

Killeen Firefighter's Relief and Retirement Fund

Financial Statements

September 30, 2013

Killeen Firefighter's Relief and Retirement Fund

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Killeen Firefighter's Relief and Retirement Fund
Management's Discussion and Analysis
For the Year ended September 30, 2013

As management of the Killeen Firefighter's Relief and Retirement Fund (the Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the year ended September 30, 2013. We encourage interested parties to read the information presented here in conjunction with additional information that we have furnished in the Fund's financial statements which follow. We also suggest that you read the Actuarial Valuation Report of the year ended September 30, 2012 that was prepared by Rudd & Wisdom, Inc.

Financial Highlights

- Net assets of the Fund increased by \$2,306,632 or 8%.
- Investment income decreased from \$2,511,784 in 2012 to \$1,668,499 in 2013.
- Employee and employer contributions remained at 10% and 13%, of payroll, respectively.
- In the latest actuarial valuation, the amortization period of the unfunded actuarial accrued liability increased from 27 years to 36 years.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The Fund's basic financial statements contain three components; 1) the basic financial statements, 2) the notes to the financial statements, and 3) supplementary schedules. The Fund is accounted for on an economic resource measurement focus using the accrual basis of accounting in accordance with accounting principals generally accepted in the United States of America.

The financial statements include the statements of plan assets and the statements of changes in plan net assets. The notes provide additional information that is essential to a full understanding of the data provided in the Fund's financial statements. Also included is supplemental information reflecting the Fund's schedule of funding progress and employer contributions.

Summarized Financial Information

The following schedule displays a summary of the net assets available for benefits at September 30, 2013 and 2012 for the Fund:

	2013	2012	Change
Assets	\$ 29,284,581	\$ 27,007,782	8%
Liabilities	3,252	33,085	-110%
Net Assets	<u>\$ 29,281,329</u>	<u>\$ 26,974,697</u>	<u>8%</u>

Total net assets increased by \$2,306,632, or 8% during 2013.

The following schedule displays a summary of the change in net assets available for benefits for 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Employee contributions	\$ 1,127,336	\$ 1,094,959	3%
Employer contributions	1,483,016	1,439,762	3%
Investment income	<u>1,668,499</u>	<u>2,511,784</u>	<u>-51%</u>
Total Revenues	<u>4,278,851</u>	<u>5,046,505</u>	<u>-18%</u>
Benefits & refunds	1,752,389	1,708,809	2%
Other	<u>219,830</u>	<u>200,183</u>	<u>9%</u>
Total Expenses	<u>1,972,219</u>	<u>1,908,992</u>	<u>3%</u>
Change in Net Assets	<u>\$ 2,306,632</u>	<u>\$ 3,137,513</u>	<u>-36%</u>

The Fund's net assets have increased \$5,444,145 over the last two years.

Contacting the Fund's Financial Management

This financial report is designed to provide an overview of the Fund's finances for those with an interest in this area. If you have questions about this report or need additional financial information, contact the Fund Administrator at 254-291-4403. The mailing address for the Fund is P.O. Box 497, Conroe, Texas 77305.

VANWASSEHNOVA AND ASSOCIATES
Certified Public Accountants

Independent Auditors' Report

To the Board of Trustees
Killeen Firefighter's Relief and Retirement Fund
Killeen, Texas

We have audited the accompanying financial statements of Killeen Firefighter's Relief and Retirement Fund, which comprise the statements of net assets available for benefits and of accumulated plan benefits as of September 30, 2012 and 2013, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits 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 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 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 Killeen Firefighter's Relief and Retirement Fund as of September 30, 2012 and 2013, 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.

Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules are presented for the purpose of additional analysis and are not a required part of the Fund's financial statements. 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 or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

VanWassehnova & Associates

VanWassehnova & Associates
December 30, 2013

Killeen Firefighter's Relief and Retirement Fund

Statements of Plan Net Assets

September 30, 2012 & 2013

	<u>2012</u>	<u>2013</u>
Assets		
Investments, at fair market value		
Mutual Funds	\$ 18,142,322	\$ 14,796,653
Limited Partnerships	8,433,851	9,609,142
Equities, domestic & foreign	-	1,640,296
Total Investments, at fair market value	<u>26,576,173</u>	<u>26,046,091</u>
Cash & Cash equivalents	<u>431,609</u>	<u>2,728,754</u>
Receivables		
Return of partnership capital	-	288,000
Holdback payment	-	221,736
Total Receivables	<u>-</u>	<u>509,736</u>
Total Assets	\$ 27,007,782	\$ 29,284,581
Liabilities		
Accounts Payable	1,584	3,252
Payroll Tax Liability	738	-
Pension Tax Liability	<u>30,763</u>	<u>-</u>
Total Liabilities	<u>33,085</u>	<u>3,252</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 26,974,697</u>	<u>\$ 29,281,329</u>
(A schedule of funding progress is presented in the required supplementary information)		

