

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2015 AND 2014

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TABLE OF CONTENTS

Independent Auditors' Report.....	1
Management's Discussion and Analysis.....	4
Statements of Fiduciary Net Position.....	7
Statements of Changes in Fiduciary Net Position.....	8
Notes to Financial Statements.....	9
Required Supplementary Information:	
Number of Members, Net Pension Plan Liability and Sensitivity of the Net Pension	
Liability to Changes in Discount Rate.....	22
Investments and the Long-term Expected Rate of Return on Pension Assets.....	23
Schedule of Changes in Net Position Liability and Related Ratios, and Schedule of	
Investment Returns.....	24
Notes to Required Supplementary Information.....	26

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Orange Firemen's Relief and Retirement Fund
Orange, Texas

Report of the Financial Statements

We have audited the accompanying financial statements of the Orange Firemen's Relief and Retirement Fund (the Plan), which comprises the statement of fiduciary net position as of December 31, 2015 and 2014, and the related statement of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 Plan'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 Plan's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Orange Firemen's Relief and Retirement Fund as of December 31, 2015 and 2014, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Orange Firemen's Relief and Retirement Fund as of December, 31, 2014, were audited by other auditors whose report dated July 21, 2015 expressed an unmodified opinion on those statements.

Required Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules shown on pages 21-25 are presented for the purpose of additional analysis and are not a part of the financial statements but are supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-6 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.

Very truly yours,

Charles E. Reed & Associates, P.C.

Charles E. Reed and Associates, P.C.
Certified Public Accountants and Consultants

Port Arthur, Texas
June 28, 2016

ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of this discussion and analysis is to provide the reader with an overall review of the financial performance of the Orange Firemen's Relief and Retirement Fund (the "Plan") for the fiscal year ending December 31, 2015, as compared to the prior year ending December 31, 2014. Readers should read this discussion and analysis in combination with the financial statements and related notes.

Financial Highlights for Year Ended December 31, 2015

The assets of the Plan are held in an irrevocable trust for the exclusive benefit of eligible Plan participants. Plan fiduciary net position, which totaled \$8,313,179 as of December 31, 2015, decreased \$996,137 compared to the prior year ending December 31, 2014.

When compared to the prior year:

- Member contributions decreased \$6,230 (3%), and City contributions decreased \$11,756 (4%), due to increased compensation for the plan participants and a decrease in the number of participants. Participants continued to contribute 9.0% of compensation, and the employer matched 11% through September 30, 2015 and 11.5% from October 1, 2015 through December 31, 2015 and 11% of compensation during 2015 and 2014, respectively.
- The Plan experienced a net loss on investments of \$186,511 in 2015 compared to a net investment income of \$251,513 during 2014 due to the weaker market conditions during the year ended December 31, 2015.
- Benefits paid to participants increased \$68,803 (6%) due to issuance of DROP payments to two retirees during 2015.
- Plan administrative fees increased \$14,704 (6%) due to actuarial valuation services rendered in 2015.

Overview of the Financial Statements

The *Statement of Fiduciary Net Position* presents the assets and liabilities of the Plan for the current and prior year. Assets are stated at fair value and accordingly, unrealized appreciation and depreciation of the assets are reported in the *Statement of Changes in Fiduciary Net Position*. Amounts reported may include management's estimates and actual results could differ from those estimates.

The *Statement of Changes in Fiduciary Net Position* presents information showing how the Plan's net position changed during the current and prior year. All of the changes are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the Plan's financial statements. The notes include a brief description of the Plan, a summary of significant accounting policies, and comments on risks and uncertainties and Plan investments.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information consisting of schedules and related notes concerning the Plan's progress in funding its obligation to provide pension benefits to its participants.

Financial Analysis

The *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* provide an indication of the Plan's financial condition. For plan year 2015, these statements indicate a decrease in net position due mainly to the depreciation of the value of the Plan's current investments and issuance of DROP payments. The Plan's net position may serve over time as a useful indicator of the Plan's financial position.

