \$ - | \$ 93,889 | \$ 86,650 |
| LIABILITIES AND FUND BALANCES/NET POSITION | | | | |
| Liabilities: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ 83,781 |
| Employees' Compensable Leave (Note 4) | - | 28,734 | 28,734 | 18,909 |
| Total Current Liabilities | - | 28,734 | 28,734 | 102,690 |
| Non-Current Liabilities: | | | | |
| Employees' Compensable Leave (Note 4) | - | 15,656 | 15,656 | 23,956 |
| Total Non-Current Liabilities | - | 15,656 | 15,656 | 23,956 |
| Total Liabilities | \$ - | \$ 44,390 | \$ 44,390 | \$ 126,646 |
| FUND BALANCES/NET POSITION | | | | |
| Fund Balances (Deficits): | | | | |
| Nonspendable | \$ 2,251 | \$ (2,251) | \$ - | \$ - |
| Unassigned | 91,638 | (91,638) | - | - |
| Total Fund Balances | 93,889 | (93,889) | - | - |
| Net Position: | | | | |
| Unrestricted | - | 49,499 | 49,499 | (39,996) |
| Total Net Position | - | 49,499 | 49,499 | (39,996) |
| Total Liabilities and Fund Balances/Net Position | \$ 93,889 | \$ - | \$ 93,889 | \$ 86,650 |

* Adjustments represent Capital Assets and the liability for Compensable Leave, and the conversion from Fund Balance to Net Position.

AUDITED

**Texas Emergency Services Retirement System
Exhibit II - Statement of Governmental Fund Revenues, Expenditures,
and Changes in Fund Balances/Statement of Activities
For the Fiscal Year Ended August 31, 2019**

| | General Fund | | | |
|--|---|-----------------|-------------------------|--------------------|
| | Statement of Revenues, Expenditures, and Changes in Fund Balance 2019 | Adjustments* | Statement of Activities | |
| | | | 2019 | 2018 |
| REVENUES | | | | |
| Legislative Appropriations: | | | | |
| Original Appropriations | \$ 716,486 | | \$ 716,486 | \$ 716,486 |
| Additional Appropriations | 141,666 | | 141,666 | 153,563 |
| Total Revenues | <u>858,152</u> | <u>-</u> | <u>858,152</u> | <u>870,049</u> |
| EXPENDITURES/EXPENSES | | | | |
| Salaries and Wages | \$ 455,915 | \$ 1,525 | \$ 457,440 | \$ 531,643 |
| Payroll Related Costs | 158,105 | | 158,105 | 169,465 |
| Professional Fees and Services | 90,756 | | 90,756 | 101,701 |
| Travel | 16,406 | | 16,406 | 18,922 |
| Materials and Supplies | 18,306 | | 18,306 | 31,352 |
| Communication and Utilities | 9,038 | | 9,038 | 9,078 |
| Repairs and Maintenance | 13,455 | | 13,455 | 941 |
| Rentals & Leases | 200 | | 200 | 6 |
| Printing and Reproduction | 1,389 | | 1,389 | 3,133 |
| Other Expenditures | 3,520 | | 3,520 | 8,410 |
| Total Expenditures/Expenses | <u>\$ 767,090</u> | <u>\$ 1,525</u> | <u>\$ 768,615</u> | <u>\$ 874,651</u> |
| Excess(Deficiency) of Revenues Over (Under) Expenditures/Expenses | <u>91,062</u> | <u>(1,525)</u> | <u>89,537</u> | <u>(4,602)</u> |
| Excess of Revenues and Transfers In Over Expenditures and Transfers Out | 91,062 | (91,062) | | |
| Change in Net Position | 91,062 | (91,062) | 89,537 | (4,602) |
| Fund Balances/Net Position | | | | |
| Fund Balances/Net Position--Beginning of Year | 2,869 | | (39,996) | (34,907) |
| Appropriations Lapsed | (42) | | (42) | (487) |
| Restatements | | | | |
| Fund Balances/Net Position--End of Year | <u>\$ 93,889</u> | | <u>\$ 49,499</u> | <u>\$ (39,996)</u> |

*Adjustments are associated with compensable leave and capital outlay, and the conversion from Fund Balance to Net Position.

AUDITED

Texas Emergency Services Retirement System
Exhibit III - Statement of Fiduciary Net Position
Pension Trust Funds
August 31, 2019

| | Pension Trust | |
|---|-----------------------|-----------------------|
| | 2019 | 2018 |
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents: | | |
| Cash in State Treasury (Note 3) | \$ 818,318 | \$ 263,829 |
| Short Term Investments (Note 3, Schedule 1) | 2,184,256 | 1,101,697 |
| Receivables: | | |
| Retirement System Contributions | 1,673,650 | 1,917,143 |
| Interest and Dividends | 225,153 | 208,528 |
| Sale of Investments | 1,675 | 42,729 |
| Total Current Assets | <u>4,903,052</u> | <u>3,533,926</u> |
| Non-Current Assets: | | |
| Receivables: | | |
| Retirement System Contributions | 137,773 | 556,374 |
| Investments (Note 3, Schedule 1) | | |
| Corporate Equity | 66,957,688 | 62,329,443 |
| US Government Obligations | 9,466,736 | 13,528,469 |
| Corporate Obligations | 15,447,918 | 11,367,835 |
| Other Investments | 18,343,769 | 24,783,614 |
| Total Non-Current Assets | <u>110,353,884</u> | <u>112,565,735</u> |
| Total Assets | <u>\$ 115,256,936</u> | <u>\$ 116,099,661</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Payables: | | |
| Accounts Payables | \$ 78,094 | \$ 123,438 |
| Investment Purchases Payable | 23,366 | 112,329 |
| Unearned Revenue | - | - |
| Other Payables | | |
| Total Current Liabilities | <u>101,460</u> | <u>235,767</u> |
| Total Liabilities | <u>\$ 101,460</u> | <u>\$ 235,767</u> |
| NET POSITION | | |
| Restricted for Pensions | <u>\$ 115,155,476</u> | <u>\$ 115,863,894</u> |

AUDITED

**Texas Emergency Services Retirement System
Exhibit IV - Statement of Changes in Fiduciary Net Position
Pension Trust Funds
Year Ended August 31, 2019**

| | Pension Trust | |
|---|-----------------------|-----------------------|
| | 2019 | 2018 |
| ADDITIONS | | |
| Contributions: | | |
| Dues | \$ 3,466,658 | \$ 3,847,152 |
| Prior Service | 4,446 | 222,385 |
| Interest on Contracts to Purchase | | |
| Prior Service | 9,405 | 29,298 |
| Appropriations from General Revenue | 1,329,224 | 1,329,224 |
| Total Contributions | <u>4,809,733</u> | <u>5,428,059</u> |
| Investment Income: | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | (918,356) | 10,102,829 |
| Treasury Interest | 29,030 | 23,281 |
| Interest and Investment Income | 2,472,199 | 1,725,620 |
| Total | <u>1,582,873</u> | <u>11,851,730</u> |
| Less Investing Activities Expense (Schedule 3) | 446,072 | 541,739 |
| Net Increase/Loss | <u>1,136,801</u> | <u>11,309,991</u> |
| Other Additions: | | |
| Voided checks | 3,778 | 3,818 |
| Total Other Additions | <u>3,778</u> | <u>3,818</u> |
| Total Additions | <u>\$ 5,950,312</u> | <u>\$ 16,741,868</u> |
| DEDUCTIONS | | |
| Retirement System Benefits Paid: | | |
| Death Benefits | \$ 226,682 | \$ 266,034 |
| Retirement Benefits | 5,645,189 | 5,019,686 |
| Disability Benefits | 27,050 | 35,450 |
| Survivor's Benefits | 533,003 | 518,450 |
| Administrative Expenses (Schedule 2) | 226,806 | 158,141 |
| Total Deductions | <u>\$ 6,658,730</u> | <u>\$ 5,997,762</u> |
| Net Increase | (708,418) | 10,744,106 |
| NET POSITION RESTRICTED FOR PENSIONS | | |
| Beginning of the Year | 115,863,894 | 105,119,788 |
| End of Year | <u>\$ 115,155,476</u> | <u>\$ 115,863,894</u> |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Texas Emergency Services Retirement System (TESRS) is an agency of the State of Texas and its financial records comply with state statutes and regulations. The nine-member Board of Trustees, appointed by the Governor, establishes policy for the administration of the TESRS.

