

**THE WOODLANDS FIREFIGHTERS' RELIEF &  
RETIREMENT SYSTEM**

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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
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**FOR THE YEAR ENDED DECEMBER 31, 2017**

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## *INDEPENDENT AUDITOR'S REPORT*

To the Board of Trustees  
The Woodlands Firefighters' Relief & Retirement System  
The Woodlands, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Woodlands Firefighters' Relief & Retirement System, (the "System") which comprise the Statement of Fiduciary Net Position as of December 31, 2017, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, collectively, the System's financial statements.

### **System Management's Responsibility for the Financial Statements**

System 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 (US GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the System's financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). 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 System'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 System'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 System's management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the System's financial statements referred to above present fairly, in all material respects, the fiduciary net position as of December 31, 2017 and the changes in fiduciary net position for the year then ended, in accordance with US GAAP.

### **Emphasis of Matter**

#### *Correction of an Error*

As discussed in Note 10 to the financial statements, the System restated its beginning plan net position due to an accounting error noted in the prior year. Our opinion is not modified with respect to this matter.

### **Required Supplementary Information**

US GAAP requires that the management's discussion and analysis and the required supplementary information, as listed in the table of contents, be presented to supplement the System's financial statements. Such information, although not a part of the System's financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the System's financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with US GAAS, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the System's financial statements, and other knowledge we obtained during our audit of the System's 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 assurance.

### **Additional Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the System's financial statements as a whole. The additional supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the System's financial statements. Such information is the responsibility of the System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the System's financial statements. The information has been subjected to the auditing procedures applied in our audit of the System's financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the System's financial statements, and other additional procedures in accordance with US GAAS. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the System's financial statements as a whole.

*Brooks Watson & Co.*

Brooks Watson & Co., PLLC  
Certified Public Accountants  
Houston, Texas  
June 6, 2018

*MANAGEMENT'S DISCUSSION  
AND ANALYSIS*

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

The purpose of the Management's Discussion and Analysis (the "MD&A") is to give the readers an objective and easily readable analysis of the financial activities of the Woodlands Firefighters' Relief & Retirement System (the "System") for the year ended December 31, 2017. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the System's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34 establishes the content of the minimum requirements for MD&A. Please read the MD&A in conjunction with the System's financial statements, which follow this section.

**THE STRUCTURE OF OUR ANNUAL REPORT**

The annual financial report is presented as compliant with the financial reporting model in effect pursuant to GASB Statement No. 34. The financial reporting model requires governments to present certain basic financial statements as well as a Management's Discussion and Analysis (MD&A) and certain other Required Supplementary Information (RSI). The basic financial statements include (1) statement of fiduciary net position, (2) statement of changes fiduciary net position, and (3) notes to the financial statements.

The Statement of Fiduciary Net Position presents information on all of the System's assets and liabilities. The difference between the two is reported as *net position – restricted for pension benefits*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Other financial factors, such as the System's total pension liability need to be considered to assess the overall health of the System.

The Statement of Change in Fiduciary Net Position presents information showing how the System's net position changed during the most recent year. This activity includes System and member contributions, benefits and refunds paid out, as well as investment income and expense. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method.

**Notes to Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found after the financial statements within this report.

**Other Information**

In addition to basic financial statements, this MD&A, and accompanying notes, this report also presents certain RSI. The RSI that GASB 67 requires includes a Schedule of Changes in the

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

System's Net Pension Liability and Related Ratios as well as a Schedule of Investment Returns. The RSI can be found after the notes to the financial statements within this report.

**FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. For the System, assets exceed liabilities (net position restricted for pension benefits) by \$32,286,791 as of yearend.

**Statement of Fiduciary Net Position:**

The following table reflects the comparative Statement of Fiduciary Net Position:

	<u>2017</u>	<u>2016</u>
<i>Assets</i>		
Cash & cash equivalents	\$ 803,809	\$ 460,026
Investments, at fair value		
Exchange traded funds	4,693,539	2,965,361
Debt securities	7,399,198	6,854,979
Equity securities	19,211,258	15,939,781
Total Investments, at fair value	<u>31,303,995</u>	<u>25,760,121</u>
Receivables		
Contributions receivable	178,987	63,065
Total Receivables	<u>178,987</u>	<u>63,065</u>
<b>Total Assets</b>	<b><u>\$ 32,286,791</u></b>	<b><u>\$ 26,283,212</u></b>
<i>Liabilities</i>		
Accounts payable	\$ -	\$ 32,622
Total Liabilities	<u>-</u>	<u>32,622</u>
<i>Net Position</i>		
Plan net position, restricted for pension benefits	<u>32,286,791</u>	<u>26,250,590</u>
<b>Total Liabilities and Plan Net Position</b>	<b><u>\$ 32,286,791</u></b>	<b><u>\$ 26,283,212</u></b>