Table A-1
The Plan's Fiduciary Net Position

	2015	2014
Cash and Receivables	\$314,358	\$359,668
Investments	8,004,084	8,970,987
TOTAL ASSETS	8,318,442	9,330,655
Accounts Payable	5,263	21,340
TOTAL LIABILITIES	5,263	21,340
TOTAL FIDUCIARY NET POSITION	\$8,313,179	\$9,309,315

Table A-2
Changes in the Plan's Fiduciary Net Position

	2015	2014
City Contributions	\$307,304	\$319,060
Member Contributions	244,464	250,694
Net Investment Income	(186,511)	251,513
Other Income	-	-
TOTAL ADDITIONS	365,257	821,267
Benefit Payments/Contribution Refunds	1,121,462	1,052,659
Administrative Expenses	239,931	54,112
TOTAL DEDUCTIONS	1,361,393	1,106,771
CHANGE IN FIDUCIARY NET POSITION	(996,136)	(285,504)
Fiduciary Net Position, January 1	9,309,315	9,594,819
TOTAL FIDUCIARY NET POSITION	\$8,313,179	\$9,309,315
DECEMBER 31		

Capital Assets and Debt Administration

Capital Assets: The Plan currently holds no capital assets.

Long-Term Debt: As of December 31, 2015, the Plan had no long-term debt outstanding. Also, no long-term debt was added or retired during the year ended December 31, 2015.

Economic Factors

The contribution rate for the members remained at 13.2% for the plan year ended December 31, 2015. The employer contribution rate was 14% for the plan year ended December 31, 2015. Subsequent to year-end, the member contribution rate was increased to 11.5% of compensation for the plan year ended December 31, 2016; the employer contribution rate is expected to be 21.72% of participant compensation.

Contacting Plan Management

This financial report is designed to provide a general overview of the finances of the Orange Firemen's Relief and Retirement Fund to those that are interested. Questions concerning any information provided in this report or requests for additional information should be addressed to the Plan Administrator, Orange Firemen's Relief and Retirement Fund, P. O. Box 520, Orange, Texas 77631-0520.

ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and Cash Equivalents	\$ 304,751	347,847
Accrued Interest and Dividends	9,607	11,821
Investments at Fair Value		
Fixed Income Portfolio	3,292,910	3,620,614
Equity Portfolio	<u>4,711,174</u>	<u>5,350,373</u>
Total Assets	<u>\$ 8,318,442</u>	<u>\$ 9,330,655</u>
Liabilities		
Payable for Unsettled Sales	<u>\$ 5,263</u>	<u>\$ 21,340</u>
Total Liabilities	<u>\$ 5,263</u>	<u>\$ 21,340</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 8,313,179</u>	<u>\$ 9,309,315</u>

The accompanying notes are an integral part of this financial statements.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Additions		
Contributions:		
Employer Contributions	307,304	319,060
Participants Contribution	<u>244,464</u>	<u>250,694</u>
Total Contributions	<u>551,768</u>	<u>569,754</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(286,008)	143,874
Interest Income	46,914	48,907
Dividend Income	<u>149,485</u>	<u>162,256</u>
Total Investment Income (Loss)	<u>(89,609)</u>	<u>355,037</u>
Less Investment Expenses	<u>(96,902)</u>	<u>(103,524)</u>
Net Investment Income (Loss)	<u>(186,511)</u>	<u>251,513</u>
Total Addtions	365,257	821,267
Deductions		
Benefits Paid	1,121,462	1,052,659
Refunds of Contributions	215,730	31,950
Administrative Expense		
Actuary and Audit Fees	22,779	8,075
Seminar and Travel	800	1,844
Dues	42	47
Legal Fees and Other Costs	<u>580</u>	<u>12,196</u>
Total Deductions	<u>1,361,393</u>	<u>1,106,771</u>
Net Increase (Decrease)	(996,136)	(285,504)
Net Position Avaialble for Pension Benefits		
Beginning of the Year	<u>9,309,315</u>	<u>9,594,819</u>
End of Year	<u>8,313,179</u>	<u>9,309,315</u>

The accompanying notes are an integral part of this financial statement.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 – SUMMARY OF PRINCIPAL FUND PROVISIONS

Authority for the Fund and Definitions

The Orange Firemen's Relief and Retirement Fund is established under the authority of the Texas Local Fire Fighter's Retirement Act (TLFFRA). The fund is administered by a Board of Trustees. The Board is made up of three members elected from and by fund members, two representatives of the City of Orange, Texas and two citizen members.

