

**FIREMEN'S RELIEF AND  
RETIREMENT FUND OF LUFKIN, TEXAS**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statements of Plan Net Assets of the Firemen's Relief and Retirement Fund of Lufkin, Texas (the Fund) as of December 31, 2008 and 2007, 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 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 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 Firemen's Relief and Retirement Fund of Lufkin, Texas as of December 31, 2008 and 2007, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**INDEPENDENT AUDITOR'S REPORT - CONTINUED**

The accompanying financial statements have been prepared assuming that the Fund will continue as a going concern. As discussed in the Notes to Financial Statements, the Fund has experienced a significant decline in the Net Assets Held in Trust for Pension Benefits. The actuarially determined contribution rate continues to not be fully funded and benefits have not been reduced. The stock market has continued to decline since December 31, 2008. At the present time, the amortization period for the unfunded liability is infinite. These conditions raise substantial doubt about the Fund's ability to continue as a going concern. Management's plans regarding those matters are described in the Notes to Financial Statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules and notes shown on pages 18, 19 and 20 are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Alexander, Lankford & Hiers, Inc.*

ALEXANDER, LANKFORD & HIERS, INC.  
Certified Public Accountants

Lufkin, Texas  
April 22, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Firemen's Relief and Retirement Fund of Lufkin, Texas (Fund), we offer readers of the financial statements this overview and analysis of the Fund's financial activities for the fiscal year ended December 31, 2008. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in the financial statements and notes to the financial statements (which immediately follow this discussion).

### FINANCIAL HIGHLIGHTS

- The assets of the Fund exceeded its liabilities at the close of the most recent fiscal year by \$7,880,755 (net assets). These net assets of the Fund are held in an irrevocable trust for the exclusive benefit of eligible Fund participants.
- The Fund's total net assets decreased by \$2,980,664.
- Employee contributions increased \$93,272 and employer contributions increased \$167,216, due to the increase in the matching percentage by the employer from 14% to 17%. Participants changed their contribution from 11% of their compensation to 12.2% of their compensation on October 10, 2007, and the employer matched 17% of the firefighters' compensation.
- Net investment income decreased \$3,470,963.
- Benefits paid to participants increased \$23,455 due to two additional retirees receiving benefits.
- Plan administrative expense decreased \$4,126.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts, *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*.

The Fund is a single-employer defined benefit pension plan.

The Fund uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities (i.e. pension benefits). The Fund reports its activities as a fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds use the accrual basis of accounting and the economic resources for measurement focus.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

### OVERVIEW OF THE FINANCIAL STATEMENTS - CONTINUED

The Fund's basic financial statements are comprised of two components; 1) fund financial statements, and 2) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements themselves. Collectively, this information presents the net assets available for pension benefits and summarizes the changes in net assets for pension benefits.

The Fund's financial statements consist of the following two statements:

The *Statement of Plan Net Assets* presents information on all the Fund's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The *Statement of Changes in Plan Net Assets* presents information showing how the Fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to financial statements can be found on pages 10 - 16 of this report.

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 Fund's progress in funding its obligation to provide pension benefits to firefighters. Required supplementary information can be found on pages 18 - 20 of this report.

### FINANCIAL ANALYSIS

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets provide an indication of the Fund's financial condition and also indicate that the financial condition of the Fund declined during the most current fiscal year.

The Statement of Plan Net Assets presents information on all the Fund's assets and liabilities, with the difference between the two reported as net assets. As noted earlier, net assets may serve over time as a useful indicator of a Fund's financial position.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**FINANCIAL ANALYSIS - CONTINUED**

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
CONDENSED STATEMENT OF PLAN NET ASSETS  
DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Cash and receivables	\$ 446,908	\$ 598,970
Investments	7,506,518	10,323,093
Capital assets	<u>317</u>	<u>794</u>
Total assets	<u>7,953,743</u>	<u>10,922,857</u>
Accounts payable	<u>72,988</u>	<u>61,438</u>
Total liabilities	<u>72,988</u>	<u>61,438</u>
Total net assets	<u>\$ 7,880,755</u>	<u>\$ 10,861,419</u>