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

Killeen Firefighter's Relief and Retirement Fund
Statements of Changes in Plan Net Assets
For the Years Ended September 30, 2012 & 2013

	<u>2012</u>	<u>2013</u>
Investment Income		
Net change in fair value of investments	\$ 1,764,610	\$ 584,665
Gain on sale of investments	194,155	385,798
Interest & Dividends	553,019	698,036
Contributions		
Employer	1,439,762	1,483,016
Employee	<u>1,094,959</u>	<u>1,127,336</u>
Total Additions	<u>5,046,505</u>	<u>4,278,851</u>
Deductions		
Benefits to retired employees	1,440,040	1,539,706
Lump sum payments/refunds	268,769	212,683
Other expenditures	<u>200,183</u>	<u>219,830</u>
Total Deductions	<u>1,908,992</u>	<u>1,972,219</u>
Net Increase	3,137,513	2,306,632
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	<u>23,837,184</u>	<u>26,974,697</u>
End of Year	<u><u>\$ 26,974,697</u></u>	<u><u>\$ 29,281,329</u></u>

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

Killeen Firefighter's Relief and Retirement Fund
Notes to the Financial Statements
September 30, 2013

Note 1 - Plan Background and Description

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

General

The Fund was formed during the 1950's 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 cities 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 Fund is a trust fund and is administered in accordance with State law by a volunteer Board of Trustees of the Fund. The Board is comprised of active firefighters, the City of Killeen Treasurer, or an individual performing those functions, the Mayor of the City of Killeen, or an appointed representative of the Mayor, and citizen members elected by the firefighter trustees. The Board of Trustees has general powers and duties to administer the Fund, including appointing an administrator to carry out the business of the Board, investing the assets of the Fund, making expenditures from the Fund, and determining eligibility for benefits.

The Fund's fiscal year is the twelve-month period beginning October 1 and ending September 30.

The Fund is a governmental entity established and maintained by the City of Killeen, Texas ("City") for its employees. As a governmental entity, the Fund 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 Fund is a single-employer defined benefit pension plan covering both active paid and volunteer firefighters of the City for the purpose of providing retirement, death, disability, and withdrawal benefits.

The Fund is considered a part of the City's financial reporting entity and is included in the City's financial reports as a pension trust fund

At September 30, 2012 (the most current and available information) the Fund's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	58
Current members:	
• Fully vested	21
• Partially vested	48
• Nonvested	<u>135</u>
Total Members	<u>262</u>

Benefits

Fund provides service retirement, death, disability, and withdrawal benefits for both paid and volunteer firefighters. These benefits fully vest after 20 years of credited service. A partially vested benefit is provided for paid firefighters with at least 10 years of service. Paid firefighters may retire at the earlier of age 55 with 20 years of service or age 50 with 25 years of service. Volunteer firefighters may retire at age 55 with 20 years of service. The Fund, effective July 1, 2007, provides a monthly benefit for paid firefighters at retirement, payable in a Joint and Two-Thirds to Spouse form of annuity, equal to 58.40% of Highest 60-Month Average Salary plus 2.275% of Highest 60-Month Average Salary for each year of service in excess of 20 years. The monthly benefit for volunteer firefighters at retirement is equal to \$155 per month payable in a Joint and Two-Thirds to Spouse form of annuity.

A firefighter has the option to participate in a Retroactive Deferred Option Plan (RETRO DROP) which will provide a lump sum benefit and a reduced monthly annuity upon termination of employment with the City.

If a firefighter is separated from the service of the Killeen Fire Department before becoming entitled to service retirement benefits, the firefighter will received an amount equal to the excess of contributions to the Fund over the amount of benefits previously received from the Fund. The amount will not include any interest on the firefighter's contributions.