Effective October 1, 2006, the City of Orange began contributing at a rate of 14.00% of each members total pay (including regular, longevity, and overtime pay, but excluding lump sum distributions for unused sick leave or vacation.

Effective November 15, 2007, members began contributing to the fund at a rate of 11.00% of pay. The prior member contribution rate was 9.00% of pay. The definition of pay for the purposes of employee contributions is the same as the definition of pay for employer contributions. Employee contributions are “picked up” by the City, as permitted under Section 414(h)(2) of the Internal Revenue Code. For this reason, a member's contributions are excluded from taxable income when paid into the fund.

A member's service equals the years and months of continuous employment with the Orange Fire Department during which the member pays into, and keeps on deposit in the fund, the contributions required by the fund. A fund member also receives service credit for those periods which the member received a disability benefit from the fund.

Retirement, death, disability, and termination benefits are calculated using upon a member's highest 60-month average salary. Highest 60-month average salary equals 2.167 times the average of the highest 130 biweekly pay periods out of the 208 biweekly pay periods immediately prior to the member's date of termination of service. If a member's biweekly pay has been offset by workmen's compensation benefits, the total biweekly pay will include the amount by which biweekly pay was offset.

The fund was most recently amended effective October 1, 2015.

Eligibility

All fire fighters of the City of Orange, Texas are members of the Orange Firemen's Relief and Retirement Fund.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS - CONTINUED

Service Retirement Benefits

A member is eligible for Service retirement benefits upon completion of 20 years of service and the attainment of age 50. A member who retires under the service retirement provisions of the Fund will receive a monthly benefit equal to the sum of a. and b., below, where:

- a. Equals 2.6% of the member's highest 60-month average salary multiplied by his or her number of years of service not in excess of 20, and
- b. Equals \$91 per month for each year of service in excess of 20.

Service retirement benefits are payable for the member's lifetime. In the event the member's death precedes that of his spouse, two thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

Disability Benefits

An active member who becomes disabled will receive a monthly disability benefit. Disability benefits are payable in the same form as service retirement benefits. However, disability benefits stop if the member recovers to the point that he or she no longer meets the definition of disability under the fund. There are separate benefits for duty-related disabilities and non-duty related disabilities if a member has less than 15 years of service.

Definition of Disability

For the first two and one-half years, the member need only to be disabled to the extent of being unable to perform the duties of a position offered to him in the fire department providing the member with pay that is greater than or equal to the pay he would have received as an active employee of the fire department. After two and one-half years, the member must have an impairment rating of 50 percent or greater in order to continue receiving benefits.

Amount of Duty-Related Disability Benefit

The amount of disability benefit payable under the fund to a member who becomes disabled as a result of his duties as a fire fighter will equal to the sum of a. and b., below, where:

- a. equals 52.00% of the member's highest 60-month average salary, and
- b. equals \$91.00 per month for each year of service in excess of 20.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS - CONTINUED

Disability retirement benefits are payable for the member's lifetime as long as the member remains disabled under the terms of the plan. In the event the member's death precedes that of his spouse, two thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

Amount of Benefit for Disability that is Not Duty-Related

The amount of disability payable under the Fund to a member who becomes disabled as a result of causes other than his duties as a fire fighter will equal the amount calculated under the duty-related disability benefit provisions of the Fund, multiplied by a percentage from the table, below, based on the member's years of service as of his date of disability.

<u>Number of Completed Years Of Service</u>	<u>Non-Duty Disability Benefit as a Percent Of the Duty-Related Disability Benefit</u>
0	25%
1	25%
2	25%
3	25%
4	25%
5	50%
6	50%
7	50%
8	50%
9	50%
10	75%
11	75%
12	75%
13	75%
14	75%
15 or more	100%

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS - CONTINUED

Death Benefits

If a member's death is duty-related, the member's spouse will receive an immediate monthly benefit, payable for as long as he or she is living. The amount of the death benefit payable under the Fund to a member who dies as a result of his duties as a fire fighter will equal to the sum of a. and b., below, where:

- a. equals 34.67% of the member's highest 60-month average salary, and
- b. equals \$60.67 per month for each year of service in excess of 20.