TESRS, which is under the authority of Title 8, Subtitle H, Chapters 861-865 of the Texas Government Code, provides death and disability benefits to active volunteer fighters and first responders, and a pension to members with vested service, as well as to their survivor/beneficiaries. For financial reporting purposes, the State of Texas is considered the primary reporting government. TESRS' financial statements are included in the State's Comprehensive Annual Financial Report.

This report includes all activities and organizations for which TESRS exercises fiscal control and responsibility and includes all funds that comprise its legal entity. No blended or discretely presented component units have been identified as having a relationship to TESRS.

B. BASIS OF ACCOUNTING

The accounts of TESRS are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a complete set of self-balancing accounts that comprise its assets, liabilities, additions, deductions, revenues and expenses/expenditures. Separate financial statements are provided for each fund. The following fund types are used to reflect its transactions:

GOVERNMENTAL FUND TYPE

The general fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The general fund Statement of Net Position and Statement of Activities are maintained on the full accrual basis of accounting and the economic resources measurement focus.

FIDUCIARY FUND TYPES

The fiduciary fund reports assets held in a trustee or agency capacity on behalf of others. Financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. Contributions are recognized immediately upon billing, reflecting actual participation in the member fire department during the prior quarter. Benefits are recognized when due and payable in accordance with the terms of the plan.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd.

All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in the fund's financial statements. Capital assets are depreciated.

C. BUDGETS AND BUDGETARY ACCOUNTING

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor.

Encumbrance accounting is employed for budgetary control purposes. Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

D. ASSETS, LIABILITIES AND FUND BALANCES/NET POSITION

ASSETS

Cash and Cash Equivalents

The category Cash and Cash Equivalents includes cash on hand, cash in state treasury, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments of TESRS are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian, Bank of Texas. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments. Two investments are held which are non-publicly traded, so no quoted market prices are available. For the Custodial Bank Short Term Investment fund, a unit or share value of \$1.00 is used, as reported by the Custodial Bank. For the Invesco Intl Growth 2 Class A Commingled Fund, the August 31 monthly statement provided by the fund manager, Invesco Trust Company, is used. This statement provides the NAV/unit and total market value of TESRS' interest in this fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd.

Accounts Receivable

Accounts receivable represents contributions due to TESRS, and investment income earned but not received as of August 31, 2019.

Pursuant to Senate Bill No. 411, 65th Legislature, Regular Session (1977) - TESRS Fund, sponsors of current pension plans that elect to participate in the pension system administered by TESRS must make contributions to the pension system to fund the unfunded prior service costs applicable to their volunteer emergency service personnel. The sponsors of current pension plans have the option of funding these contributions. The time period for funding is established by board rule, and is a maximum of 10 years. However, there are some contracts still outstanding which were operating under a previous rule which set the maximum at 40 years. TESRS has entered into written contracts with these merging sponsors, establishing the terms of the funding of the buybacks and unfunded prior service costs. The contracts specify interest on the unpaid balance, which is the actuarially assumed investment rate of return at the effective date of the contract.

Accounts Receivable relating to these contracts are shown on the Statement of Fiduciary Net Position. As of August 31, 2019, the total outstanding balance of these financing arrangements was \$159,288.

Inventories

Inventories, shown on the balance sheet at cost, consist of inventories of consumable office supplies and postage at August 31, 2019. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental fund types. The cost of these items is expensed when the items are consumed.

LIABILITIES

Payables

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending, as well as investment purchases executed but not yet closed.

Unearned Revenue

Unearned Revenue represents the liability that the TESRS has to pay future retirement benefits that are prepaid by local governing bodies.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd.

Employees' Compensable Leave

Employees' Compensable Leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or noncurrent in the Governmental Statement of Net Position.

FUND BALANCE / NET POSITION

The difference between fund assets and liabilities is "Net Position" on the Governmental Statement of Net Position. "Fund Balance" is the difference between fund assets and liabilities on the Governmental Fund Balance Sheet.

Nonspendable

This represents the amount of supplies inventory to be used in the next fiscal year, classified as such because this balance is not available to be spent as it is not in spendable form.

Unassigned

This classification represents fund balance that was not assigned to other funds and was not restricted, committed, or assigned to specific purposes within the general fund.

NET POSITION RESTRICTED FOR PENSIONS

This represents reserves available to fund future retirement, death, and survivor benefits.

E. INTERFUND TRANSACTIONS AND BALANCES

TESRS has no transactions between funds.

NOTE 2: CAPITAL ASSETS

Summaries of changes in Capital Assets for the year ended August 31, 2019, are presented below:

| Governmental Activities | | | | | |
|--------------------------------|-------------------------|---------------------|--------------------|------------------|-------------------------|
| Asset Type | Balance 09/01/18 | Restatements | Adjustments | Deletions | Balance 08/31/19 |
| Other Capital Assets | \$0 | | | | \$0 |
| Accumulated Depreciation | \$0 | | | | \$0 |

| Pension Trust Fund | | | | | |
|---------------------------|-------------------------|---------------------|--------------------|------------------|-------------------------|
| Asset Type | Balance 09/01/18 | Restatements | Adjustments | Deletions | Balance 08/31/19 |
| Furniture & Equipment | \$0 | | | | \$0 |
| Accumulated Depreciation | \$0 | | | | \$0 |

NOTE 3: DEPOSITS AND INVESTMENTS

The Texas Emergency Services Retirement System (TESRS), Texas Government code, Section 865.008 (a) and (b) state "If a surplus exists in the fund over the amount necessary to pay benefits due for a reasonable period of time, the state board shall invest the surplus. The assets of the pension system shall be invested and reinvested in accordance with Section 67, Art XVI, Texas Constitution. A determination of whether the state board has exercised prudence with respect to an investment decision must be made, taking into consideration the investment of all assets of the trust over which the state board has management and control rather than considering the prudence of a single investment". All major sectors of the capital markets should be considered in order to diversify and minimize total investment program risk. This asset mix is determined by the TESRS Board of Trustees, and currently includes equities, fixed income, convertible bonds, short-term cash equivalents, master limited partnerships, and alternative investments. The following was TESRS Board's adopted asset allocation policy as of August 16, 2018.

| Asset Allocation | Target |
|---|---------------|
| US Market Equities-Large Cap Value | 15% |
| US Market Equities-Large Cap Growth | 15% |
| US Market Equities-Small/Mid Cap Value | 7.5% |
| US Market Equities-Small/Mid Cap Growth | 7.5% |
| Core Fixed Income | 20% |
| International Equity-Developed Markets | 15% |
| International Equity-Emerging Markets | 5% |
| Cash & Equivalents | 0% |
| Master Limited Partnerships (Energy) | 5% |
| US Core Real Estate | 5% |
| Multi-Asset Investments | 5% |
| Total | 100% |

NOTE 3: DEPOSITS AND INVESTMENTS cont'd.