An active firefighter will qualify for a service-connected disability benefit if the disability occurs in the line of duties as a firefighter. The disability benefit will commence after the firefighters has exhausted all regular salary, including vacation and sick leave pay and will continue as long as the firefighter remains alive and eligible for the benefit. The amount of the disability benefit will equal the sum of the standard benefit.

Death benefits are available to a surviving spouse, dependent children or dependent parents. Line-of-duty death benefits are payable at an amount equal to 38.93% of Highest 60-Month Average Salary plus 1.517% of Highest 60-Month Average Salary for each year and fraction thereof of Service in excess of 20 years. If an active firefighter dies after service retirement, disability retirement, or if the death was not the result of line-of-duty, the standard death benefit will equal two-thirds of the retirement benefit the firefighter was receiving (or would have received) at the time of death. If there are no eligible survivors, the Fund will refund to the firefighter's designated beneficiary or estate the amount equal to the excess of the firefighter's own contributions (without interest) over the amount of payments which have been made to the firefighter, spouse, child, or dependent parents,

There is no provision for automatic post retirement benefit increases. The Fund has the authority to provide, and has periodically in the past provided for, ad hoc post retirement benefit increases. The benefit provisions of this Fund are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

Contributions

The contribution provisions of the Fund 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 and by the City and as a dollar amount for volunteer firefighters by the City and as a dollar amount for volunteer firefighters by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Fund must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate contribution arrangement.

Using the entry age actuarial cost method, the Fund'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 Fund's unfunded actuarial accrued liability (UAAL), and the number of years needed to amortize the Fund's UAAL is determined using a level percentage of payroll method. The Fund's most recent biennial actuarial valuation was as of September 30, 2012.

The cost of administering the Fund is financed from the Fund.

The funding policy of the Fund requires contributions equal to 10% of pay by the paid firefighters and 13% of payroll by the City. Contributions by the City of \$102 per year per active volunteer, plus a one-time annual payment of \$16,010 for all active and retired volunteers, are also required.

For the year ended September 30, 2013, contributions were based on a covered payroll of \$11,280,940 with total contributions of \$2,593,322. Contributions by firefighters were \$1,127,336 (10% of covered payroll) and contributions by the City, which included \$17,030 for volunteers, were \$1,483,016 (13% of payroll).

Note 2 - Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (the 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 Fund, 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.

B. Basis of Accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Fund. 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. Employee and employer contributions are recognized when due, pursuant to formal commitments according to Fund requirements and State statute. Benefits paid to employees and contribution refunds are recognized when due and payable in accordance with the terms of the Fund. Accrued income, when deemed uncollectible, is charged to operations. All unrealized gains/losses on sales of assets are recognized on the transaction date.

C. Reporting Entity

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

D. 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.

E. Cash and Cash Equivalents

The Fund 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.

F. 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. Investments traded on a national securities exchange are valued at the last reported closing price as of the last business day of the Fund's fiscal year. Investments traded over-the-counter are valued at the last reported bid price. Mutual funds are reported at net asset value.

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 assets, along with gains and losses realized on sales of investments. Purchases and sales of investments are recorded on the trade date. Dividend income is recorded on the ex-dividend date. Interest income and income from other investments is recorded on the accrual basis.

Following is a description of the valuation methodologies used for assets measured at fair value:

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

Limited Partnerships: Valued at \$1.00 for every dollar of capital invested.

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

In accordance with Financial Accounting Standards Board (FASB), *Fair Value Measurements and Disclosures* (ASC 820), formerly FAS 157, assets and liabilities measured at fair value are categorized into the following fair value hierarchy:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market that the Plan has the ability to access at the measurement date.

Level 2 – Fair value is based on quoted prices in markets that are not active, quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset of liability, either directly or indirectly, for substantially the full term of the asset of liability. Pricing models are utilized to estimate fair value for certain assets and liabilities categorized in Level 2.

Level 3 – Fair value is based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable. These inputs reflect managements' judgment about the assumptions that a market participant would use in pricing the investment and are based on the best available information, some of which may be internally developed.

The level of fair value hierarchy with which the fair value measurement is classified is determined based on the lowest level input that is significant to the fair value measure in its entirety.