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**Statement of Changes in Fiduciary Net Position:**

The following table provides a summary of the System's changes in net position:

	<u>2017</u>	<u>2016</u>
Additions to plan net position:		
Contributions:		
The Woodlands Township	\$ 1,341,931	\$ 1,313,411
Participants	1,341,931	1,313,411
Total contributions	<u>2,683,862</u>	<u>2,626,822</u>
Net appreciation in fair value of investments	2,918,238	1,179,103
Other income	-	9
Investment income:		
Interest and dividends	612,937	450,735
Total investment income	<u>612,937</u>	<u>450,735</u>
Total additions to plan net position	<u>6,215,037</u>	<u>4,256,669</u>
Deductions from plan net position:		
Contribution refunds paid to participants	-	8,867
Investment expenses	104,215	98,647
Administrative expenses	74,621	82,676
Total deductions from plan net position	<u>178,836</u>	<u>190,190</u>
Net increase (decrease) in plan net position	6,036,201	4,066,479
Plan net position restricted for benefits, beginning of year	<u>26,250,590</u>	<u>22,184,111</u>
<b>Plan net position, restricted for pension benefits</b>	<u><u>\$ 32,286,791</u></u>	<u><u>\$ 26,250,590</u></u>

The System reported an increase in net position of \$6,036,201. The most significant additions include the fair value appreciation of investments of \$2,918,238. Current year Township and participant contributions totaled \$2,683,238 on \$11,153,108 of pensionable wages. The most significant individual expense was related to investment management service fees of \$94,812. Interest and dividend revenue totaled \$612,937, an increase of \$162,202 from the prior year.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the System's financial activity. Questions concerning this report or requests for additional financial information should be directed to Jennifer Hanna, Plan Administrator, P.O. Box 497 Conroe, TX, 77305.

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>2017</b>
<i>Assets</i>	
Cash & cash equivalents	\$ 803,809
Investments, at fair value	
Exchange traded funds	4,693,539
Debt securities	7,399,198
Equity securities	19,211,258
Total Investments, at fair value	31,303,995
Receivables	
Contributions receivable	178,987
Total Receivables	178,987
<b>Total Assets</b>	<b>\$ 32,286,791</b>
<i>Net Position</i>	
Plan net position, restricted for pension benefits	32,286,791
<b>Total Liabilities and Plan Net Position</b>	<b>\$ 32,286,791</b>

See accompanying notes to the financial statements.

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<b>2017</b>
Additions to plan net position:	
Contributions:	
The Woodlands Township	\$ 1,341,931
Participants	1,341,931
Total contributions	2,683,862
Net appreciation in fair value of investments	2,918,238
Investment income:	
Interest and dividends	612,937
Total investment income	612,937
Total additions to plan net position	6,215,037
Deductions from plan net position:	
Investment expenses	104,215
Administrative expenses	74,621
Total deductions from plan net position	178,836
Net increase (decrease) in plan net position	6,036,201
Plan net position restricted for benefits, beginning of year	26,250,590
<b>Plan net position, restricted for pension benefits</b>	<b>\$ 32,286,791</b>

See accompanying notes to the financial statements.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Note 1 - Description of Plan**

The following description of the Woodlands Firefighters' Relief and Retirement System ("System") provides only general information. Participants should refer to the System's plan document for a more complete description of the System's provisions.

**General**

The System was formed in accordance with the provisions of H.B. 258 passed by the Texas State Legislature in 1937, with the purpose of providing pension benefits to volunteer, part-time and full-time firefighters. Under the provisions of H.B. 258, all incorporated municipalities in the State of Texas, having regularly organized active fire department, shall provide retirement, disability, and death benefits for their employees and their beneficiaries.

