

**Killeen Firefighter's
Relief and Retirement Fund**

Financial Statements

September 30, 2012

**Killeen Firefighter's
Relief and Retirement Fund
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September 30, 2012**

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**Killeen Firefighter's
Relief and Retirement Fund
Management's Discussion and Analysis
For the Year ended September 30, 2012**

As management of the Killeen Firefighter's Relief and Retirement (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, 2012. 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, 2010 that was prepared by Rudd & Wisdom, Inc.

Financial Highlights

- Net assets of the Fund increased by \$3,137,513 or 13%.
- Investment income increased from \$251,151 in 2011 to \$2,511,784 in 2012.
- 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 23 years to 27 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 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 2011 and 2012 for the Fund:

	2011	2012	Change
Assets	\$ 23,837,183	\$ 27,007,782	13%
Liabilities	-	33,085	100%
Net Assets	<u>\$ 23,837,183</u>	<u>\$ 26,974,697</u>	<u>13%</u>

Total net assets increased by \$3,137,514, or 13% during 2012.

The following schedule displays a summary of the change in net assets available for benefits for 2011 and 2012:

	2011	2012	Change
Employee contributions	\$ 1,084,620	\$ 1,094,959	1%
Employer contributions	1,425,767	1,439,762	1%
Investment income	251,151	2,511,784	900%
Total Revenues	2,761,538	5,046,505	83%
Benefits & refunds	1,412,277	1,708,809	21%
Other	197,091	200,183	2%
Total Expenses	1,609,368	1,908,992	19%
Change in Net Assets	\$ 1,152,170	\$ 3,137,513	172%

The Fund's net assets have increased \$4,289,683 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.

Independent Auditors' Report

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

We have audited the accompanying statements of plan net assets of the Killeen Firefighter's Relief and Retirement Fund as of September 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Killeen Firefighter's Relief and Retirement Fund as of September 30, 2012, and changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplementary information is presented for the purpose of additional analysis and not a required part of the Fund's financial statements. The combining financial statements are the responsibility of management and were derived from and relate 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. The additional supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

VanWassehnova & Associates

VanWassehnova & Associates
January 14, 2013

**Killeen Firefighter's
Relief and Retirement Fund
Statements of Plan Net Assets
September 30, 2011 & 2012**

	<u>2011</u>	<u>2012</u>
Assets		
Investments, at fair market value		
Mutual Funds	\$ 12,535,055	\$ 18,142,322
Limited Partnerships	<u>7,989,304</u>	<u>8,433,851</u>
	20,524,359	26,576,173
Cash	<u>3,312,824</u>	<u>431,609</u>
Total Assets	<u>\$ 23,837,183</u>	<u>\$ 27,007,782</u>
Liabilities		
Accounts Payable	-	1,584
Payroll Tax Liability	-	738
Pension Tax Liability	<u>-</u>	<u>30,763</u>
Total Liabilities	-	33,085
Net Assets Held in Trust for Pension Benefits	<u>\$ 23,837,183</u>	<u>\$ 26,974,697</u>
(A schedule of funding progress is presented in the required supplementary information)		

See Accompanying Notes to Financial Statements

**Killeen Firefighter's
Relief and Retirement Fund
Statements of Changes in Plan Net Assets
For the Years Ended September 30, 2011 & 2012**

	<u>2011</u>	<u>2012</u>
Investment Income		
Net change in fair value of investments	\$ (1,708,490)	\$ 1,764,610
Gain on sale of investments	1,170,990	194,155
Interest & Dividends	788,651	553,019
Contributions		
Employer	1,425,767	1,439,762
Employee	<u>1,084,620</u>	<u>1,094,959</u>
Total Additions	<u>2,761,538</u>	<u>5,046,505</u>
 Deductions		
Benefits to retired employees	1,345,496	1,440,040
Lump sum payments/refunds	66,781	268,769
Other expenditures	<u>197,091</u>	<u>200,183</u>
Total Deductions	<u>1,609,368</u>	<u>1,908,992</u>
Net Increase	1,152,170	3,137,513
 Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	<u>22,685,014</u>	<u>23,837,184</u>
End of Year	<u><u>\$ 23,837,184</u></u>	<u><u>\$ 26,974,697</u></u>

See Accompanying Notes to Financial Statements

**Killeen Firefighter's
Relief and Retirement Fund
Notes to the Financial Statements
September 30, 2012**

Note 1 - General

The Killeen Firefighter's Relief and Retirement Fund (the Fund) was formed during the 1950's. The Fund was established 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.

The Fund is a single-employer defined benefit pension plan covering both active paid and volunteer firefighters of the City of Killeen for the purpose of providing retirement, death, disability, and withdrawal benefits.

At September 30, 2010 (the most current and available information) membership of the Fund consisted of the following:

Retirees and beneficiaries currently receiving benefits and	
Terminated employees entitled to benefits but not yet receiving them	56
Current members:	
• Fully vested	23
• Partially vested	31
• Nonvested	<u>148</u>
Total Members	258

The Fund is a local government and therefore is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Fund is presented as "Other information, Note V" in the financial statements of the City of Killeen (the City). The Fund is a trust fund and is administered in accordance with State law by the Board of Trustees of the Fund.