The TESRS contracts with Bank of Texas for custodial services and AndCo Consulting, LLC for investment consulting services. The TESRS contracts with five money managers to manage the fixed income and equity portfolios. The money managers are Boston Partners LLC, Harvest Fund Advisors LLC, Garcia Hamilton & Associates L.P., Richmond Capital Management, Inc., and Clearbridge Investments, LLC. The TESRS also invests with three mutual funds—Wells Fargo, Clarkston Partners, and Jackson Square Partners, and with one Commingled Fund- Invesco International Growth Commingled Fund. TESRS also invests in the Real Estate investment Fund Prime Property Fund, LLC. In Fiscal Year 2019, TESRS began investing in Mutual Funds Oakmark International and Blackrock Multi-Asset.

A. DEPOSITS

The bank balance of \$818,318 is deposited in the State Treasury.

CUSTODIAL CREDIT RISK-DEPOSITS

The custodial credit risk for deposits is the risk that, in the event of bank failure, the government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The State Treasury invests funds in time deposits, repurchase and reverse repurchase agreements, obligations of the United States, and obligations of various federal credit organizations. The State Treasury has an arrangement with financial institutions to collateralize state deposits in excess of depository insurance. TESRS does not have a formal deposit policy for custodial credit risk.

NOTE 3: DEPOSITS AND INVESTMENTS cont'd.

B. INVESTMENTS

Investments measured and reported at fair value are classified according to the following hierarchy:

Level 1—Investments reflect prices quoted in active markets.

Level 2—Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3—Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

As of August 31, 2019, the fair value of investments are as presented below:

| Description | Fair Value Hierarchy | | | | (Fair Value) |
|--|----------------------|-------------------|----------------|-------------------|--------------------|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Net Asset Value | |
| U.S. Treasury Securities | 4,973,749 | | | | 4,973,749 |
| U.S. Government Agency Obligations | | 646,905 | | | 646,905 |
| Corporate Obligations | | 15,238,554 | | | 15,238,554 |
| Corporate Asset and Mortgage Backed Securities | | 4,055,446 | | | 4,055,446 |
| Equity | 66,957,688 | | | | 66,957,688 |
| International Equity | 5,118,562 | | | | 5,118,562 |
| International Other Commingled Funds | | | | 8,094,814 | 8,094,814 |
| Other Commingled Funds | 2,184,256 | | | | 2,184,256 |
| Real Estate | | | | 5,130,394 | 5,130,394 |
| Total Investments | 79,234,255 | 19,940,905 | 0 | 13,225,208 | 112,400,368 |
| Reconciliation of Investments per Exhibit VI | | | | | |
| Other Short Term Investments | | | | | 2,184,256 |
| Corporate Equity | | | | | 66,957,688 |
| U.S. Government Obligations | | | | | 9,466,737 |
| Corporate Obligations | | | | | 15,447,918 |
| Other Investments | | | | | 18,343,769 |
| Investment per Exhibit VI | | | | | 112,400,368 |

NOTE 3: DEPOSITS AND INVESTMENTS cont'd.

The International Other Commingled Funds listed in the Fair Value Hierarchy schedule above are not SEC-registered. The Invesco Trust Company Institutional Retirement Trust, an Invesco Ltd company, was established pursuant to, and in conformity with, the applicable laws of the State of New York relating to common trust funds and the pertinent rules and regulations of the Comptroller of the Currency pertaining to collective investment funds, for the purpose of facilitating the collective investment and reinvestment of monies contributed by participating trusts in conformity with the requirements of the Internal Revenue Service. The preparation of the Invesco fund financial statements is in conformity with accounting principles generally accepted in the United States of America. TESRS has no unfunded commitments to Invesco. Redemptions are allowable daily, and a redemption notice period of 3-5 days is required prior to redemption.

For the year ended August 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 1.00%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

See Schedule 1 for investments that represent greater than 5% of the TESRS fiduciary net position.

CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Investment policies of TESRS require that investments in Core Fixed Income not exceed 25% (22.0% actual) of the portfolio.

TESRS' domestic fixed income is managed by Richmond Capital Management, Inc. and Garcia Hamilton & Associates L.P. 56% of these holdings are either not subject to credit risk, or AAA rated, while 36% is rated A or better. Credit risk is managed through diversification and by operating within defined parameters.

| Investment Type | Not Rated |
|---|--------------|
| U.S. Government and Corporate Obligations | \$24,914,655 |

TESRS has authorized their five money managers to invest cash in Bank of Texas' Short Term Investment Fund pending completion of investment activities relating to the sale/purchase of securities. Bank of Texas' Short Term Investment Fund is not rated.

INTEREST RATE RISK

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TESRS maintains an investment of \$24,914,655 in Core Fixed Income which is subject to Interest Rate Risk. The average portfolio duration of Richmond Capital Management, Inc. is 4.99 years, and Garcia Hamilton is 4.63 years.

Interest rate risk is managed through diversification and by operating within defined parameters. The TESRS Board of Trustees has no specific policy relating to interest rate risk.

NOTE 3: DEPOSITS AND INVESTMENTS cont'd.

FOREIGN CURRENCY RISK

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. TESRS' policy for managing foreign currency risk relies upon the parameters established within the investment policy.

CUSTODIAL CREDIT RISK-INVESTMENTS

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

There is no exposure to custodial credit risk for investments due to the fact that all equity securities are held by the custodian in TESRS' name. Mutual Fund and Commingled Fund investments are not subject to custodial credit risk. TESRS does not have a policy relating to custodial credit risk for investments.

NOTE 4: SUMMARY OF LONG TERM LIABILITIES

Changes in Long-Term Liabilities

During the year ended August 31, 2019, the following changes occurred in long-term liabilities:

| Governmental Activities | Balance 09/01/18 | Additions | Reductions | Balance 08/31/19 | Amounts Due Within One Year |
|--------------------------------------|-----------------------------|------------------|-------------------|-----------------------------|--|
| Compensable Leave | \$42,865 | \$39,947 | \$38,422 | \$44,390 | \$28,734 |
| Total Governmental Activities | \$42,865 | \$39,947 | \$38,422 | \$44,390 | \$28,734 |

Employees' Compensable Leave

A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in Governmental fund types. The liability for unpaid benefits is recorded in the Governmental Statement of Net Position. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

NOTE 5: INTERFUND BALANCES/ACTIVITIES

As explained in Note 1, on Interfund Transactions and Balances, there are no transactions between funds as of August 31, 2019.

NOTE 6: EMPLOYEES' RETIREMENT PLAN

The State provides a defined benefit retirement plan for its employees. The TESRS participates in the plan administered by the Employees Retirement System of Texas (ERS). Future pension costs are the liabilities of ERS. ERS does not account for each state agency

NOTE 6: EMPLOYEES' RETIREMENT PLAN cont'd.

separately. Annual financial reports prepared by ERS include audited financial statements and actuarial assumptions and conclusions.

NOTE 7: DEFERRED COMPENSATION

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T. CODE ANN., sec 609.001. Two plans are available for employee's deferred compensation (457 and 401k). Both plans are administered by the Employees Retirement System.

NOTE 8: CONTINGENT LIABILITIES

Sick Leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid to the employee only in the event of illness. In the event of an employee's death, a payment is made to the employee's estate for one-half of the employee's accumulated leave or 336 hours, whichever is less. TESRS' policy is to recognize the cost of any sick leave when paid. No liability is recorded since experience indicates the probability of a material effect on any given year's operations, as a result of death or abnormally high rate of illness, is minimal.

NOTE 9: CONTINUANCE SUBJECT TO REVIEW

TESRS is subject to Sunset review (but not abolishment) in 2025, and every 12 years thereafter.