The spouse's benefit is payable for life, but it ceases upon remarriage unless the deceased member and the member's spouse were married at least five years prior to the member's death. In addition to the above spouse's benefit, each unmarried child of the member will receive a monthly benefit of 6.93% of the member's highest 60-month average salary. Orphan benefits continue until a child reaches age 18. If the member's spouse subsequently dies or if there is no spouse, the benefit paid to each eligible orphan will be 13.86% of the member's highest 60-month average salary. Orphan benefits continue until a child reaches age 18. However, benefits will continue until age 25 for a child who is a full-time student. Orphan benefits are continued to disabled children for life.

If the member's death is determined to be not duty-related and the member has less than 15 years of service at the time of his or her death, the benefit payable to the survivors will be equal the amount calculated under the duty-related death benefit provisions of the Fund, multiplied by a percentage from the same table that is used to determine disability benefits which are not duty-related.

The total of all benefits paid as a result of the death of an active Fund member may not exceed the disability or retirement benefits such member had earned as of the date of his death. Benefits are reduced pro-rata, if necessary, in order to satisfy this limitation.

Termination Benefits

Members with Less Than Twenty Years of Credited Service

A Fund member who terminates employment prior to completing 20 years of service will be entitled to the return of the excess of his or her contributions to the Fund over the amount of any benefits he has received from the Fund. Such refund will not include any interest on the member's contributions.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS – CONTINUED

Members with Twenty or More Years of Credited Service

A Fund member who terminates employment after completing at least 20 years of credited service, but prior to the date attains age 50, will be entitled to receive a monthly benefit starting at age 50. The monthly termination benefit will equal the sum of a. and b., below, where:

- a. equals 2.60% of the member's highest 60-month average salary multiplied by his or her number of years of service not in excess of 20, and
- b. equals \$91.00 per month for each year of service in excess of 20.

Vested termination benefits are payable for the member's lifetime. In the event the member's death precedes that of his spouse, two-thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

The accrued benefit of each fire fighter who was a member of the Fund on December 7, 2007, will not be less than the benefit which the member had earned as of December 31, 2007.

Optional Forms of Payment

In lieu of the regular monthly benefit specified in the plan, a member who retires under the service provision of the Fund may elect to receive his benefits under one or more options listed below.

Social Security Leveling Option

Under the Social Security Leveling Option, a member receives a larger monthly benefit under the Fund until age 62. At age 62, the monthly amount is reduced. The amounts of monthly benefits are set to produce an approximately level total benefit when Social Security payments are taken into account.

DROP

Under the DROP, a member receives a reduced monthly benefit in return for a lump sum amount upon retirement. The lump sum amount is referred to as the DROP payment. The later of (a) the date a member had both attained the age of 53 and completed 23 years of service or (b) the date 36 months prior to the member's date of retirement is referred to as the member's DROP benefit calculation date. A member may retire under the DROP if his retirement date falls on or after his

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS – CONTINUED

DROP benefit calculation date. Retirement under the plan's DROP provisions is on lieu of the regular service retirement benefit.

The monthly benefit of a member who retires under the DROP equals the monthly benefit he was entitled to as of his DROP calculation date using the benefit formula in effect on his DROP calculation date.

Upon retirement, the member will receive – in addition to his monthly retirement benefit – a single payment equal to the sum of:

- a) the amount of monthly contributions which the member has made to the fund during the time he participated in the DROP; plus
- b) the total of the monthly retirement benefits the member would have received between his or her DROP benefit calculation date and the date the member retired under the plan.

Amendment of the Plan

The plan document may be amended as provided in Section 7 of the Texas Fire Fighters' Retirement Act (Article 6243e. V.T.C.S.). Amending the plan requires approval of any prosed change by (a) an eligible actuary and (b) a majority of the participating members of the fund.

Contributions and Reserves

The plan's minimum required contribution provisions are established under Title 8, Subtitle A. Chapter 802, Subchapter B, Section 802.101 of the Texas Government Code and under Texas Pension Review Board Guidelines for Actuarial Soundness. Specific employer contribution rates are governed by an agreement between the City and the fire fighters.