The Board of Trustees of the Woodlands Firefighters' Relief and Retirement System is the administrator of a single-employer defined benefit pension plan. The Board is composed of seven members: the president or the president's designated representative; the Township's chief financial officer or a person designated by the chief financial officer; three active members of the retirement system elected by participating members; and two citizen members who are elected by the other members of the Board.

The System is a governmental plan under Section 414(d) of the Internal Revenue Code of 1986, as amended, and is established and maintained by the Woodlands Township, Texas ("Township") as a single-employer defined benefit pension plan covering active paid firefighters of the Township for the purpose of providing these firefighters retirement, death, disability, and withdrawal benefits. The operation of the System is solely for the Township firefighters. The System is considered a part of the Township's financial reporting entity and is included in the Township's financial reports as a pension trust fund. As a governmental entity, the System is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Governmental entities are an exception to the ERISA provisions.

The assets of the System are held in trust and are administered in accordance with State law by a volunteer Board of Trustees of the System. The Board is comprised of active firefighters, the Township's Treasurer, or an individual performing those functions, the President of the Township, or an appointed representative of the President, and citizen members elected by the firefighter trustees. The Board of Trustees has general powers and duties to administer the System, including appointing an administrator to carry out the business of the Board, investing the assets of the System, making expenditures from the System, and determining eligibility for benefits.

The System's fiscal year is the twelve-month period beginning January 1 and ending December 31.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
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Firefighters in the Woodlands Township Fire Department are covered by the Woodlands Firefighters' Relief and Retirement System. The table below summarizes the membership of the fund included in the December 31, 2017 actuarial valuation of the fund.

• Retirees and Beneficiaries Currently Receiving Benefits	-
• Terminated Members Entitled to Benefits But Not Yet Receiving Them	1
• Active Participants (Vested and Nonvested)	<u>140</u>
<b>Total Members</b>	<b><u>141</u></b>

**Benefits**

System provides service retirement, death, disability, and withdrawal benefits for all firefighters meeting the criteria as discussed further in this section. An individual who is an employee on January 1, 2015 (effective date) shall become a member, unless such employee is 36 years old or older and affirmatively makes an irrevocable election in writing to not participate. An individual who is under the age of 36 and becomes an employee after the effective date shall become a member as a condition of employment upon the first date of employee's employment with the fire department. An individual who is 36 years old or older and becomes an employee after the effective date shall only become a member pursuant to Section 9(f) of the Texas Local Fire Fighters Retirement Act ("TLFFRA").

A member who has been credited with 20 years or more of credited service is eligible to receive a normal retirement benefit upon the later to occur of: (1) the member's termination of service with the fire department or (2) the attainment of age 52. A member eligible for a normal retirement benefit will request the commencement of his or her benefit through an application with the system under procedures developed by the Board and otherwise in accordance with TLFFRA. The System provides a monthly benefit at retirement of the highest average monthly salary, times 2.5%, times 20, plus 3% of the highest monthly average salary for each year of service in excess of 20 years. Notwithstanding the previous, in no event shall any normal retirement benefit under the system exceed 100% of a member's highest average monthly pay.

The normal form of benefit shall be monthly payments to the member during the life of the member in an amount equal to the amount of the normal retirement benefit determined as discussed above; provided, however in the event that (1) a member dies following commencement of his or her normal retirement benefit, and (2) the member had not received 120 monthly benefit payments, then the member's eligible beneficiary (or if no eligible beneficiary exists, the member's estate) will continue to receive monthly normal retirement benefit payments until 120 total monthly benefit payments have been made to the member, the member's eligible beneficiary or the member's estate, as applicable.

In the event that a member has an eligible beneficiary at the time of application for normal retirement benefit, the member may elect to receive an optional form of benefit in lieu of the

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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normal form of benefit. The optional form of normal retirement benefit shall be an amount equal to the actuarial equivalent of the normal form of benefit above paid as follows: (1) monthly payments made to the member during the life of the member, and (2) following the death of the member, continued monthly payments to the member's eligible beneficiary (if any) in amount equal to 75% of the amount of such member's monthly payment until the date on which an eligible beneficiary no longer exists.

An active member will qualify for a disability retirement benefit if, prior to satisfying the requirements for a normal service retirement, the board determines in its sole discretion that the member is unable, as a result of a physical or mental condition, to perform the duties of (1) his or her present position with the fire department or (2) a position offered to him or her in the fire department providing the member with pay that is greater than or equal to the pay the disabled member would have received in his or her present position fire department.