The statement of changes in plan net assets shows the activity of the Fund and provides information regarding additions and deductions that affect net assets.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
CONDENSED STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Member contributions	\$ 503,591	\$ 410,319
City contributions	700,739	533,523
Investment income (loss)	<u>(2,793,900)</u>	<u>677,063</u>
Total additions (deductions)	<u>(1,589,570)</u>	<u>1,620,905</u>
Retirement benefits	1,372,780	1,349,325
Administrative expenses	<u>18,314</u>	<u>22,440</u>
Total deductions	<u>1,391,094</u>	<u>1,371,765</u>
Change in net assets	(2,980,664)	249,140
Net assets, January 1	<u>10,861,419</u>	<u>10,612,279</u>
Net assets, December 31	<u>\$ 7,880,755</u>	<u>\$ 10,861,419</u>

The above statement indicates that the Fund's net assets decreased by \$2,980,664 during the most recent fiscal year. The decrease is primarily due to the decrease in the fair value of investments.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

There were no capital asset additions or retirements during the current fiscal year.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
CAPITAL ASSETS  
(Net of accumulated depreciation)  
DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Computer equipment	<u>\$ 317</u>	<u>\$ 794</u>

**Long-Term Debt**

At the end of the current fiscal year, the Fund had no long-term debt outstanding. Also, no long-term debt was added or retired during the current fiscal year.

**ECONOMIC FACTORS**

Contribution rates for the employee are expected to remain the same at 12.2% and increased to 17.52% for the employer for 2009.

Retirement benefits are expected to remain the same during 2009 at approximately \$1,375,000.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Firemen's Relief and Retirement Fund of Lufkin, Texas finances to those that are interested. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Program Administrator, Firemen's Relief and Retirement Fund of Lufkin, Texas, P.O. Drawer 190, Lufkin, Texas 75902.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**STATEMENTS OF PLAN NET ASSETS**  
**DECEMBER 31, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
Cash	\$ 438,796	\$ 590,094
Receivables:		
Interest and dividends	6,933	7,697
Other	1,179	1,179
Total receivables	8,112	8,876
Investments at fair value:		
Corporate bonds	61,875	115,232
Government agencies	1,495,078	1,616,054
Equity securities	3,201,789	5,441,697
Mutual funds	1,075,251	2,105,894
Limited partnership	1,672,525	1,044,216
Total investments	7,506,518	10,323,093
Capital assets:		
Computer equipment	2,382	2,382
Accumulated depreciation	(2,065)	(1,588)
Total capital assets	317	794
Total assets	7,953,743	10,922,857
<b>LIABILITIES</b>		
Accounts payable	72,988	61,438
Total liabilities	72,988	61,438
<b>NET ASSETS HELD IN TRUST FOR PENSION</b>		
<b>BENEFITS</b> (a schedule of funding progress is presented on page 18)	\$ 7,880,755	\$ 10,861,419

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

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**STATEMENTS OF CHANGES IN PLAN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 700,739	\$ 533,523
Employee	503,591	410,319
Total contributions	<u>1,204,330</u>	<u>943,842</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(2,987,059)	451,239
Interest and dividends	269,128	325,717
Total investment income (loss)	<u>(2,717,931)</u>	<u>776,956</u>
Less:		
Investment expense	(75,969)	(99,893)
Net investment income (loss)	<u>(2,793,900)</u>	<u>677,063</u>
Total additions (deductions)	<u>(1,589,570)</u>	<u>1,620,905</u>
<b>DEDUCTIONS</b>		
Benefits paid to participants/beneficiaries	1,372,780	1,349,325
Actuarial consultants	775	9,865
Annual audit fee	4,450	4,300
Other administrative expense	13,089	8,275
Total deductions	<u>1,391,094</u>	<u>1,371,765</u>
Net increase (decrease)	(2,980,664)	249,140
Net assets, January 1	<u>10,861,419</u>	<u>10,612,279</u>
Net assets, December 31	<u>\$ 7,880,755</u>	<u>\$ 10,861,419</u>

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

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Fund's financial statements are prepared using the accrual basis of accounting. Fund member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Fund administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Valuation of Investments**

Investments are recorded at fair value. Investments with quoted market values obtained from Merrill Lynch are valued at the last reported sales price on the last business day of the Fund's year. Realized gains (losses) on investments sold and the change in the difference between current value and cost of investments held are reflected in the statement of changes in plan net assets as net appreciation (depreciation) in the fair value of investments. Purchases and sales of securities are recorded on a trade-date basis.