The contribution rate of plan members is established under the terms of the plan. An actuarial valuation is performed every two years to verify that plan benefits and plan contributions are in balance. Costs of administering the Fund are paid from plan assets.

There are no contracts governing contributions to the plan. There are no statutory reserve requirements for the plan

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS – CONTINUED

Net Pension Liability

The components of the net pension liability at December 31, 2015 and 2014, were as follows:

	2015	2014
Total Pension Liability	\$ 16,683,530	\$ 16,212,778
Plan fiduciary net position	8,313,179	9,309,315
Net pension liability	\$ 8,370,351	\$ 6,903,463
Plan fiduciary net position as a percentage of the total pension liability	50.17%	57.42%

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.66%, as well as what the net pension liability would be if it were calculated using a discount rate that is +/- 1 percentage point lower or higher than the current rate.

One Percent Decrease (6.66%)	Current Discount Rate (7.66%)	One Percent Increase (8.66%)
\$ 10,109,551	\$ 8,370,351	\$ 6,903,287

Actuarial Valuations

The most recently completed biennial actuarial calculations were performed as of December 31, 2014.

The actuarial methods and assumptions used to develop the amounts given in this report are the same as those used for the Fund's actuarial valuation. The valuation report's certification was based on Texas law, which requires that assumptions be reasonable in the aggregate. The assumptions used for the valuation, however, were also individually reasonable and were consistent with one another. The selection of assumptions was guided by Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and by Actuarial Standard of Practice No. 35, *Selection of Demographic Assumptions for Measuring Pension Obligations* as published by the Actuarial Standards Board, and by the requirements of GASB Statement No. 67. The actuarial assumptions used in the valuations and in the calculations under GASB Statement No. 67 are summarized in the Supplemental Information section. For purposes of this Note, the term "actuarial assumptions" includes both economic assumptions and demographic assumptions.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 1 - SUMMARY OF PRINCIPAL FUND PROVISIONS – CONTINUED

The investment return assumption (discount rate) was based on a study of the historical yield of the trust fund as well as a best-estimate of future rates of return, given the nature and mix of current and expected plan investments. The basis used to calculate the actuarial value of the assets was also taken into account. The investment return assumption and the projected salary increase assumption used the same assumptions with respect to inflation. Studies of the plan's experience with respect to rate of return, average age at retirement and salary increase rates were performed in connection with the December 31, 2014 actuarial valuation.

The actuarial cost method used for the actuarial valuation and the values given in this report is referred to as the "Entry Age Actuarial cost Method" or the "Entry Age Normal Actuarial Cost Method." Allocation is based on earnings; the normal cost is developed on a participant-by-participant basis. The projected benefit at each member's assumed retirement age takes into account all applicable benefit formulas through assumed retirement date. All retirement, death, disability, and termination benefits were valued using the entry age actuarial cost method.

The method for developing the actuarial value of assets is shown in the Supplementary Information section. The method is market related and is consistent with the classes of current and anticipated assets. The method is consistent with the assumptions used to develop the actuarial present value of total projected benefits, and current actuarial standards for asset valuation.

The amortization of the unfunded actuarial accrues liability was determined as level percentage of projected payroll. The annual compound rate of increase assumed was 4.00 percent per year. No increase in the number of active participants was assumed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Presentation

The Fund presents its financial statements according to Government Accounting Standards Board (GASB) Statement No. 67 which generally requires a presentation of net position and valuation of investments at fair value.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which services are performed. Investment income includes dividends, interest and net appreciation (depreciation) in fair values of investment.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net appreciation (depreciation) in fair values of investments includes (1) capital gain distributions and realized gain (loss) for sale of securities, (2) unrealized gain (loss) and (3) amortization of premiums and discounts.

Interest and dividend income are recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

Valuation of Investments

In accordance with GASB No. 67, investments in traded securities are reported at market quoted prices. Investments in money market funds are considered to be cash equivalents.