The member's disability retirement benefit under the System will be a monthly payment equal to their highest average monthly pay, times 2.5%, times credited service, calculated as of the date that the member is entitled to receive the disability retirement benefit, but utilizing no less than twenty 20 years of credited service.

Notwithstanding the above, for any disability retirement benefit that commences within two years following the effective date, the amount of the disability retirement benefit will solely be \$100 per month and (2) in no event shall any disability retirement benefit under the System exceed 100% of a member's highest average monthly pay.

In the event of the death of a member while an active employee of the fire department, or after the member terminates employment with the fire department but before any other benefit payments have commenced, the member's eligible beneficiary will be eligible for a monthly benefit, except that no death benefit shall be payable in the event that an eligible beneficiary of a deceased member is eligible to receive a benefit, upon the death of the member, in which case the provisions of those sections will apply to any benefit due an eligible beneficiary.

The death benefit shall be a monthly benefit equal to 75% of the highest average monthly pay, times 2.5%, times 20, plus the highest average monthly pay, times 3%, times credited service in excess of 20 years, calculated as of the member's date of death, provided that the credited service utilized in applying such formula shall not be less than twenty 20 years, whether or not the member had twenty years of credited service as of his or her date of death.

Notwithstanding the above, in no event shall any death benefit under the System exceed 100% of a member's highest average monthly pay.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Funding Policy**

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each paid firefighter.

The funding policy of the Woodlands Firefighters' Relief and Retirement System requires contributions equal to 12% of pay by the firefighters, the rate elected by the firefighters on August 28, 2014. The Township currently contributes 12% of pay for each active firefighter according. The actuarial valuation includes the assumption that the Township contribution rate will be 12% over the UAAL amortization period. The costs of administering the plan are paid from the fund.

The funding policy also depends upon the total return of the fund's assets, which varies from year to year. For the year ending December 31, 2017, the money-weighted rate of return was 12.50%. This measurement of the investment performance is net of investment expenses and reflects the estimated effect of the timing of the contributions received and the benefits paid during the year.

While the contribution requirements are not actuarially determined, state law requires that each change in plan benefits adopted by the fund must first be approved by an eligible actuary, certifying that the contribution commitment by the firefighters and the assumed Township contribution rate together provide an adequate contribution arrangement. Using the entry age actuarial cost method, the plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the plan's UAAL is actuarially determined using an open, level percentage of payroll method.

**Note 2 - Summary of Accounting Policies**

***Basis of Presentation***

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), which designates accounting principles and financial reporting standards applicable to State and local governmental units. The accompanying basic financial statements include solely the accounts of the System, which include all programs, activities, and functions relating to the accumulation and investment of the net assets and related income necessary to provide the service, disability, and death benefits required under the terms of the governing statutes and amendments thereto.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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***Basis of Accounting***

The accrual basis of accounting is used by the System. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and employer contributions are recognized when due, pursuant to formal commitments according to the System requirements and State statute. Benefits paid to members and contribution refunds are recognized when due and payable in accordance with the terms of the System. Accrued income, when deemed uncollectible, is charged to operations.

***Reporting Entity***

The System is reported as Other Information in the financial statement notes of the Township and required supplemental information is included in the Township's Comprehensive Annual Financial Report.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from the estimates that were used.

***Cash and Cash Equivalents***

The System considers only demand deposits as cash. Cash equivalent securities, which are comprised of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

***Investment Valuation and Income Recognition***

Investments are reported at fair value. Fair value is defined as the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities, including domestic and foreign equities as well as mutual funds, traded on a national securities exchange are valued at the last reported closing price. Short-term investments with a maturity of less than one year are valued at cost which approximates fair value. Investments in limited partnerships are reported at their capital value as provided by the General Partner.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
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Unrealized gains and losses, arising from increases or decreases in the current market values from the beginning of the year to the end of the year, are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in plan net position, along with gains and losses realized on sales of investments. Net appreciation includes the System's gains and losses on investments bought and sold as well as held during the year. Dividend income is recorded on the ex-dividend date. Interest income and income from other investments is recorded on the accrual basis.

***Administrative Expenses***

The cost of administering the System is paid by the System from current earnings pursuant to an annual fiscal budget approved by the System's Board of Trustees.