**Capital Assets**

Capital assets are recorded at cost. Depreciation is provided by using the straight line method over the estimated useful lives of the asset. Repairs and maintenance charges which do not increase the useful lives of the assets are charged to other administrative expense as incurred. Depreciation expense amounted to \$477 and \$476 for the years ended December 31, 2008 and 2007, respectively.

**PENSION PLAN DISCLOSURE**

**Plan Description**

The Firemen's Relief and Retirement Fund of Lufkin, Texas is a single-employer defined benefit pension plan administered by a Board of Trustees. The City of Lufkin, Texas (City) entered into an agreement with the Board of Trustees of the Fund during 2004 stating that the City did not desire to opt out of the mandate stipulated by the Texas Legislature under Proposition XV requiring cities to be responsible for insuring that the benefits payable under the plan are not reduced. The agreement allows the City to make provisions to the plan that will help to guarantee its financial soundness. Should the Fund become insolvent, the City will be responsible for the costs of the Fund. The Fund is not considered to be a component unit of any other reporting entity.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**PENSION PLAN DISCLOSURE - CONTINUED**

**Plan Description - Continued**

All active firefighters employed by the City are eligible to participate in the plan. As of the latest actuarial information dated December 31, 2006, the fund covered the following number of members:

	<b>DECEMBER 31, 2006</b>
Retirees and beneficiaries currently receiving benefits	52
Vested terminated members	5
Current active members:	
Electing DROP (vested)	1
Vested	26
Nonvested	49
Total	133

The Fund operates primarily under the "Texas Local Fire Fighters' Retirement Act," Article 6243e, Vernon's Texas Civil Statutes, 45th Legislature as revised by the 73rd Legislature and administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the employees of the fire department of the City. The plan document was amended effective March 26, 2008.

Service retirement eligibility is as follows:

The normal retirement is age 50 with 10 years of service for firefighters hired prior to September 1, 2005. For all firefighters hired after September 1, 2005 the normal retirement is age 50 with 15 years of service.

Disability retirement eligibility is as follows:

An active firefighter who has completed their probationary period will qualify for a disability benefit if they become disabled from any cause whatsoever for either physical or mental reasons, except for those causes specified in the plan document. A firefighter may apply for a disability benefit even if eligible for a service retirement benefit. Under certain circumstances, the Board of Trustees may deny disability benefits.

Vested termination eligibility is as follows:

If a firefighter has completed at least 10 years of service or for hires after September 1, 2005, 15 years of service, but has not attained the age of 50 at the time of termination of their service, a deferred retirement is available commencing at the end of the month age 50 is attained.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**PENSION PLAN DISCLOSURE - CONTINUED**

**Plan Description - Continued**

Death benefit eligibility is as follows:

Death benefits are payable to the participant's spouse for life as long as the spouse does not remarry, or remarries and subsequently divorces. Benefits are payable to a participant's children until age 18, age 22 if the child remains a full time student, or life as long as the child is disabled by a physical or mental illness or injury.

Deferred retirement option provision eligibility is as follows:

If a firefighter is eligible for a service retirement as described above, they may elect an alternative form of retirement known as the Deferred Retirement Option Provision (DROP).

Under the DROP, a firefighter is treated by the Fund as if they retired. Their monthly pension is determined based on pay and service to the date they elected to participate in the DROP. The firefighter may participate in the DROP for a maximum of six years. During the time they are participating in the DROP, they continue to work for the Fire Department in their regular capacity. Their monthly pension and their monthly contributions to the Fund remain in the Fund.

The firefighter may leave the program at any time within the six year period. At the time the firefighter does leave the DROP, they are entitled to receive the amount which has accumulated in the Fund by making an irrevocable decision to request payment of the entire account in a lump-sum, or to request that the accumulation be paid in not more than three annual installments beginning not more than thirteen months from leaving the DROP, with the final installment being made not more than thirty-seven months after leaving the DROP. They are also entitled to begin receiving their monthly pension that was previously being paid monthly into the Fund. They must also retire from active duty with the Fire Department at the time they leave the DROP.