Estimates

The preparation of financial statements in conformity with U.S generally accepted accounting principles requires the Fund to make estimates and assumptions that affect the reported amounts of the assets, liabilities, and pension benefit obligation at the date of the financial statements and the reported amounts of additions and deductions from net assets available for benefits during the reporting period. Actual results could differ from these estimates.

Income Tax Status

The Fund obtained its latest determination letter under Section 401 (a) of the Internal Revenue Code on July 11, 2014 in which the Internal Revenue Service stated that the plan, as then designated, was in compliance with the applicable requirements of the Internal Revenue Code. As a governmental plan, the Fund is exempt from regulations under Title I of ERISA.

NOTE 3 – HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits when due is presented in the Supplemental Information of these financial statements.

ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 4 – CASH AND INVESTMENTS

The fund portfolio is under professional management by investment advisors. The investment advisors are subject to the investment policies and guidelines established by the Fund's Board. The following is a summary of the Fund's investment portfolio at December 31, 2015 and 2014:

	2015		2014	
	Cost	Market	Cost	Market
Cash	\$ 164,171	\$ 164,171	\$ 177,065	\$ 177,065
Cash Equivalents: Money Market Funds	140,580	140,580	170,782	170,782
Total Cash and Cash Equivalents	304,751	304,751	347,847	347,847
Fixed Incomes Portfolio				
Mortgage and Asset Backed Securities	616,050	610,693	647,431	644,851
Corporate, Government and International Bonds	2,025,775	2,682,217	2,230,625	2,975,763
Total Fixed Income Securities	2,641,825	3,292,910	2,878,056	3,620,614
Equity Portfolio				
Common Stocks and Options	5,221,937	4,711,174	4,838,079	5,350,373
Total Cash and Investments	\$ 8,168,513	\$ 8,308,835	\$ 8,063,982	\$ 9,318,834

NOTE 5 – INADEQUATE FUNDING ARRANGEMENT

The December 31, 2014 valuation of the Orange Firemen's Relief and Retirement Fund determined that the plan's amortization period was 58.2 years. Guidelines published by the Texas State Pension Review Board specify that the amortization period should not exceed 40 years, with a 15 – to – 25 year period being preferable. Thus, under Pension Review Board guidelines, the fund does not represent an adequate funding arrangement at this time.

Section 802.106 of the Texas Government code requires a public retirement system to notify members if the actuary determines that the financing arrangement of the system is not adequate. The Plan complied with this provision of the code and issued a notice to members.

The actuaries have recommended that the members of the fund and the City of Orange each increase the rate at which they contribute to the fund by one percent of pay. The plan was amended and the amendment became effective on October 1, 2015.

ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014

NOTE 6 – INVESTMENTS

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, not 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

Investments and the Long-term Expected Rate of Return on Pension Plan Assets

Asset Class	Target Allocation per Investment Policy Stmt	Long-term Expected Real Rate of Return	Weighted Avg Expected Real Rate of Return	Gross Alpha Provided by Active Management	Weighted Average Gross Alpha
1	2	3	4	5	6
1. Cash and short-term fixed income	0.00%	0.62%	0.00%	0.00%	0.0000%
2. Fixed income	35.00%	3.00%	1.05%	0.50%	0.1750%
3. Equities					
(a) Large-cap Growth	13.00%	5.95%	0.77%	0.75%	0.0975%
(b) Large-cap Value	13.00%	7.47%	0.97%	0.75%	0.0975%
(c) Mid-cap	9.00%	8.40%	0.76%	0.75%	0.0675%
(d) International Equity	20.00%	5.80%	1.16%	0.75%	0.1500%
(e) Emerging Markets	10.00%	9.00%	0.90%	0.75%	0.0750%
4. Totals	100.00%		5.61%		0.66%
	Item			Rate	
	1			2	
	5. Weighted Average Gross Alpha (line 4, col 6, above)			0.66%	
	6. Assumed Feed for Active Asset Management Based on Historical Experience			1.05%	
	7. Assumed Net Alpha (line 5 - line 6)			-0.39%	
	8. Assumed Inflation			3.00%	
	9. Weighted Average Expected Long-term Real Rate of Return On Pension Plan Investments (line 4, col 4, above)			5.61%	
	10. Long-term Expected Nominal Rate of Return On Pension Plan Investments (line 7 + line 8 + line 9)			8.61%	
	11. Preliminary Discount Rate			7.75%	
	12. Decrease in Discount Rate Required Under GASB Statement No. 67, Paragraph 40, Statement No. 68, Paragraph 26			0.00%	
	13. Final Discount Rate Used to Measure the Total Pension Liability (line 11 - line 12)			7.75%	
	14. Margin Available for Adverse Investment Experience (line 10 - line 13)			0.47%	