***Federal Income Tax***

The System received a favorable letter of determination from the Internal Revenue Service stating that the System qualifies as a tax-exempt plan and trust. The System's management and Board believe that the System is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require System's management to evaluate tax positions taken by the System and recognize a tax liability (or asset) if the System has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service.

System management has analyzed the tax positions taken by the System and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the basic financial statements.

The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**Note 3 - Cash and Cash Equivalents**

For cash deposits and cash equivalents, custodial risk is the risk that, in the event of a bank failure, the System's deposits may not be returned to it. The System's deposits are held by the Custodian (Ameritrade) and by Amegy Bank of Texas.

As of December 31, 2017, the System's cash and cash equivalents in bank accounts totaled \$803,809 that are in a demand deposit account subject to coverage by the Federal Deposit Insurance Corporation (FDIC), but not collateralized. The System does not have a deposit

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policy for custodial credit risk; however, management believes that the System's credit risk exposure for amounts not covered by Federal depository insurance is mitigated by the financial strength of the banking institution in which the deposit is held. Management believes that System cash was adequately secured at all times during the year.

**Note 4 – Investments and Investment Risk**

The System's Board has adopted an Investment Policy Statement (Investment Policy) to set forth the factors involved in the management of investment assets for the System, with the objective to invest the System's assets in a manner consistent with generally accepted standards of fiduciary responsibility. The Board shall manage the investment program of the System in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The safeguards which would guide a prudent man will be observed.

Safety of principal shall be emphasized and the System will be diversified so as to avoid the risk of large loss. All transactions undertaken on behalf of the System will be for the sole benefit of the System participants and beneficiaries and for the exclusive purpose of providing benefits to them and defraying reasonable administrative expenses.

The Board has contracted with South Texas Money Management, LTD as investment advisors for the System's investments to provide advice and guidance on managing the System's assets.

The Board has employed Ameritrade as custodian of the assets of the System, and in said capacity, the custodian shall be a fiduciary of the System's assets with respect to its discretionary duties including safekeeping the System's assets. The custodian has established and maintained a custodial account to hold, or direct its agents to hold, for the account of the System all assets that the Board shall from time to time deposit with the custodian. All rights, title and interest in and to the System's assets shall at all times be vested with the System's Board. In holding all System assets, the custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the custodian shall hold, manage and administer the System's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the System. The following asset allocation was adopted by the Board as of year end:

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Asset Classes	Target Allocation
Equites	75%
Fixed Income	24%
Cash and cash equivalents	1%

Credit risk

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

As of December 31, 2017, the System's fixed income securities had the following credit quality ratings:

	Fair Value	Moody's	Standard and Poor's
AMERICAN HONDA FINANCE	\$ 347,246	A2	A+
AUSTIN TX ELEC UTLY REV TAX	349,538	A1	AA-
AUSTIN TX WTR REV TAX	349,500	AA2	AA
BANK OF MONTREAL SNR	324,584	AA3	*
BANK OF NOVA SCOTIA SNR	349,818	AA2	A+
CISCO SYSTEM INC SNR	249,787	A1	AA-
COLGATE-PALMOLIVE CO.	99,130	AA3	AA-
COLORADO ST UNIV SYS REV TAX	250,970	AA3	A+
GEORGIA ST.	101,328	AAA	AAA
GREEN BAY WISCONSIN WATER SYSTEM	93,499	AA2	*
HAWAII ST GO TAX	195,522	AA1	AA+
JEA FL POWER REV TAX	396,500	AA2	AA-
LAKE COUNTY COMMUNITY	143,972	AA2	AA+
MONTGOMERY ALA GO WTS	398,260	A1	AA
NEW YORK NY GO TAX	350,378	AA2	AA
NEW YORK UNIVERSITY SNR	396,736	AA3	*
PFIZER, INC SENIOR NOTE	396,844	A1	AA
PORT OF HOUSTON GO TAX	367,087	*	AAA
SAN ANTONIO TX GO TAX	270,697	AAA	AAA
SOUTH DAKOTA CONSERVATORY	197,214	AAA	AAA
TEXAS TECH UNIV REV REF TAX	349,237	AA1	AA
TOYOTA MOTOR CREDIT	98,406	AA3	AA-
UNIVERSITY OF HOUSTON REV	398,388	AA2	AA
UNIVERSITY OF NORTH TEXAS REV	398,936	AA2	*
WELLS FARGO & CO SNR FXD	251,540	A2	*
WILLIAMSON CNTY TX GO TAX	274,081	*	AAA
<b>Total Fixed Income Bonds</b>	<b>\$ 7,399,198</b>		