The actuarially accrued liability is a standardized disclosure measure of the present value of pension benefits estimated to be paid in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Firemen's Relief and Retirement Fund of Lufkin, Texas funding status, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the Fund.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**PENSION PLAN DISCLOSURE - CONTINUED**

**Contributions and Funding Policy**

The City's total salaries and wages for fiscal year 2008 for firefighters was \$4,104,922 and the City's contributions were based on a payroll of \$4,104,922. Both the City and the covered employees made the required contributions, amounting to \$503,591 (12.2%) by employees and \$700,739 (17%) by the City. The City's estimated net pension obligation increased \$433,953.

The City's total salaries and wages for fiscal year 2007 for firefighters was \$3,646,229, and the City's contributions were based on a payroll of \$3,646,229. Both the City and the covered employees made the required contributions, amounting to \$410,319 (11% from January 1 through October 10, and 12.2% from October 11 through December 31) by employees and \$533,523 (14% from January 1 to October 10, and 17% from October 11 through December 31) by the City. The City's estimated net pension obligation increased \$446,955.

The contribution rate of the firefighters is determined by the firefighters. The City's contribution rate is determined by negotiations with the firefighters. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. The total contributions of the fire fighters and the City are less than the actuarial annual required contribution (ARC). At December 31, 2006, the City's net pension obligation for the Firemen's Relief and Retirement Fund of Lufkin, Texas was actuarially estimated to be \$853,461.

**Plan Administration**

Certain administrative functions are performed by the Fund's board of trustees. No such trustee receives compensation from the Fund. The board of trustees contracts for professional investment services. Investment decisions are made according to an adopted investment policy.

**Plan Termination**

Under the Texas Local Fire Fighters' Retirement Act, the Fund may not be terminated or merged into another retirement fund without the approval of the board of trustees and the participants provided that 51% of the volunteer firefighters first petition the board for such change.

**CASH**

The carrying amount of the Fund's deposits was \$438,796 and \$590,094 as of December 31, 2008 and 2007, respectively, and the deposits were fully covered by Securities Investor Protection Corporation, by insurance purchased by Merrill Lynch and by FDIC insurance for both years.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**INVESTMENTS**

The Fund is authorized to invest in the following:

Bonds or other interest-bearing obligations and securities of the United States, the State, or a political subdivision of the State;

Shares and share accounts of savings and loan associations to the extent that the shares and share accounts are insured by the Federal Savings and Loan Insurance Corporation;

First-lien real estate mortgage securities insured by the Federal Housing Administration;

Bonds of companies incorporated within the United States;

Common and preferred stocks of companies incorporated within the United States that, unless the stocks are bank or insurance stocks, are listed on an exchange registered with the Securities and Exchange Commission or its successor;

Guaranteed investment contracts offered by insurance companies;

Money market funds;

Mutual funds and other pooled funds;

International stocks traded as American depository receipts; and

Over-the-counter stocks.

The Fund's investments at December 31, 2008 and 2007 are shown as follows:

	FAIR VALUE	
	2008	2007
Corporate bonds	\$ 61,875	\$ 115,232
Government agencies	1,495,078	1,616,054
Equity securities	3,201,789	5,441,697
Mutual funds	1,075,251	2,105,894
Limited partnership	1,672,525	1,044,216
Total	<u>\$ 7,506,518</u>	<u>\$ 10,323,093</u>

The fair value of investments was obtained from the Fund's custodian. It is the Fund's intent to hold debt securities until the principal is repaid.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**INVESTMENTS - CONTINUED**

The investment risk disclosures that are applicable to the Fund's investments are credit risk, concentration of credit risk, and interest rate risk.

Credit risk is the risk that the issuer of the investment will not fulfill its obligations. The Fund's investment policy does not limit its investment in active fixed income investments based on credit ratings. At December 31, 2008 and 2007, the credit rating for the Fund's investment in active fixed income investments consisted of the following:

INVESTMENT TYPE	STANDARD & POORS RATING	MOODY'S INVESTORS SERVICE	FAIR VALUE DECEMBER 31,	
			2008	2007
Government agencies	AAA	AAA	\$ 1,495,078	\$ 1,616,054
Corporate bonds	AAA	AAA	34,245	115,232
Corporate bonds	A+	AA2	27,630	
Total Corporate bonds			<u>61,875</u>	<u>115,232</u>
Total			<u>\$ 1,556,953</u>	<u>\$ 1,731,286</u>

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. As of December 31, 2007, \$1,323,039 of the Fund's net assets were invested in securities issued by the Federal National Mortgage Association, which is a concentration exceeding five percent of the Fund's net assets in a single issuer. As of December 31, 2008 there were no concentrations exceeding five percent of the Fund's net assets in a single issuer.