NOTE 7 – RISKS AND UNCERTAINTIES

The Plan 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, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position. Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 and 2014**

NOTE 7 – RISKS AND UNCERTAINTIES - CONTINUED

assumptions pertaining to interest rates, inflation rates and employee 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 would be material to the financial statements.

NOTE 8 – SUBSEQUENT EVENTS

Events occurring subsequent to December 31, 2015 were evaluated by management and reviewed through June 28, 2016, date of report issuance, with no significant items reported.

REQUIRED SUPPLEMENTARY INFORMATION

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 and 2014**

**Number of Members, Net Pension Liability, and Sensitivity of the Net Pension
Liability to Changes in the Discount Rate**

	2015	2014	
Number of Members as of December 31, 2015 and 2014			
Retirees and Beneficiaries currently receiving benefits	39	36	
Terminated employees entitled to but not yet receiving benefits	1	1	
Active Members	37	37	
Total	<u>77</u>	<u>74</u>	
Net Pension Liability as of December 31, 2015 and 2014			
Total Plan Liability	\$ 16,683,530	\$ 16,345,289	
Plan Fiduciary Net Pension	<u>8,313,179</u>	<u>9,309,315</u>	
Net Pension Liability	<u>\$ 8,370,351</u>	<u>\$ 7,035,974</u>	
Sensitivity of the Net Pension Liability to Changes in the Discount Rate as of December 31, 2015.			
	One Percent Decrease (6.66 Percent)	Current Discount Rate (7.66 Percent)	One Percent Increase (8.66 Percent)
	<u>\$ 10,109,551</u>	<u>\$ 8,370,351</u>	<u>\$ 6,903,287</u>

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 and 2014**

Investments and the Long-term Expected Rate of Return on Pension Plan Assets

Asstt Class	Target Allocation per Investment Policy Stmt	Long-term Expected Real Rate of Return	Weighted Avg Expected Real Rate of Return	Gross Alpha		Provided by Active Management	Weighted Average Gross Alpha
				5	6		
1	2	3	4	5	6		
1. Cash and Short-Term Fixed Income		0.00%	0.62%	0.00%	0.00%		0.0000%
2. Fixed Income		35.00%	3.00%	1.05%	0.50%		0.1750%
3. Equities							
(a) Large-cap Growth		13.00%	5.95%	0.77%	0.75%		0.0975%
(b) Large-cap Value		13.00%	7.47%	0.97%	0.73%		0.0975%
(c) Mid-cap		9.00%	8.40%	0.76%	0.75%		0.0675%
(d) International Equity		20.00%	5.80%	1.16%	0.73%		0.1500%
(e) Emerging Markets		10.00%	9.00%	0.90%	0.75%		0.0750%
4. Totals		100.00%	5.61%	0.66%			
						Rate	
						2	
5. Weighted Average Gross Alpha (line 4, col 6, above)						0.66%	
6. Assumed Feed for Active Asset Management Based on Historical Experience						1.05%	
7. Assumed Net Alpha (line 5 - line 6)						-0.39%	
8. Assumed Inflation						3.00%	
9. Weighted Average Expected Long-term Real Rate of Return On Pension Plan Investments (line 4, col 4, above)						5.61%	
10. Long-term Expected Nominal Rate of Return On Pension Plan Investments (line 7 + line 8 + line 9)						8.22%	
11. Preliminary Discount Rate						7.75%	
12. Decrease in Discount Rate Required Under GASB Statement No. 67, Paragraph 40, Statement No. 68, Paragraph 26						0.09%	
13. Final Discount Rate Used to Measure the Total Pension Liability (line 11 - line 12)						7.66%	