NOTE 10: RISK FINANCING AND RELATED INSURANCE

TESRS is exposed to a variety of civil claims resulting from the performance of its duties. It is the TESRS' policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

TESRS assumes substantially all risks associated with tort claims and liability claims due to the performance of its duties. TESRS' liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Liabilities are reevaluated periodically to consider current settlements, frequency of claims, past experience and economic factors. Because of the low statewide incident of claims, the TESRS has no fidelity dishonesty insurance coverage.

Changes in the balances of TESRS' claims liabilities during fiscal years 2018 and 2019 were as follows:

| | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claims Payments | Balance at Fiscal Year-End |
|------|---|---|------------------------|-----------------------------------|
| 2018 | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| 2019 | \$ -0- | \$ -0- | \$ -0- | \$ -0- |

NOTE 11: PENSION DISCLOSURES

A. General Information about the System

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the System) established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. The System issues a stand-alone financial report that is available to the public at www.tesrs.org.

Of the nine-member state board of trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system, and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2019, there were 237 fire and/or emergency services member departments participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

2. Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

3. Covered Membership

On August 31, 2019, the pension system membership consisted of:

| | |
|---|-------|
| Retirees and beneficiaries currently receiving benefits | 3,649 |
| Terminated members entitled to but not yet receiving benefits | 1,842 |
| Active participants | 3,702 |

NOTE 11: PENSION DISCLOSURES cont'd.

4. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

According to the state law governing the System, the state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended in 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to 15 years of credit for prior service per member. Prior service must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

5. Contributions Required and Contributions Made

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions are set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions of \$3,480,509 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated \$1,329,224 for the fiscal year ending August 31, 2019.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in Section I(B)(1).

The most recently completed biennial actuarial valuation as of August 31, 2018 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the

NOTE 11: PENSION DISCLOSURES cont'd.

valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$725,000 each year to pay for part of the System's administrative expenses.

B. Net Pension Liability

The System's net pension liability was measured as of August 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2018 rolled forward to August 31, 2019.

| | |
|--|--------------------|
| | |
| Total pension liability | \$ 143,501,039 |
| Plan fiduciary net position | <u>115,155,476</u> |
| System's net pension liability | \$ 28,345,563 |
| Plan fiduciary net position as a percentage of the total pension liability | 80.2% |

1. Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | N/A |
| Investment rate of return | 7.75%, net of pension plan investment expense, including inflation |

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 5.01%) and by adding expected inflation (3.00%). In addition, the final 7.75% assumption was selected by "rounding down" and thereby reflects a reduction of 0.26% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE 11: PENSION DISCLOSURES cont'd.

| | Target Allocation | Long-Term Expected Net Real Rate of Return |
|----------------------------|------------------------------|---|
| Equities | | |
| Large cap domestic | 32% | 5.81% |
| Small cap domestic | 15 | 5.92 |
| Developed international | 15 | 6.21 |
| Emerging markets | 5 | 7.18 |
| Master limited partnership | 5 | 7.61 |
| Real Estate | 5 | 4.46 |
| Fixed income | 23 | 1.61 |
| Cash | <u>0</u> | 0.00 |
| Total | 100% | |
| Weighted average | | 5.01% |

2. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

3. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--------------------------------|--------------------------------|--|--------------------------------|
| System's net pension liability | \$ 50,379,818 | \$ 28,345,563 | \$ 13,596,183 |

AUDITED
Texas Emergency Services Retirement System

Required Supplementary Information

**Schedule of Changes in the System's Net Pension Liability and Related Ratios
for the Last 10 Fiscal Years ¹**

| | Fiscal Year Ending | | | | | |
|---|---------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|-----------------------------------|
| | 08/31/19 | 08/31/18 | 08/31/17 | 08/31/16 | 08/31/15 | 08/31/14 |
| 1. Total Pension Liability | | | | | | |
| a. Service cost | 1,865,886 | 1,593,479 | 1,593,479 | 1,694,230 | 1,694,230 | 1,827,592 |
| b. Interest | 10,552,731 | 9,904,123 | 9,468,133 | 8,901,986 | 8,470,723 | 8,051,287 |
| c. Changes of benefit terms | 0 | 2,825,337 | 0 | 722,024 | 0 | 0 |
| d. Differences between expected and actual | 0 | (90,439) | 0 | 64,648 | 0 | 0 |
| e. Assumption changes | 0 | 0 | 0 | 890,002 | 0 | 0 |
| f. Benefit payments | (6,431,923) | (5,839,621) | (5,032,257) | (4,701,770) | (4,498,761) | (4,168,134) |
| g. Net Change | 5,986,694 | 8,392,879 | 6,029,355 | 7,571,120 | 5,666,192 | 5,710,745 |
| h. Total – Beginning | 137,514,345 | 129,121,466 | 123,092,111 | 115,520,991 | 109,854,799 | \$104,144,054 ² |
| i. Total – Ending | 143,501,039 ⁴ | 137,514,345 | \$129,121,466 ⁴ | 123,092,111 | \$115,520,991 ⁴ | 109,854,799 |
| 2. Plan Fiduciary Net Position | | | | | | |
| a. Contributions for participating departments | 3,480,509 | 4,098,834 | 5,012,131 | 3,463,603 | 3,515,546 | 4,176,659 |
| b. Contributions by the state | 1,329,224 | 1,329,224 | 1,583,825 | 1,583,825 | 1,637,308 | 1,530,343 |
| c. Net investment income | 1,140,579 | 11,313,810 | 9,776,395 | 4,956,730 | (3,292,889) | 11,908,321 |
| d. Benefit payments | (6,431,924) | (5,839,621) | (5,032,257) | (4,701,770) | (4,498,761) | (4,168,134) |
| e. Administrative expenses | (226,806) | (158,141) | (184,314) | (166,840) | (215,900) | (165,669) |
| f. Net Change | (708,418) | 10,744,106 | 11,155,780 | 5,135,548 | (2,854,696) | 13,281,520 |
| g. Total – Beginning | 115,863,894 | 105,119,788 | 93,964,008 | 88,828,460 | 91,683,156 | 78,401,636 |
| h. Total – Ending | 115,155,476 | 115,863,894 | 105,119,788 | 93,964,008 | 88,828,460 | 91,683,156 |
| 3. System's Net Pension Liability – [Item 1(i)-2(h)] | 28,345,563 | 21,650,451 | 24,001,678 | 29,128,103 | 26,692,531 | 18,171,643 |
| 4. Plan Fiduciary Net Position as a Percent of Pension Liability | 80.2% | 84.3% | 81.4% | 76.3% | 76.9% | 83.5% |
| 5. Number of Active Members³ | 3,702 | 3,927 | 4,046 | 3,634 | 4,036 | 4,036 |
| 6. System's Net Pension Liability per Active Member | 7,657 | 5,513 | 5,932 | 8,015 | 6,614 | 4,502 |

Notes to Schedule

¹This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

²Determined from the end of year total pension liability using the roll back procedure allowed for the initial year of implementing GASB 67.

³ There is no compensation for active members, so number of active members is used instead.

⁴ Determined from the beginning of year total pension liability using the roll forward procedure allowed by GASB 67.

Schedule of Investment Returns for the Last Ten Fiscal Years¹

| Fiscal Year Ending | Annual Money-Weighted Net Real Rate of Return² |
|---------------------------|--|
| August 31, 2019 | 1.00% |
| August 31, 2018 | 10.86% |
| August 31, 2017 | 10.32% |
| August 31, 2016 | 5.57% |
| August 31, 2015 | -3.58% |
| August 31, 2014 | 14.92% |
| August 31, 2013 | 13.84% |

Notes to Schedule

1. This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
2. The money-weighted rate of return expresses investment performance, net of investment expenses, reflecting the timing of the contributions received and the benefits paid during the year.