\* Unavailalbe at year end.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Concentration of Credit Risk

The asset allocation guide of the System's Investment Policy contains guideline percentages, at market value, of total System Assets to be invested in various asset classes, with the objective of optimizing the investment return of the System within framework of acceptable risk and diversification. Actual asset allocations will be dictated by current and anticipated market conditions, the independent actions of the Board and/or investment managers, and the required cash flow to and from the System. The System had one investment at December 31, 2017 that represents 5% or more of the fair value of the System's assets, Ishares Core S&P at \$2,249,458.

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. While the System has no formal policy regarding custodial credit risk, as of December 31, 2017, all cash deposits were fully insured by the Federal Deposit Insurance Corporation.

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. At December 31, 2017, the System did not hold any such securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The System invests in fixed income securities with maturities greater than one year. The System's Investment Policy sets limits on exposure to certain securities as a way of managing its exposure to potential fair value losses arising from future changes in interest rates. As of December 31, 2017, the System had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Debt securities-fixed income	\$ 7,399,198	2.57
Total fair value	<u>\$ 7,399,198</u>	
Portfolio weighted average maturity		2.57

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 12.50%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 5 – Fair Value Measurements**

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2    Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from our corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3    Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

*Mutual funds:* Valued at the quoted net asset value ("NAV") of shares held by the System at year end.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
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*Limited Partnerships:* Valued at \$1.00 for every dollar of capital invested adjusted for appreciation or depreciation.

*Equities, domestic & foreign:* Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumption to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the System's fair value measurements at December 31, 2017.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Exchange traded funds	\$ 4,693,539	\$ -	\$ -	\$ 4,693,539
Equities, domestic & foreign	19,211,258	-	-	19,211,258
Debt securities - fixed income	-	7,399,198	-	7,399,198
<b>Total Assets at Fair Value</b>	<b>\$ 23,904,797</b>	<b>\$ 7,399,198</b>	<b>\$ -</b>	<b>\$ 31,303,995</b>

**Note 6 – Actuarial Information**

The System may adopt an actuarial valuation once every two years in order to determine whether the fund has an adequate contribution arrangement. The most recent actuarial valuation was completed for the year ended December 31, 2017. The Board has adopted and certified the December 31, 2017 actuarial valuation, based on an assumed total contribution rate of 24%, comprised of 12% by the firefighters and 12% by the Township. This total contribution rate exceeds the normal cost rate of 22.66%, leaving 1.34% available to amortize the Unfunded Actuarial Accrued Liability (UAAL). The current UAAL is (\$1,819,206), based on the scheduled annual contribution rates into the fund, the total contributions are sufficient to pay the System's normal cost and to amortize the System's UAAL, within the maximum acceptable period of 40 years, the System has an adequate contribution arrangement.

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Recently adopted accounting standards require that the statement of fiduciary net position state assets at fair value, and include only benefits and refunds due System members and beneficiaries, as well as accrued investment and administrative expenses as of the reporting date. The new standards also require disclosure of the total pension liability and the net pension liability as of the reporting date.

**Note 7 – Net Pension Liability of the System**

The system's net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of December 31, 2017:

Total pension liability	\$ 30,264,889
Plan fiduciary net position	<u>(32,286,791)</u>
System's net pension liability (asset)	<u>\$ (2,021,902)</u>
Plan fiduciary net position as a percentage of the total pension liability	106.68%

**1. Actuarial Assumptions**

The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	4%-11.5%
Investment rate of return	7%, 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 valuation date 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. These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

real rates of return by the target asset allocation percentage and by adding expected inflation.

<b>Asset Classes</b>	<b>Long-term Expected Real Rate of Return</b>
Equities	6.21%
Fixed Income	4.05%
Cash and cash equivalents	0.00%

**2. 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 plan member contributions will be made at the current contribution rate and that sponsor contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan 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. For purpose of this valuation, the expected rate of return on pension plan investments is 7%; the municipal bond rate is 3.44% (based on the weekly rate closest to but not later than the measurement date of the Bond Buyer 20-Bond Index as published by the Federal Reserve); and the resulting single discount rate is 7%.