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 and 2014**

Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Investments Returns

Discount Rate	7.75%	8.00%	8.00%
Annual increase in payroll	4.00%	4.00%	4.00%
Actuarial valuation date	12/31/14	12/31/14	12/31/12
Measurement date	12/31/15	12/31/14	12/31/14

Total Pension Liability

Service Cost (Pension Benefits)	242,221	234,014	234,014
Service Cost (Administrative Expenses)	24,202	22,162	22,162
Interest	1,235,592	1,240,296	1,240,296
Changes in Benefit Terms	-	-	-
Difference between Expected and Actual Experience	-	(455,247)	-
Changes in Assumptions	173,418	587,758	-
Benefit Payments (Including Refunds of Member Contributions)	(1,337,192)	(1,084,609)	(1,084,609)
Net Change in Total Pension Liability	338,241	544,374	411,863
Total Pension Liability - Beginning of the Year	16,345,289	15,800,915	15,800,915
Total Pension Liability - End of Year	16,683,530	16,345,289	16,212,778

Plan Fiduciary Net Position

Contributions - Employer	307,304	319,060	319,060
Contributions - Members	244,464	250,694	250,694
Projected Earnings on Plan Investments	686,344	746,106	251,513
Gain or (Loss) Due to Difference in Projected vs Actual Earnings	(775,953)	(494,593)	N/A
Benefit Payments (Including Refunds of Member Contributions)	(1,337,192)	(1,084,609)	(1,084,609)
Administrative Expenses	(121,103)	(22,162)	(22,162)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	(996,137)	(285,504)	(285,504)
Plan Fiduciary Net Position - Beginning of the Year	9,309,315	9,594,819	9,594,819
Plan Fiduciary Net Position - End of the Year	8,313,178	9,309,315	9,309,315
Net Pension Liability - End of the Year	8,370,351	7,035,974	6,903,463
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability - End of the Year	49.83%	56.95%	57.42%

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 and 2014**

Schedule of Changes in Net Pension Liability and Related Ratios, and Schedule of Investments Returns (continued)

Discount Rate	7.75%	8.00%	8.00%
Annual Increase in Payroll	4.00%	4.00%	4.00%
Actuarial Valuation Date	12/31/14	12/31/14	12/31/12
Measurement Date	12/31/15	12/31/14	12/31/14
 Covered Payroll	 2,195,029	 2,279,000	 2,279,000
 Net Pension Liability - End of Year as a Percentage of Covered Payroll	 381.33%	 308.73%	 302.92%
Annual Money-Weighted Rate of Return Net of Pension Plan Investment Expense With Inputs Determined At Least Monthly	2.08%	2.69%	2.69%
Actuarially Determined Contribution	307,304	319,060	319,060
Contributions on Relation to the Actuarially Determined Contribution	307,304	319,060	319,060
Contribution Deficiency (Excess)	-	-	-
Contribution as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%
Interest on Service Cost (Pension Benefits)	20,648	19,607	19,607
Interest on Changes in Benefit Terms	-	-	-
Interest on Difference Between Expected and Actual Experience	-	-	-
Interest on Changes in Assumptions	-	-	-
Interest on Benefit Payments	(51,816)	(43,384)	(43,384)
Interest on Beginning of the Year Total Pension Liability	1,266,760	1,264,073	1,264,073
Interest on the Total Pension Liability	1,235,592	1,240,296	1,240,296

Note: In accordance with Paragraph 50 of GASB Statement No. 67 and Paragraph 138 of GASB Statement 68, this Schedule only includes information which has been measured in conformity with Statements No. 67 and No. 68. Disclosures for years in which information was not developed in accordance with GASB Statements No. 67 and No. 68 have not been included.

**ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 and 2014**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the past actuarial valuation follows:

Valuation Date	December 31, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of projected payroll
Amortization Period	82.3 years
Asset Valuation Method	Market Value smoothed by a 5 year deferred recognition method with a 80%/120% corridor on market

Actuarial Assumptions:

Investment Rate of Return, Net of Expenses	8.00%
Inflation	3.00%
Projected Salary Increases including Promotion and Longevity	
Promotion and Longevity	4.00%
Payroll Growth Rate	4.00%
Post-Retirement Cost-of-Living Adjustments	None