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|--|---|---|
| MONEY MARKET MUTUAL FUND | | |
| Money Market Securities | 2,184,256 | 1,101,697 |
| EQUITY MUTUAL/COMMINGLED FUNDS | | |
| INVESCO Intl Growth 2 Class A Commingled | 8,094,814 * | 16,827,392 |
| Prime Property Fund, LLC | 5,130,394 | 2,500,004 |
| Wells Fargo Emerg Mkts Eq-R6 #4660 | 5,118,562 | 5,456,218 |
| Total Equity Mutual/Commingled Funds | 18,343,769 | 24,783,614 |
| EQUITY MUTUAL | | |
| Blackrock Multi-Asset Inc-K #1981 | 5,804,196 * | |
| Clarkston Partners-Inst #21301 | 7,786,612 * | 8,412,322 |
| Jackson Square Smid/C Grwth-Is #6112 | 7,900,366 * | 10,242,762 |
| Oakmark Intl-Inst #2886 | 7,664,374 * | |
| Total Equity Mutual | 29,155,547 | 18,655,084 |
| BOND FUNDS | | |
| 21ST CENTURY FOX AMERICA | | 37,371 |
| AFLAC INC | 26,721 | 154,031 |
| ALABAMA POWER CO | 46,613 | 40,559 |
| ALTRIA GROUP INC | 33,674 | 31,747 |
| AMERICAN EXPRESS CO | 101,933 | 96,801 |
| AMERICAN EXPRESS CREDIT | 287,326 | 480,839 |
| AMERICAN EXPRESS CREDIT | 70,033 | |
| AMGEN INC | 25,512 | 22,288 |
| ANHEUSER-BUSCH | 23,779 | 35,915 |
| ANHEUSER-BUSCH | 42,941 | |
| APACHE CORP | 25,284 | 24,948 |
| APPLE INC | 28,520 | 425,999 |
| APPLE INC | 37,469 | |
| APPLE INC | 271,944 | |
| ARCHER-DANIELS-MIDLAND | 76,895 | 69,352 |
| AT&T INC | 51,302 | 88,943 |
| AT&T INC | 44,011 | |
| AT&T INC | 37,079 | |
| AVALONBAY COMMUNITIES | 106,600 | |
| BANK OF AMERICA CORP | 460,428 | 542,389 |
| BANK OF NOVA SCOTIA | 50,021 | 138,134 |
| BANK OF NY MELLON CORP | 386,696 | 474,813 |
| BANK OF NY MELLON CORP | 96,046 | |
| BB&T CORPORATION | 200,142 | 198,858 |
| BECTON DICKINSON | 44,086 | 41,267 |
| BERKSHIRE HATHAWAY | 144,920 | 140,326 |
| BLACKROCK INC | 130,979 | 133,808 |
| BOSTON PROP LP | 63,291 | 60,604 |
| BRISTOL-MYERS SQUIBB CO | 45,814 | 42,244 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|------------------------------|---|---|
| BURLINGTON NORTHERN SANTA FE | 61,620 | 59,665 |
| CAMDEN PROPERTY TRUST | 63,499 | |
| CAPITAL ONE FINANCIAL CO | 79,451 | |
| CATERPILLAR INC | 59,314 | 54,223 |
| CATERPILLAR INC | 91,740 | |
| CHARLES SCHWAB CORP | 117,389 | 118,105 |
| CHARLES SCHWAB CORP | 79,190 | |
| CHEVRON CORP | 20,119 | 19,812 |
| CHUBB CORPORATION | 77,527 | 69,618 |
| CISCO SYSTEMS INC | 93,047 | 89,716 |
| CITIGROUP INC | 31,839 | 91,079 |
| CITIGROUP INC | 163,539 | |
| CITIGROUP INC | 157,916 | |
| CITIGROUP INC | 121,060 | |
| CITIGROUP INC | 261,672 | |
| COMCAST CORP | 52,114 | 44,722 |
| COMCAST CORP | 255,357 | |
| COMCAST CORP | 181,143 | |
| COMM SER 2012-CR2 CL A4 | 61,781 | 59,822 |
| COMMONWEALTH EDISON CO | 71,573 | 70,195 |
| CONSOLIDATED EDISON CO | 60,439 | |
| CVS HEALTH CORP | 56,969 | 54,733 |
| DEERE & COMPANY | 122,252 | 117,840 |
| DOWDUPONT INC | 72,158 | |
| EMERSON ELECTRIC CO | 135,409 | 137,982 |
| ENTERPRISE PRODUCTS OPER | 35,910 | 31,854 |
| ERP OPERATING LP | 41,888 | |
| EXXON MOBIL CORPORATION | 16,698 | 23,414 |
| FEDEX CORP | 78,549 | |
| FFCB FLT RT DUE 04/24/2019 | | 345,104 |
| FHLB FLT RT DUE 01/04/2021 | 349,612 | |
| FHLB FLT RT DUE 12/18/2020 | 139,919 | |
| FHLMC FLT RT DUE 07/05/2019 | | 420,097 |
| FHLMC GOLD POOL # G30891 | 291,064 | 352,680 |
| FHLMC GOLD POOL #A93614 | 18,199 | 21,268 |
| FHLMC GOLD POOL #A97673 | 16,330 | 18,617 |
| FHLMC GOLD POOL #D98739 | | 246,860 |
| FHLMC GOLD POOL #G08001 | 146,075 | 166,247 |
| FHLMC GOLD POOL #G60134 | 175,480 | 205,085 |
| FHLMC GOLD POOL #G61257 | 144,302 | 151,453 |
| FHLMC GOLD POOL #Q27927 | 157,765 | 165,842 |
| FHLMC GOLD POOL #Q30470 | 238,003 | 267,451 |
| FHLMC GOLD POOL #Q35953 | 167,901 | 183,370 |
| FHLMC GOLD POOL #Q38893 | 144,239 | 164,204 |
| FHLMC GOLD POOL #Q45872 | 136,483 | 143,505 |
| FHLMC GOLD POOL #V81680 | 227,873 | 265,571 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|--------------------------|---|---|
| FHMS SER K031 CL A2 | 157,375 | 151,716 |
| FIFTH THIRD BANK | 391,642 | |
| FLORIDA POWER CORP | 52,569 | 45,325 |
| FNMA POOL #AL7407 | | 65,236 |
| FNMA POOL #AL7590 | 312,561 | 333,927 |
| FNMA POOL #AO7185 | 107,924 | 124,003 |
| FNMA POOL #AS5090 | 91,421 | 106,144 |
| FNMA POOL #AY8604 | 50,629 | 58,895 |
| FNMA POOL #BC2666 | 90,734 | 99,407 |
| FNMA POOL #BD7056 | 124,540 | 130,682 |
| FNMA POOL #BE0468 | 138,059 | 144,493 |
| FNMA POOL #BH2594 | 245,189 | 255,321 |
| FNMA POOL #BM1577 | 177,663 | 195,613 |
| FNMA POOL #BM5455 | 104,951 | |
| FNMA POOL #BO5044 | 244,740 | |
| FNMA POOL #CA3938 | 188,277 | |
| FRANKLIN RESOURCES INC | 72,453 | 66,744 |
| GENERAL DYNAMICS CORP | 39,455 | 35,537 |
| GENERAL MILLS INC | 37,958 | 35,017 |
| GNMA II POOL #AA1000 | 11,806 | 15,266 |
| GNMA II POOL #MA2374 | 39,522 | 49,509 |
| GNMA II POOL #MA3035 | 54,351 | 64,681 |
| GOLDMAN SACHS GROUP INC | 118,301 | 552,712 |
| GOLDMAN SACHS GROUP INC | 313,189 | |
| GOLDMAN SACHS GROUP INC | 27,075 | |
| GOLDMAN SACHS GROUP INC | 241,749 | |
| GOLDMAN SACHS GROUP INC | 90,167 | |
| GSMS SER 2012-GCJ9 CL A3 | 101,416 | 97,864 |
| HALLIBURTON COMPANY | 47,075 | 43,711 |
| HISTORIC TW INC | | 35,383 |
| IBM CORP | 22,558 | 38,869 |
| IBM CORP | 486,377 | |
| ILLINOIS TOOL WORKS INC | 89,989 | 85,816 |
| INTEL CORP | 357,464 | 357,329 |
| JOHN DEERE CAPITAL CORP | 64,544 | 60,127 |
| JOHNSON & JOHNSON | 6,609 | 17,296 |
| JP MORGAN CHASE & CO | 104,343 | 103,013 |
| JPMORGAN CHASE & CO | 61,471 | 547,578 |
| JPMORGAN CHASE & CO | 65,162 | |
| JPMORGAN CHASE & CO | 487,114 | |
| KELLOGG CO | 71,609 | 71,390 |
| KEYCORP | 104,480 | 104,509 |
| KRAFT HEINZ FOODS CO | 151,793 | 182,150 |
| KRAFT HEINZ FOODS CO | 29,499 | |
| LINCOLN NATIONAL CORP | 64,472 | |
| LOCKHEED MARTIN CORP | 97,561 | 95,618 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|-----------------------------------|---|---|
| MARKEL CORP | 100,310 | 103,845 |