Interest rate risk is the risk that the fair value of the investment will be adversely affected by changes in interest rates. The Fund's investment policy does not limit investment maturities on active fixed income investments. The weighted average maturity for the Fund's investment in active fixed income investments was 4.8 years and 6.2 years as of December 31, 2008 and 2007, respectively.

**INCOME TAX STATUS**

The Internal Revenue Service has ruled that the Fund is tax-exempt under Section 501(a) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Once qualified, the Fund is required to operate in conformity with the Code to maintain its qualification. The Fund's management is not aware of any action or event that has occurred that might affect the plan's qualified status.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008**

**GOING CONCERN**

As shown in the accompanying financial statements, the Fund incurred a net decrease in net assets of \$2,980,664 during the year ended December 31, 2008. The actuarially determined contribution rate continues to not be fully funded and benefits have not been reduced. The amortization period for the unfunded liability is infinite. These factors, as well as the uncertain conditions that the Fund faces regarding its investments, create an uncertainty about the Fund's ability to continue as a going concern. The City Manager will make a proposal to the City Council to increase the City's contribution rate by 3.2% if the firefighters approve an increase of their contribution rate by 1.0%. Even with these proposed increases the contribution rate is still not adequate to meet the prior actuarially determined contribution rate. The ability of the Fund to continue as a going concern is dependent on acceptance of the proposed rate increases and the Board of Trustees, City of Lufkin and the firefighters cooperating together to review benefits and contribution rates and make any necessary changes. The financial statements do not include any adjustments that might be necessary if the Fund is unable to continue as a going concern.

**REQUIRED SUPPLEMENTARY INFORMATION**

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS**

ACTUARIAL VALUATION DATE	(1) ACTUARIAL VALUE OF ASSETS	(2) ACTUARIAL ACCRUED LIABILITY	(3) FUNDED RATIO (1)/(2)	(4) UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) (2) - (1)	(5) ANNUAL COVERED PAYROLL	(6) (UAAL) AS A PERCENTAGE OF COVERED (4)/(5)
12/31/89	\$ 4,254,289	\$ 5,803,232	73.3%	\$ 1,548,943	\$ 1,448,153	107.0%
12/31/92	5,694,765	7,654,481	74.4%	1,959,716	1,708,570	114.7%
12/31/95	6,800,995	9,756,867	69.7%	2,955,872	1,999,097	147.9%
12/31/98	9,736,390	11,853,931	82.1%	2,117,541	2,397,350	88.3%
12/31/00	11,018,263	13,937,639	79.1%	2,919,376	2,685,849	108.7%
12/31/02	9,611,084	15,747,613	61.0%	6,136,529	3,226,247	190.2%
12/31/04	10,673,969	17,613,892	60.6%	6,939,923	3,041,650	228.2%
12/31/06	10,612,279	21,164,321	50.1%	10,552,042	3,552,919	297.0%

See accompanying independent auditor's report on required supplementary information.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

FISCAL YEAR ENDING DECEMBER 31	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
(1)	(2)	(3)
1997	\$ 236,237	100.0%
1998	258,597	100.0%
1999	292,440	100.0%
2000	300,973	100.0%
2001	327,717	100.0%
2002	350,889	100.0%
2003	429,584	83.0%
2004	442,408	81.6%
2005	664,855	62.0%
2006	944,909	52.4%
2007	980,478	54.0%
2008	1,146,855	61.1%

See accompanying independent auditor's report on required supplementary information.

**FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2008**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll
Remaining amortization period	Infinite - Open Period
Asset valuation method	Market value
Actuarial assumptions:	
Investment return	7.75%
Projected salary increases	3.00%
Amortization increase	1.6%
Inflation rate	3.00%

See accompanying independent auditor's report on required supplementary information.