The methods described above may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while management of the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions 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 Fund's assets as of September 30, 2013:

	Level 1	Level 2	Level 3	Total
Mutual Funds	\$ 14,796,653	-	-	\$ 14,796,653
Limited Partnerships	-	9,609,142	-	10,157,726
Equities, domestic and foreign	1,640,296	-	-	1,640,296
Cash and cash equivalents	2,728,754	-	-	2,728,754
Total investments at fair value	<u>\$ 19,165,703</u>	<u>\$ 9,609,142</u>	<u>-</u>	<u>\$ 28,774,845</u>

G. Administrative Expenses

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

H. Federal Income Tax

The Fund has received a favorable letter of determination from the Internal Revenue Service stating that the Fund qualifies as a tax-exempt plan and trust. The Fund's management and its Board of Trustees believe that the Fund 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 Fund's management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. No provision for income taxes has been included in the Fund's financial statements. Fund management has analyzed the tax positions taken by the Fund and has concluded that as of September 30, 2013, 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 Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Fund's federal tax returns are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Note 3 - Cash Deposits and Cash Equivalents

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

As of September 30, 2013, the Fund's custodial cash was \$2,271,228 and the Fund's bank deposit was \$457,526. Custodial cash reserves are not insured by the Federal Deposit Insurance Corporation (FDIC). The amount held in bank deposit was FDIC insured up to the maximum of \$250,000. The Fund does not have a deposit policy for custodial credit risk; however, management believes that the Fund'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 deposits are held. Management believes that Fund cash was adequately secured at all times during the year.

Note 4 - Actuarial Information

The Fund, by statute, may adopt an actuarial valuation once every two years in order to establish the City's contribution rate. In May 2013, the Board adopted and certified the September 30, 2012 actuarial valuation, decreasing the City's total contribution rate to 23%, comprised of 10% by the firefighters and 13% by the City. This total contribution rate exceeds the normal cost rate of 16.85%, leaving 6.15% available to amortize the UAAL.

Since the total contributions are sufficient to pay the Fund's normal cost and to amortize the Fund's UAAL within the maximum acceptable period, the Fund has an adequate contribution arrangement.

Accounting standards require that the statement of plan net assets state assets at fair value, and include only benefits and refunds due Fund members and beneficiaries, as well as accrued investment and administrative expenses as of the reporting date.

The City is responsible for funding the deficiency, if any between the amounts available to pay the Fund's benefits and the amount required to pay such benefits.

The annual required contributions (ARC) by the City for the fiscal year ended September 30, 2013 were based on the results of the September 30, 2012 actuarial valuation and were determined to be in compliance with GASB Statement No. 27 parameters. A summary of the actuarial methods and assumptions as of the September 30, 2012 valuation are as follows:

Actuarial Cost Method	Entry Age
Amortization Method	Level % of payroll, open
Amortization Period	36 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	7.75% per year
Inflation	4% per year
Projected salary increases:	
-general salary increase	4% per year
-promotion and longevity increase	0% to 7% per year
-total increase	4% to 11.28% per year
Payroll growth rate	4% per year
Postretirement cost-of-living adjustments	None
Annual Required Contributions (ARC)	13.63%

Historical trend information is provided as required supplemental information. This information is intended to demonstrate progress the Fund has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

Note 5 - Investments

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

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

The Fund's investments are managed by investment managers appointed by the Board of Trustees who have discretionary authority over the assets managed by them, within the investment guidelines established by the Board of Trustees under contracts with the Fund. The investments of the Fund are held by the Fund's custodian and are accessible by the investment managers.

Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment advisor, subject to compliance with its management agreement and the Fund's Investment Policy. The investments generally consist of a broad base of mutual funds and equities.

The Board has employed Fidelity (Custodian) as Custodian of the assets of the Fund, and in said capacity, the Custodian shall be a fiduciary of the Fund's assets with respect to its discretionary duties including safekeeping the Fund's assets. The Custodian shall establish and maintain a custodial account to hold, or direct its agents to hold, for the account of the Fund all assets that the Board shall from time to time deposit with the Custodian. All right, title and interest in and to the Fund's assets shall at all times be vested with the Fund's Board. In holding all Fund 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 Fund's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the Fund.

Credit risk

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

Concentration of Credit Risk

The asset allocation guide of the Fund's Investment Policy contains guideline percentages, at market value, of total Fund Assets to be invested in various asset classes, with the objective of optimizing the investment return of the Fund 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 Fund.

Custodial Credit Risk – Investments

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Fund 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 Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name.