| MARKEL CORPORATION | 68,271 | 67,776 |
| MCDONALD'S CORP | 39,930 | 34,644 |
| METLIFE INC | 104,269 | 96,213 |
| MONDELEZ INTERNATIONAL INC | 39,307 | 36,264 |
| MORGAN STANLEY | 197,225 | 578,068 |
| MORGAN STANLEY | 107,292 | |
| MORGAN STANLEY | 361,276 | |
| NORFOLK SOUTHERN CORP | 43,845 | 60,929 |
| NORFOLK SOUTHERN CORP | 32,066 | |
| NUTRIEN LTD | 78,900 | 73,460 |
| OCCIDENTAL PETROLEUM | 85,213 | 82,767 |
| ORACLE CORP | 88,859 | 57,535 |
| ORACLE CORP | 30,449 | |
| PARKER-HANNIFIN CORP | 48,043 | 43,863 |
| PEPSICO INC | 220,904 | 266,033 |
| PFIZER INC | 23,862 | 20,859 |
| PHILLIPS 66 | 73,985 | 72,070 |
| PNC BANK NA | 58,105 | 53,918 |
| PROGRESSIVE CORP | 73,850 | |
| PROLOGIS LP | 71,360 | 65,691 |
| PRUDENTIAL FINANCIAL INC | 101,383 | 199,203 |
| PUBLIC SERVICE ELECTRIC | 120,233 | |
| QUALCOMM INC | 66,225 | 86,566 |
| QUALCOMM INC | 240,365 | |
| ROYAL BANK OF CANADA | 59,938 | 59,129 |
| SCHLUMBERGER INVESTMENT | 132,131 | |
| SHELL INTL FIN | 127,553 | 88,822 |
| SPECTRA ENERGY PARTNERS | 25,436 | 22,437 |
| STRYKER CORP | 130,996 | 132,318 |
| SUNTRUST BANK | 50,598 | 48,207 |
| SYSCO CORPORATION | 70,896 | 64,403 |
| TAMPA ELECTRIC CO | 100,992 | 96,993 |
| THE WALT DISNEY COMPANY | 39,593 | |
| THERMO FISHER SCIENTIFIC | 64,717 | 59,527 |
| TORONTO-DOMINION BANK | 115,756 | 113,406 |
| TOSCO CORP | 73,541 | 67,300 |
| TOYOTA MOTOR CREDIT CORP | | 199,224 |
| UNITED PARCEL SERVICE | 475,341 | 341,899 |
| UNITED PARCEL SERVICE | 132,245 | |
| UNITED TECHNOLOGIES CORP | 20,249 | 17,095 |
| US BANK NA CINCINNATI | 550,501 | |
| US TREAS BOND @ 2.500% 05/15/2046 | 1,489,517 | 443,087 |
| US TREAS BOND @ 2.750% 08/15/2047 | 806,306 | |
| US TREAS BOND @ 2.875% 08/15/2045 | 647,100 | 1,170,430 |
| US TREAS BOND @ 3.125% 11/15/2041 | | 961,317 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|------------------------------------|---|---|
| US TREAS BOND @ 4.750% 02/15/2037 | 65,790 | 107,358 |
| US TREAS BOND @ 6.250% 05/15/2030 | 880,092 | 453,523 |
| US TREAS NOTE @ 1.000% 09/15/2018 | | 364,898 |
| US TREAS NOTE @ 1.625% 02/15/2026 | | 1,237,775 |
| US TREAS NOTE @ 1.750% 11/30/2021 | | 135,869 |
| US TREAS NOTE @ 2.000% 01/31/2020 | 410,098 | |
| US TREAS NOTE @ 2.000% 08/15/2025 | | 583,653 |
| US TREAS NOTE @ 2.000% 10/31/2022 | | 1,311,375 |
| US TREAS NOTE @ 2.000% 11/30/2022 | | 694,164 |
| US TREAS NOTE @ 2.250% 02/15/2027 | | 535,416 |
| US TREAS NOTE @ 2.250% 11/15/2027 | 301,929 | |
| US TREAS NOTE @ 2.375% 05/15/2027 | | 617,349 |
| US TREAS NOTE @ 2.875% 08/15/2028 | 128,187 | |
| US TREAS NOTE FLT RT 04/30/2021 | 244,728 | |
| VERIZON COMMUNICATIONS | 46,316 | 24,720 |
| VIRGINIA ELEC & POWER CO | 78,788 | 202,034 |
| WALT DISNEY COMPANY | 371,439 | 373,012 |
| WELLS FARGO & COMPANY | 77,946 | 462,136 |
| WELLS FARGO & COMPANY | 303,495 | |
| WELLS FARGO & COMPANY | 96,602 | |
| WELLS FARGO CO | 243,667 | |
| WFRBS SER 2012-C8 CL A3 | 46,166 | 44,602 |
| WISCONSIN POWER & LIGHT | 58,182 | 50,872 |
| Total Bond Funds | <u>24,914,655</u> | <u>24,896,305</u> |
| EQUITY FUNDS | | |
| ABB LTD-SPON ADR | | 83,343 |
| ADOBE INC | 492,202 | 613,978 |
| ADVANCE AUTO PARTS | 260,726 | |
| AKAMAI TECHNOLOGIES | 381,476 | 485,404 |
| ALEXION PHARMACEUTICALS INC | 243,839 | 312,934 |
| ALIBABA GROUP HOLDING LTD | 302,802 | 150,509 |
| ALLSTATE CORP | 259,354 | 317,902 |
| ALPHABET INC CL A | 573,835 | 380,626 |
| ALPHABET INC CL C | 521,576 | 660,259 |
| ALTICE USA INC | 107,607 | |
| AMAZON.COM INC | 1,074,655 | 1,427,011 |
| AMERICAN EXPRESS CO | 297,314 | 554,911 |
| AMERICAN INT'L GROUP INC | 357,359 | 221,719 |
| ANDEAVOR | | 358,140 |
| ANDEAVOR LOGISTICS LP | | 207,145 |
| ANHEUSER-BUSCH INBEV SPN ADR | 356,265 | 385,972 |
| ANTERO MIDSTREAM PARTNERS LP | 73,837 | 84,473 |
| ANTERO RESOURCES MIDSTREAM MGMT LI | 17,089 | 32,327 |
| ANTHEM INC | 239,814 | 214,167 |
| AON PLC | 130,355 | |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|---------------------------------|---|---|
| APERGY CORP | 35,541 | 68,689 |
| APPLE INC COM | 387,004 | 501,697 |
| ARCHROCK INC | 36,403 | 44,743 |
| AUTOZONE INC | 211,524 | |
| AVNET INC | | 65,921 |
| BANK OF AMERICA CORP | 620,598 | 860,534 |
| BARRICK GOLD CORP | 295,293 | |
| BB&T CORPORATION | 104,449 | |
| BERKSHIRE HATHAWAY INC-CL B | 760,347 | 790,631 |
| BEST BUY CO INC | 64,032 | |
| BIOGEN INC | 119,324 | 434,439 |
| BIOMARIN PHARMACEUTICAL INC | 174,139 | 146,971 |
| BLACKROCK INC | 245,085 | 378,457 |
| BOEING CO | | 306,111 |
| BOOKING HOLDINGS INC | 357,887 | |
| BP MIDSTREAM PARTNERS LP | | 37,625 |
| BUCKEYE PARTNERS LP | 171,382 | 32,263 |
| C.H. ROBINSON WORLDWIDE INC | 233,530 | |
| CAPITAL ONE FINANCIAL CORP | | 167,561 |
| CATERPILLAR INC | 134,470 | 255,484 |
| CELGENE CORP | | 433,526 |
| CEMEX SA B | | 89,327 |
| CHENIERE ENERGY INC | 155,007 | 74,694 |
| CHEVRON CORP | 332,794 | 501,204 |
| CHIPOTLE MEXICAN GRILL - CL A | 293,447 | 194,824 |
| CHUBB LTD | 370,384 | 208,946 |
| CIGNA CORP | 341,198 | 248,985 |
| CIMAREX ENERGY CO | 94,501 | 107,290 |
| CISCO SYSTEMS INC | 271,638 | 663,048 |
| CITIGROUP INC | 362,355 | 699,577 |
| COCA-COLA CO/THE | | 240,633 |
| COCA-COLA EUROPEAN PARTNERS PLC | | 123,699 |
| COMCAST CORP-CL A | 893,388 | 773,905 |
| CONOCOPHILLIPS | 185,970 | 349,967 |
| COSTCO WHOLESALE CORP | 324,236 | 284,419 |
| CRESTWOOD EQUITY PARTNERS LP | 55,352 | 38,878 |
| CRH PLC - SPONSORED ADR | 131,891 | 106,083 |
| CROSSAMERICA PARTNERS LP | | 22,934 |
| CUMMINS INC | | 268,427 |
| CVS HEALTH CORPORATION | 199,818 | 339,483 |
| DCP MIDSTREAM LP | 71,521 | 212,808 |
| DELTA AIR LINES INC | 201,121 | 268,891 |
| DENTSPLY SIRONA INC | | 92,335 |
| DISCOVER FINANCIAL SERVICE | 106,520 | 226,314 |
| DOVER CORP | 161,983 | 110,343 |