**3. Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate**

The following presents the net pension liability (asset) of the fund, calculated using the discount rate of 7%, as well as what the fund's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current rate.

	<b>1% Decrease (6%)</b>	<b>Current Discount Rate (7%)</b>	<b>1% Increase (8%)</b>
System's net pension liability	\$3,066,912	\$(2,021,902)	\$(6,129,857)

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Note 8 - Commitments and Contingencies**

The System is a party to various claims and legal actions arising in the ordinary course of business which, in the opinion of management, do not have a material effect on the System's financial position.

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

**Note 9 - Risks and Uncertainties**

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, including interest rate, currency, equity, and credit conditions, it is at least reasonably possible that changes in the values of investment securities may occur and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits. The effect of those risks and uncertainties on the System's investment portfolio is mitigated by the diversification of its holdings.

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

**Note 10 – Restatement**

The System has restated its beginning plan net position due to an accounting error occurring in the prior year. The restatement of beginning plan net position is as follows:

	<b>Beginning Plan Net Position</b>
Plan net position as of 12/31/2016, as reported	\$ 26,188,804
Recognition of contributions receivable	61,786
Restated beginning plan net position	\$ 26,250,590

**THE WOODLANDS FIREFIGHTERS' RELIEF & RETIREMENT SYSTEM**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

**Note 11 - Subsequent Events**

Management of the System has evaluated events, transactions, and pronouncements that may impact the financial statements for the year ended December 31, 2017 through June 6, 2018, the date the financial statements were available to be issued and has determined that the System had no subsequent events or transactions that require recognition or disclosure in the financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM**  
**SCHEDULE OF CHANGES IN THE SYSTEM'S NET PENSION LIABILITY (ASSET) AND**  
**RELATED RATIOS**  
**LAST TEN FISCAL YEARS**

	<sup>1</sup> <u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
<b>Total pension liability</b>			
Service cost	\$ 2,339,051	\$ 2,231,125	\$ 2,082,564
Interest	2,014,981	1,689,051	141,034
Differences between expected and actual experience	(535,534)	632,469	(654,318)
Changes of assumptions	-	-	-
Contributions - buy back	-	-	20,468,906
Benefit payments, including refunds of member contributions	-	(8,867)	(135,573)
<b>Net change in total pension liability</b>	<u>3,818,498</u>	<u>4,543,778</u>	<u>21,902,613</u>
<b>Total pension liability—beginning</b>	<u>26,446,391</u>	<u>21,902,613</u>	<u>-</u>
<b>Total pension liability—ending (a)</b>	<u><u>\$ 30,264,889</u></u>	<u><u>\$ 26,446,391</u></u>	<u><u>\$ 21,902,613</u></u>
<b>Plan fiduciary net position</b>			
Contributions - buy back	\$ -	\$ -	\$ 20,468,906
Contributions—employer	1,341,931	1,313,411	1,184,257
Contributions—member	1,341,931	1,313,411	1,184,257
Net investment income	3,426,958	1,531,275	(387,995)
Benefit payments, including refunds of member contributions	-	(8,867)	(135,573)
Administrative expense	(74,619)	(82,751)	(129,741)
<b>Net change in plan fiduciary net position</b>	<u>6,036,201</u>	<u>4,066,479</u>	<u>22,184,111</u>
<b>Plan fiduciary net position—beginning</b>	<u>26,250,590</u>	<u>22,184,111</u>	<u>-</u>
<b>Plan fiduciary net position—ending (b)</b>	<u><u>\$ 32,286,791</u></u>	<u><u>\$ 26,250,590</u></u>	<u><u>\$ 22,184,111</u></u>
<b>Net pension liability (asset)—ending (a) – (b)</b>	<u><u>\$ (2,021,902)</u></u>	<u><u>\$ 195,801</u></u>	<u><u>\$ (281,498)</u></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	106.68%	99.26%	101.29%
<b>Covered-employee payroll</b>	\$ 11,153,108	\$ 10,687,680	\$ 9,868,808
<b>Net pension liability (asset) as a percentage of covered-employee payroll</b>	-18.13%	1.83%	-2.85%

**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.

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM**  
**SCHEDULE OF INVESTMENT RETURNS**  
**LAST TEN FISCAL YEARS**

	<sup>1</sup> <u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>
Annual money-weighted rate of return, net of investment expense <sup>2</sup>	12.50%	6.61%	-2.39%

**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 estimated effect of the contributions received and the benefits paid during the year.