Interest Rate Risk

The Fund invests in fixed income securities with maturities greater than one year. 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 Fund'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.

Investments at September 30, 2013 that represent 5% or more of the fair value of the Plan's assets are as follows:

	Value	% of Total
Reliance Trust Alpha	\$ 4,334,122	15.31%
Definitive Guardian Partners LP	3,066,846	10.83%
Pimco Unconstrained Bond Fund	2,665,949	9.42%
Vanguard International Value Fund	2,488,907	8.79%
Touchstone Emerging Markets	2,292,983	8.10%
Pimco Total Return	2,220,413	7.84%
Fidelity Cash Reserves	2,031,418	7.17%
MFS Emerging Markets	1,984,329	7.01%
Harbor Capital Appreciation Fund	1,580,364	5.58%
Balestra Spectrum Partners, LLC	1,593,518	5.63%

For the year ended September 30, 2013, the net appreciation or depreciation (including realized gains and losses on investments that were both bought and sold during the year) in fair value for each significant class of investments is as follows:

Mutual Funds	\$ 98,374
Equities, domestic & foreign	487,433
Limited partnerships	384,656
Total net unrealized appreciation in fair value of investments	<u>\$ 970,463</u>

Note 6 - Commitments and Contingencies

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

As of September 30, 2013 and 2012, the Fund had outstanding commitments to various limited partnerships of \$9,609,142 and \$8,433,851, respectively.

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

Note 7 - Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. The events in recent years in both the U.S. and global financial markets resulted in dramatic changes in economic conditions, including interest rate, currency, equity, and credit conditions. The affect of those events on the Fund's investment portfolio is mitigated by the diversification of its holdings. However, it is at least reasonably possible that changes in the value of the Fund's investment securities may occur over the course of different economic and market cycles.

The Fund'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 8 - Recent Accounting Pronouncements

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB Statement No. 67 enhances note disclosures and required supplemental information for both defined benefit and defined contribution pension plans. GASB Statement No. 67 also requires the presentation of new information about annual money weighted rates of return in the notes to the financial statements and in 10-year required supplemental information schedules. The provisions in GASB Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. Fund management has not determined the impact on the disclosures in the financial statements.

Note 9 - Subsequent Events

Management of the Fund has evaluated events, transactions, and pronouncements that may impact the financial statements for the year ended September 30, 2013 through December 30, 2013, the date the financial statements were available to be issued.

Effective October 2013, the firefighter contribution percentage increased to 11% of each firefighters total covered pay.

Other than the percentage contribution increase, management has determined that the Fund had no other subsequent events, transactions, or pronouncements that required recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

Killeen Firefighter's Relief and Retirement Fund
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the year ending September 30, 2013
Schedule of Funding Progress (Unaudited)

Year	Actuarial Value of Assets	Actuarial Accrued Liability AAL	Unfunded AAL	Funded Ratio	Annual Covered Payroll	Unfunded AAL as a % of Covered Payroll
1998	\$ 9,273,403	\$ 11,316,851	\$ 2,043,448	82%	\$ 3,731,750	55%
2000	11,545,699	15,569,564	4,023,865	74%	4,467,823	90%
2002	10,872,235	19,317,195	8,444,960	56%	4,936,246	171%
2004	13,458,288	22,964,558	9,506,270	59%	5,473,090	174%
2006	15,842,065	26,998,706	11,156,641	59%	8,245,812	135%
2008	20,223,436	31,663,825	11,440,389	64%	9,534,549	120%
2010	23,980,822	37,161,946	13,181,124	65%	10,564,186	125%
2012	27,528,834	41,142,502	13,613,668	67%	11,025,643	123%

The covered payroll is based on estimated annualized salaries for the year following the valuation date.

Analysis of the dollar amount of actuarial value of assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker, generally, the greater this percentage, the stronger the Fund. Trends in unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the Fund.