| DUPONT DE NEMOURS INC USD 0.01 | 188,981 | |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|----------------------------------|---|---|
| DXC TECHNOLOGY CO | | 295,587 |
| EATON CORP PLC | 216,330 | 170,603 |
| EBAY INC | | 133,837 |
| ECOLAB INC | 358,360 | 354,681 |
| EDISON INTERNATIONAL | 195,490 | 117,131 |
| ENABLE MIDSTREAM PARTNERS LP | 46,103 | 35,064 |
| ENBRIDGE ENERGY PARTNERS LP | 150,771 | 1,182 |
| ENERGEN CORP | | 103,529 |
| ENERGY TRANSFER PARTNERS LP | | 563,682 |
| ENERGY TRANSFER, L.P. | 652,069 | 389,620 |
| ENLINK MIDSTREAM PARTNERS LP | | 65,575 |
| ENTERPRISE PRODUCTS PARTNERS LP | 646,835 | 588,645 |
| EQM MIDSTREAM PARTNERS L P | 21,189 | 51,387 |
| EQT CORPORATION | | 127,448 |
| EQUINIX INC | 322,642 | 348,904 |
| EQUITRANS MIDSTREAM CORP | 25,550 | |
| EQUITY RESIDENTIAL REIT | 120,359 | 140,852 |
| ESSEX PROPERTY TRUST INC REIT | 102,161 | |
| EVEREST RE GROUP LTD | 160,634 | 134,035 |
| FACEBOOK INC-A | 883,418 | 649,850 |
| FIDELITY NATIONAL INFO SVCS, INC | 198,881 | |
| FMC CORP | 137,696 | 93,995 |
| FOX CORP | 184,558 | |
| GENESIS ENERGY LP | | 51,162 |
| GILEAD SCIENCES INC | | 235,823 |
| GOLDMAN SACHS GROUP INC | | 261,829 |
| GRUBHUB INC | 144,196 | |
| HESS MIDSTREAM PARTNERS LP | | 31,470 |
| HOME DEPOT INC | 369,214 | 469,802 |
| HONEYWELL INTERNATIONAL INC | 381,918 | 407,194 |
| HP INC | | 286,951 |
| HUMANA INC | 88,928 | |
| IHS MARKIT LTD | 300,231 | |
| JOHNSON & JOHNSON | 725,619 | 1,074,153 |
| JPMORGAN CHASE & CO | 487,009 | 773,415 |
| KANSAS CITY SOUTHERN | 194,613 | |
| KEYCORP | | 138,009 |
| KINDER MORGAN INC/DELAWARE | 161,957 | |
| KLA CORPORATION | 139,618 | |
| LABORATORY CRP OF AMER HLDGS | | 165,609 |
| LAM RESEARCH CORP | 69,889 | |
| LAS VEGAS SANDS CORP | 180,499 | |
| LENNAR CORP-CL A | 93,840 | |
| LIBERTY GLOBAL-C | 121,902 | |
| LINDE PLC | 281,476 | |
| LLOYDS TSB GROUP PLC -SP ADR | | 90,135 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|--------------------------------|---|---|
| LOWE'S COS INC | 96,604 | 119,625 |
| MAGELLAN MIDSTREAM PARTNERS LP | 135,494 | 187,483 |
| MARATHON OIL CORP | | 150,484 |
| MARATHON PETROLEUM CORP | 148,417 | 217,657 |
| MCCORMICK & CO-NON VTG SHRS | 182,252 | 241,268 |
| MCKESSON CORP | 163,988 | 166,474 |
| MEDTRONIC PLC | 359,489 | 239,290 |
| MERCK & CO INC/NJ | | 393,089 |
| METHANEX CORP | | 110,954 |
| MICROSOFT CORP | 961,298 | 1,055,565 |
| MONDELEZ INTL INC | 250,312 | |
| MOSAIC CO | 103,572 | |
| MPLX LP | 340,362 | 173,306 |
| NETAPP INC | | 174,141 |
| NGL ENERGY PARTNERS LP | 18,373 | |
| NGL ENERGY PARTNERS LP | 183,530 | 46,808 |
| NOBLE ENERGY INC | | 77,985 |
| NOBLE MIDSTREAM PARTNERS LP | 18,783 | 52,867 |
| NOVARTIS AG-ADR | | 143,275 |
| NOVO-NORDISK A/S-SPONS ADR | 63,783 | |
| NUSTAR ENERGY LP | 137,922 | 84,258 |
| NUTANIX INC | 119,939 | |
| NUTRIEN LTD | | 113,883 |
| NVIDIA CORP | 194,312 | |
| NXP SEMICONDUCTOR NV | 189,163 | |
| OASIS MIDSTREAM PARTNERS LP | | 8,693 |
| ONEOK INC | 87,888 | 115,408 |
| ORACLE CORP | 586,924 | 822,314 |
| OWENS CORNING INC | 122,005 | 113,353 |
| PALO ALTO NETWORKS | 260,634 | 365,217 |
| PAYPAL HOLDINGS INC | | 428,411 |
| PBF LOGISTICS LP | | 14,027 |
| PEMBINA PIPELINE CORP | 52,658 | |
| PFIZER INC | 314,795 | 535,566 |
| PHILLIPS 66 PARTNERS LP | 15,666 | |
| PIONEER NATURAL RESOURCES CO | 274,363 | 234,098 |
| PLAINS ALL AMER PIPELINE LP | 390,840 | 458,354 |
| PRAXAIR INC | | 272,087 |
| PROCTOR & GAMBLE CO | 454,109 | |
| QUALCOMM INC | 384,962 | 383,402 |
| QUEST DIAGNOSTICS | 204,945 | |
| RAYTHEON COMPANY | | 91,942 |
| RED HAT INC | | 465,350 |
| REGENERON PHARMACEUTICALS | | 248,118 |
| REGIONS FINANCIAL CORP | | 234,376 |
| RIO TINTO PLC-SPON ADR | | 82,468 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|-------------------------------|---|---|
| ROYAL DUTCH SHELL PLC-ADR A | 188,039 | 383,618 |
| SCHLUMBERGER LTD | | 374,223 |
| SCHWAB (CHARLES) CORP | 339,187 | 349,486 |
| SEMGROUP INC | | 57,257 |
| SHELL MIDSTREAM PARTNERS LP | | 16,151 |
| SL GREEN REALTY CORP REIT | | 169,128 |
| SOUTHWEST AIRLINES CO | 129,911 | 191,992 |
| SPLUNK INC | 246,004 | 394,702 |
| STEEL DYNAMICS INC | | 192,066 |
| SUMMIT MIDSTREAM PARTNERS LP | | 17,700 |
| SUNTRUST BANKS INC | 105,674 | |
| TALLGRASS ENERGY LP | | 25,451 |
| TARGA RESOURCES CORP | 188,294 | 261,032 |
| TC ENERGY CORP | 54,366 | |
| TD AMERITRADE HOLDING CORP | | 101,736 |
| TE CONNECTIVITY LTD | | 234,976 |
| TEXAS INSTRUMENTS INC | 309,870 | 346,642 |
| THE TRAVELERS COMPANIES INC | 190,607 | |
| THE WALT DISNEY CO. | 461,743 | 393,638 |
| THERMO FISHER SCIENTIFIC INC | 444,082 | 415,317 |
| TOLL BROTHERS INC | 75,999 | |
| TYSON FOODS INC-CL A | 144,119 | |
| UBER TECHNOLOGIES | 196,397 | |
| UNION PACIFIC CORP | 195,000 | |
| UNITED PARCEL SERVICE-CL B | 707,332 | 334,234 |
| UNITED TECHNOLOGIES CORP | 363,500 | 348,873 |
| UNITEDHEALTH GROUP INC | 760,032 | 717,325 |
| USA COMPRESSION PARTNERS LP | | 19,807 |
| VALERO ENERGY CORP | 200,245 | |
| VERIZON COMMUNICATIONS INC | 417,996 | 409,515 |
| VISA INC-CLASS A SHARES | 852,385 | 746,789 |
| VMWARE INC- CL A | 181,043 | 246,749 |
| WELLS FARGO & COMPANY | 356,121 | 613,806 |
| WESTERN MIDSTREAM PARTNERS LP | 64,996 | |
| WESTLAKE CHEMICAL PARTNERS LP | | 20,173 |
| WESTROCK CO W/I | | 150,148 |
| WILLIAMS COS INC | 225,026 | 513,002 |
| WW GRAINGER INC | 306,488 | 453,210 |
| WYNDHAM HOTELS & RESORTS INC | 39,563 | 90,970 |
| WYNDHAM WORLDWIDE CORP | 79,103 | 87,560 |
| YUM CHINA HOLDINGS INC | | 337,290 |
| ZIMMER BIOMET HOLDINGS INC | 138,365 | |
| ZOETIS INC | 476,098 | 424,552 |
| Total Equity Funds | <u>37,802,141</u> | <u>43,674,359</u> |
| TOTAL INVESTMENTS | 112,400,368 | 113,111,059 |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 1 - Pension Fund Investments
August 31, 2019 (With Comparative totals for August 31, 2018)