## **ADDITIONAL SUPPLEMENTARY INFORMATION**

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM  
INVESTMENTS HELD AS OF DECEMBER 31, 2017**

	<u>2017</u>
<b>Equity Securities - Domestic and Foreign</b>	
Adobe Systems Inc.	\$ 923,164
Alibaba Group Holdings Ltd.	269,681
American Tower Corp.	331,137
Amgen Inc.	460,835
Andeavor	561,295
ATOS Origin	540,086
A T & T Inc.	333,280
Aviva Pic	474,969
Banco Santander SA	222,641
Bank of America Corp.	782,428
Bank of Montreal	649,922
Bristol-Myers Squibb	412,476
Citigroup Inc.	481,061
Chevron Corp.	566,986
D R Horton Inc.	425,056
Eaton Corp	348,276
Edwards Life Sciences	455,799
Electronic Arts	616,597
Essent Group Ltd	254,615
Estee Lauder Companies	605,281
First American Financial Corp	411,950
Floor and Décor Holdings	287,212
Ford Motor Company	480,902
Garmin Ltd	362,066
Granite Construction, Inc.	284,357
Hasbro, Inc.	381,556
International Paper Co.	493,359
Kar Auction Services	366,248
Kroger Co	194,126
Merck & Co Inc.	315,056
Michelin Compagnie Generale	361,385
Microsoft Corp.	533,342
Monolithic Power Systems Inc.	146,293
<b>Subtotal</b>	<u>\$ 14,333,437</u>

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM  
INVESTMENTS HELD AS OF DECEMBER 31, 2017**

	<b>2017</b>
<b>Equity Securities - Domestic and Foreign (continued)</b>	
Nestle S A	\$ 333,220
Occidental Petroleum Corp.	541,106
PRA Health Services	432,036
Raytheon Co.	484,465
Sysco Corp	649,022
Telstra Corporation Limited	126,699
Tencent Holdings Ltd.	220,712
T-Mobile US Inc.	343,843
Varian Medical Systems Inc.	299,549
Verizon Communications	492,725
Vodafone Group PLC	507,848
Walt Disney Co.	446,596
<b>Total Equities</b>	<b>\$ 19,211,258</b>
 <b>Debt Securities - Fixed Income</b>	
American Honda Finance	\$ 347,246
Austin TX Electric Utilities	349,538
Austin TX Water & Wastewater	349,500
Bank of Nova Scotia	349,818
BMO Bank of Montreal	324,584
Cisco Systems Inc.	249,787
Colgate-Palmolive Co.	99,130
Colorado St Board of Governors	250,970
Georgia St.	101,328
Green Bay Wisconsin Water System	93,499
Hawaii St	195,522
Jea FL A St Johns River Power	396,500
Lake County Community	143,972
Montgomery ALA	398,260
New York NY	350,378
New York University	396,736
Pfizer, Inc.	396,844
<b>Subtotal</b>	<b>\$ 4,793,612</b>

**THE WOODLANDS FIREFIGHTERS' RELIEF AND RETIREMENT SYSTEM  
INVESTMENTS HELD AS OF DECEMBER 31, 2017**

<b>Debt Securities - Fixed Income (continued)</b>	<u>2017</u>
Port Houston Auth	\$ 367,087
San Antonio TX	270,697
South Dakota Conservatory District	197,214
Texas Tech Univ	349,237
Toyota Motor Credit	98,406
University of Houston	398,388
University of North Texas	398,936
Wells Fargo Company	251,540
Williamson County TX	274,081
<b>Total Debt Securities - Fixed Inc.ome</b>	<u>\$ 7,399,198</u>
	<u>2017</u>
<b>Exchange Traded Funds</b>	
Ishares Core S & P (IJR)	2,249,458
SPDR Gold TR Gold	1,143,886
SPDR Utilities (XLU)	1,300,195
<b>Total Exchange Traded Funds</b>	<u>\$ 4,693,539</u>
<b>Total</b>	<u><u>\$ 31,303,995</u></u>