Killeen Firefighter's Relief and Retirement Fund
Disclosures in Accordance with GASB Statement No. 25
Required Supplementary Information
for the year ending September 30, 2013
Schedule of Employer Contributions (Unaudited)

<u>Year Ended</u> <u>September 30</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Actual</u> <u>Contribution</u>	<u>Percent</u>
1999	\$ 310,364	\$ 310,364	100%
2000	353,117	353,117	100%
2001	416,299	416,299	100%
2002	440,151	440,151	100%
2003	464,924	464,924	100%
2004	535,208	535,208	100%
2005	631,206	631,206	100%
2006	861,208	861,208	100%
2007	998,010	998,010	100%
2008	1,254,330	1,254,330	100%
2009	1,282,647	1,282,647	100%
2010	1,368,243	1,368,243	100%
2011	1,425,767	1,425,767	100%
2012	1,439,762	1,439,762	100%
2013	1,482,496	1,482,496	100%

The annual required contribution (ARC) is equal to the actual City contributions equal to the budgeted contribution rate times the actual covered payroll for paid firefighters plus \$16,010 for volunteer firefighters plus \$102 per active volunteer firefighter.

The percentage of the ARC contributed should be determined by dividing the actual contribution by the ARC.

ADDITIONAL SUPPLEMENTAL INFORMATION

Killeen Firefighter's Relief and Retirement Fund
Additional Supplementary Information
Investments Held as of September 30, 2012 and 2013

	<u>2012</u>	<u>2013</u>
Equities - Domestic and Foreign		
EnSCO PLC (ESV)	\$ -	\$ 37,625
Nabors Industries (NBR)	-	33,726
Rowan Cos PLC (RDC)	-	51,408
Anadarko Petroleum Corp (APC)	-	83,691
Apache Corp (APA)	-	51,084
Approach Res Inc (AREX)	-	52,560
Baker Hughes Inc (BHI)	-	58,920
Cameron Intl Corp (CAM)	-	58,370
Canadian Natural Resources Ltd (CNQ)	-	47,160
Chevron Corp (CVX)	-	36,450
Devon Energy Corp (DVN)	-	69,312
EOG Resources Inc (EOG)	-	67,712
EQT Corp (EQT)	-	88,720
Energen Corp (EGN)	-	68,751
Halliburton Holding Co (HAL)	-	81,855
HESS Corp (HES)	-	46,404
Marathon Oil Corp (MRO)	-	69,760
Natural Fuel Gas Co (NFG)	-	55,008
National Oilwell Varco Inc (NOV)	-	46,866
Newfield Exploration Co (NFX)	-	73,899
Noble Energy Inc (NBL)	-	107,216
Occidental Petroleum Corp (OXY)	-	37,416
QEP Resources Inc (QEP)	-	52,611
Royal Dutch Shell (RDSA)	-	78,816
Schlumberger Ltd (SLB)	-	61,852
Statoil (STO)	-	54,432
Superior Energy Services Inc (SPN)	-	25,040
Williams Cos Inc (WMB)	-	43,632
Total Equities	<u>-</u>	<u>1,640,296</u>

Killeen Firefighter's Relief and Retirement Fund
Additional Supplementary Information
Investments Held as of September 30, 2012 and 2013

	<u>2012</u>	<u>2013</u>
Mutual Funds		
Great Value Advisor CL (GRTVX)	620,950	765,930
Cohen & Steers	820,217	-
Harbor Capital Appreciation Fund (HACAX)	2,137,610	1,580,364
MFS Emerging Markets Debt Class A (MEDAX)	2,049,244	1,984,329
Morgan Stanley MID CAP Growth (MPEGX)	794,923	797,779
PIMCO Total Return Inst (PTTRX)	2,374,330	2,220,413
PIMCO Unconstrained Bond Fund (PUBAX)	3,363,951	2,665,949
Prudential Jennison	1,758,288	-
Touchstone Emerging Markets (TMEIX)	2,210,003	2,292,983
Vanguard Int'l Value Fund (VTRIX)	2,012,807	2,488,907
Total Mutual Funds	<u>18,142,322</u>	<u>14,796,654</u>
Limited Partnerships		
Balestra Spectrum Partners, LLC	1,552,001	1,593,518
BCM Credit Opportunities Fund	2,099,656	-
Definitive Guardian Partners LP	1,833,859	3,066,846
Franchise Capital Partners III	922,882	614,657
Reliance Trust Alpha (QDXWQ)	2,025,453	4,334,122
Total Limited Partnerships	<u>8,433,851</u>	<u>9,609,143</u>
Cash & Cash Equivalents		
Fidelity Cash Reserves	50,159	2,271,228
First National Bank	381,450	457,524
Total Cash Equivalents	<u>431,609</u>	<u>2,728,752</u>
Total	<u><u>\$ 27,007,782</u></u>	<u><u>\$ 28,774,845</u></u>