| | Market Value As of August 31, 2019 | Market Value As of August 31, 2018 |
|---|---|---|
| | <u> </u> | <u> </u> |
| Short Term Investments (Exhibit III) | 2,184,256 | 1,101,697 |
| Investments (Exhibit III) | | |
| Equity | 66,957,688 | 62,329,443 |
| Bonds | 24,914,655 | 24,896,305 |
| Other Investments | 18,343,769 | 24,783,614 |
| Total | <u><u>112,400,368</u></u> | <u><u>113,111,059</u></u> |

* Investment represents greater than 5% of the Fiduciary Net Position as of August 31, 2019.

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 2 - Administrative Expenses for TESRS Trust Fund
For Year Ended August 31, 2019

| Category | Expenses |
|--|--------------------------|
| Professional Fees and Services: | |
| Actuary Services | \$ 69,684 |
| Computer Consultant Services | 52,500 |
| Accounting/Bookkeeping Services | 29,520 |
| Legal Services | 28,291 |
| Audit Services | 27,500 |
| Information Technology Services | 40 |
| Total Professional Fees and Services | <u>207,535</u> |
| Travel | 13,513 |
| Other Expense | 3,895 |
| Rentals & Leases | 1,408 |
| Materials & Supplies | 454 |
| Interest Expense | 1 |
| Total Administrative Expenses (See Exhibit IV) | <u><u>\$ 226,806</u></u> |

Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 3 - Investing Activity Expenses
For Year Ended August 31, 2019

| <u>Category</u> | <u>Expenses</u> |
|-------------------------------------|-------------------|
| Boston Partners | \$ 104,827 |
| Andco Consulting | 75,000 |
| Clearbridge | 63,785 |
| Bank of Texas | 56,150 |
| OFI Trust Company | 32,562 |
| Harvest | 31,188 |
| Garcia Hamilton | 30,367 |
| Richmond Capital | 30,356 |
| Invesco Trust Company | 21,837 |
| Total Investing Activities Expenses | <u>\$ 446,072</u> |
| (See Exhibit IV) | |

**Texas Emergency Services Retirement System
Other Supplementary Schedules
Schedule 4 - Board Members
August 31, 2019**

| <u>Name and Address</u> | <u>Term Expires September 1,</u> |
|------------------------------------|----------------------------------|
| V. Jenny Moore, Chairman | 2021 |
| Pilar Rodriguez, Vice-Chairman | 2021 |
| A. Taylor Allen, Trustee | 2019 |
| Courtney Gibson Bechtol, Secretary | 2021 |
| Dan Key, Trustee | 2019 |
| Edward J. Keenan, Trustee | 2023 |
| Rodney Alan Ryalls, Trustee | 2023 |
| Frank Torres, Trustee | 2019 |
| Stephanie Lynn Wagner, Trustee | 2023 |

Texas Emergency Services Retirement System

Board of Trustees

V. Jenny Moore, Chairman

Pilar Rodriguez, Vice-Chair

Courtney Gibson Bechtol, Secretary

A. Taylor Allen, Trustee

Dan Key, Trustee

Edward J. Keenan, Trustee

Rodney Alan Ryalls, Trustee

Frank Torres, Trustee

Stephanie Lynn Wagner, Trustee

Kevin Deiters, Executive Director

L. Wayne Oberhoff, Chief Financial Officer

208 E. 10th Street, 3rd Floor, Suite 309

Austin TX 78701

(800) 919-3372

www.tesrs.texas.gov