

CITY OF HELOTES, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2015

**NOTE L -- EMPLOYEES' RETIREMENT SYSTEMS**

Texas Municipal Retirement System

**1. Plan Description**

The City participates, as one of 860 plans, in the nontraditional, joint-contributory, hybrid-defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

All eligible employees of the City are required to participate in the TMRS retirement system.

**2. Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the State statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the December 31, 2014 valuation and measurement date, the following employees were covered by the benefit terms:

	2013	2014
Inactive employees or beneficiaries currently receiving benefits	8	10
Inactive employees entitled to but not yet receiving benefits	16	19
Active employees	58	60
	82	89

**3. Contributions**

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the State Law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

CITY OF HELOTES, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2015

**NOTE L -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

**3. Contributions (Continued)**

For the year ending September 30, 2015, employees for the City were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 5.02% and 6.34% in calendar years 2014 and 2015, respectively. The City's contributions to TMRS for the year ended September 30, 2015 were \$176,938, and were equal to the required contributions.

**4. Net Pension Liability**

The City's Net Pension Liability (NPL) or Asset was measured as of December 31, 2014, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**5. Actuarial Assumptions**

The Total Pension Liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.00% per year
Salary Increases	3.50% to 12.00%, including inflation
Investment Rate of Return*	7.00%

\*Presented net of pension plan investment expense, including inflation.

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used with slight adjustments.

Actuarial assumptions used in the December 31, 2014 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2006 through December 31, 2009, first used in the December 31, 2010 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension plan investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

CITY OF HELOTES, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2015

**NOTE L -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

**5. Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.80%
International Equity	17.50%	6.05%
Core Fixed Income	30.00%	1.50%
Non-Core Fixed Income	10.00%	3.50%
Real Return	5.00%	1.75%
Real Estate	10.00%	5.25%
Absolute Return	5.00%	4.25%
Private Equity	5.00%	8.50%
	<u>100.00%</u>	

**6. Discount Rate**

The discount rate used to measure the Total Pension Liability was 7%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**7. Discount Rate Sensitivity Analysis**

The following presents the net pension liability of the City, calculated using the discount rate of 7.0%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	Discount Rate 6%	Discount Rate 7%	Discount Rate 8%
Net Pension Liability (Asset)	\$ 987,708	\$ 297,832	\$ (267,172)

CITY OF HELOTES, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2015

**NOTE L -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

**8. Changes in Net Pension Liability**

The below schedule presents the changes in the Net Pension Liability (Asset) as of December 31, 2014:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at December 31, 2013	\$ 3,960,372	\$ 3,705,756	\$ 254,616
Changes for the year:			
Service Cost	312,260	-	312,260
Interest	284,925	-	284,925
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(23,615)	-	(23,615)
Changes of Assumptions	-	-	-
Contributions - Employer	-	146,084	(146,084)
Contributions - Employee	-	174,603	(174,603)
Net Investment Income	-	212,062	(212,062)
Benefit Payments, Including Refunds of Employee Contributions	(92,277)	(92,277)	-
Administrative Expense	-	(2,213)	2,213
Other Changes	-	(182)	182
Net Changes	<u>481,293</u>	<u>438,077</u>	<u>43,216</u>
Balance at December 31, 2014	<u>\$ 4,441,665</u>	<u>\$ 4,143,833</u>	<u>\$ 297,832</u>

**9. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained at [www.tmr.com](http://www.tmr.com).

CITY OF HELOTES, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2015

**NOTE L -- EMPLOYEES' RETIREMENT SYSTEMS (Continued)**

**10. Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended September 30, 2015, the City recognized a pension expense of \$172,240. Also, as of September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ (20,813)
Changes in Actuarial Assumptions	-	-
Differences between Projected and Actual Investment Earnings	37,873	-
Contributions Subsequent to the Measurement Date	133,595	-
	\$ 171,468	\$ (20,813)

Deferred outflows of resources in the amount of \$133,595 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the year ending September 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,	
2015	\$ 6,666
2016	6,666
2017	6,666
2018	6,667
2019	(2,802)
Thereafter	(6,803)
	\$ 17,060

**NOTE M -- OTHER POST EMPLOYMENT BENEFIT**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS), known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year, to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's annual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

CITY OF HELOTES, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 TEXAS MUNICIPAL RETIREMENT SYSTEM  
 SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS  
 LAST CALENDAR YEAR

Total Pension Liability	
	2014
Service Cost	\$ 312,260
Interest (on the Total Pension Liability)	284,925
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	(23,615)
Changes of Assumptions	-
Benefit Payments, Including Refunds of Employee Contributions	(92,277)
Net Change in Total Pension Liability	481,293
Total Pension Liability - Beginning	3,960,372
Total Pension Liability - Ending	\$ 4,441,665
Plan Fiduciary Net Position	
	2014
Contributions - Employer	\$ 146,084
Contributions - Employee	174,603
Net Investment Income	212,062
Benefit Payments, Including Refunds of Employee Contributions	(92,277)
Administrative Expense	(2,213)
Other	(182)
Net Change in Plan Fiduciary Net Position	438,077
Plan Fiduciary Net Position - Beginning	3,705,756
Plan Fiduciary Net Position - Ending	\$ 4,143,833
Net Pension Liability (Asset) - Ending	\$ 297,832
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	93.29%
Covered Employee Payroll	\$ 2,910,052
Net Pension Liability as a Percentage of Covered Employee Payroll	10.23%

CITY OF HELOTES, TEXAS  
NOTES TO SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS  
SEPTEMBER 30, 2015

**Schedule of Contributions:**

	2014
Actuarially Determined Contribution	\$ 176,938
Contribution in Relation to the Actuarially Determined Contribution	176,938
Contribution Deficiency (Excess)	\$ -
 Covered Employee Payroll	 \$ 2,970,585
 Contributions as a Percentage of Covered Employee Payroll	 5.96%

**Valuation Date:**

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (13) months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	29 Years
Asset Valuation Method	10 Year Smoothed Market, 15% soft corridor
Inflation	3.00%
Salary Increases	3.50% to 12.00% including inflation
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2010 valuation pursuant to an experience study of the period 2005 - 2009.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.