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

The following description of the Fund provides only general information. Members should refer to the Summary Plan Description for a more complete description of the Fund's provisions.

Note 2 - Fund Description

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 58.4% 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.

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.

Note 3 - 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 designated 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. These basic financial statements are presented according to GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB 25).

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. Member and employer contributions are recognized when due, pursuant to formal commitments according to Fund requirements and State statute. Benefits paid to members 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, are considered to be cash equivalents.

F. Investment Valuation and Income Recognition

Investments are valued at current market value determined by the following methods: investments traded on a national securities exchange are valued at the reported closing price as of the last business day of the year; and investments traded over-the-counter are valued at the last reported bid price. Mutual funds are reported at net asset value.

Investment gains or losses arising from increases or decreases in the current market values from the beginning of the year to the end of the year and investment gains or losses arising from the sale or maturity of investments are reported as realized and unrealized gains or (losses) on investments in the statement of changes in net assets available for benefits.

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.

F. 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 believe that the Fund is currently designed and begin 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. Fund management has analyzed the tax positions taken by the Fund and has concluded that as of September 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability.

Note 4 - Fund 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 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 volunteer and \$16,010 per year for all active and retired volunteers are also required.

For the year ended September 30, 2012, contributions were based on a covered payroll of \$10,949,586 with total contributions of \$2,534,721. Contributions by firefighters were \$1,094,959 (10% of covered payroll) and contributions by the City, which included \$16,010 for volunteers, were \$1,439,762 (13% of payroll).

Note 5 - Cash 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.

As of September 30, 2012, the Fund's cash deposits in the custodian bank were \$50,159 and invested in Fidelity Cash Reserves and are not insured by the Federal Deposit Insurance Corporation (the FDIC). Management believes that the Fund's credit risk exposure is mitigated by the financial strength of the institution in which deposits are held. An additional \$381,450 was held at First National Bank of Texas and was FDIC insured up to \$250,000.

Note 6 - Actuarial Information

Accounting standards require that the statement of plan 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 last actuarial valuation was completed September 30, 2010. For financial reporting purposes, an actuarial valuation is performed biennially in accordance with GASB 25. There were no changes with respect to plan provisions, actuarial methods, or actuarial assumptions from the prior actuarial valuation. A summary of results of the September 2010 valuation follows:

Actuarial Cost Method	Entry Age
Amortization Method	Level % of projected payroll, open
Amortization Period	27 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	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

Note 7 - 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 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. The investments generally consist of a broad base of mutual funds, and are valued at net asset value.

Concentration of Credit Risk

The asset allocation guide contains guideline percentages, at market value, of total Fund Assets to be invested in various asset classes. Actual asset allocations will be dictated by current and anticipated market conditions, the independent actions of the board and/or investment managers, 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. As of September 30, 2012, the fund's security investments were not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the 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 security market. The fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates,

Note 8 - List of Investments

Investments at September 30, 2012 consisted of the following:

	Value	% of Total
Pimco Unconstrained Bond Fund	\$ 3,363,950	12.5%
Pimco Total Return	2,374,330	8.8%
Touchstone Emerging Markets	2,210,002	8.2%
Harbor Capital Appreciation Fund	2,137,610	7.9%
BCM Credit Opportunities Fund	2,099,655	7.8%
MFS Emerging Markets	2,049,244	7.6%
Reliance Trust Alpha	2,025,455	7.5%
Vanguard International Value Fund	2,012,807	7.5%
Definitive Guardian Partners LP	1,833,859	6.8%
Prudential Jennison Natural Resources	1,758,288	6.5%
Balestra Spectrum Partners, LLC	1,552,001	5.7%
Franchise Capital Partners LP	922,882	3.4%
Cohen & Steers Realty Shares	820,217	3.0%
Morgan Stanley Mid Cap Growth	794,923	2.9%
Great Value Advisor CL	620,950	2.3%
Cash	431,609	1.6%
	<u>\$ 27,007,782</u>	<u>100.0%</u>

Note 9 - Historical Trend Information

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 10 - Recent Accounting Pronouncements

Fund's management and its Board of Trustees have reviewed recent accounting pronouncements and determined that none are currently applicable. Pronouncements issued for subsequent disclosure will be timely and adequately reviewed for applicability.

Note 11 - 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.

The Fund had outstanding commitments to various limited partnerships of \$8,433,851 and \$7,989,304 as of September 30, 2012 and 2011, 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 12 - 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 event sin 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 13 - Subsequent Events

Management of the Fund has evaluated events, transactions, and pronouncements that may impact the financial statements for the year ended September 30, 2012 through January 14, 2013, the date the financial statements were available to be issued. As of this date, the Fund had no subsequent events, transactions, or pronouncements that required recognition or disclosure in the financial statements.

Required Supplementary Information

**Killeen Firefighter's
Relief and Retirement Fund
Required Supplementary Information
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%

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
Required Supplementary Information
Schedule of Employer Contributions (Unaudited)**

<u>Year Ended September 30</u>	<u>Annual Required Contribution</u>	<u>Actual 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%

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.