

FIREMEN'S RELIEF AND RETIREMENT FUND  
OF LUFKIN, TEXAS

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT

December 31, 2011 and 2010

TABLE OF CONTENTS

Independent Auditors' Report..... 3

Management's Discussion and Analysis..... 5

Statements of Plan Net Assets ..... 8

Statements of Changes in Plan Net Assets ..... 9

Statements of Accumulated Plan Benefits ..... 10

Statements of Changes in Accumulated Benefits ..... 11

Notes to Financial Statements..... 12

Required Supplementary Information:

Schedule of Funding Progress ..... 19

Schedule of Employer Contributions ..... 20

Supplemental Data (Unaudited) ..... 21

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Statement of Plan Net Assets of the Firemen's Relief and Retirement Fund of Lufkin, Texas (the Plan) as of December 31, 2011, and the related Statement of Changes in Plan Net Assets for the year then ended. We have also audited the Statement of Accumulated Plan Benefits as of December 31, 2010 and the related Statement of Changes in Accumulated Benefits for the two years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Statements of Plan Net Assets as of December 31, 2010 and the related Statement of Changes in Plan Net Assets for the year then ended were audited by other auditors whose report dated June 22, 2011 expressed an unqualified opinion on those statements.

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 audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the Plan's net assets of the Firemen's Relief and Retirement Fund of Lufkin, Texas as of December 31, 2011, and the changes therein for the year then ended, as well as the accumulated plan benefits as of December 31, 2010 and the changes for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basis financial statements taken as a whole. The Management's Discussion and Analysis beginning on page 5 supplemental schedules shown on pages 19 and 20 are not a required part of the basic financial statements, but are supplementary information required accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. This supplementary 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental schedule on page 21, which is marked **UNAUDITED**, 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.

  
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas  
March 20, 2012

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of this discussion and analysis is to provide the reader with an overall review of the financial performance of the Firemen's Relief and Retirement Fund of Lufkin, Texas (the "Plan") for the fiscal year ending December 31, 2011, as compared to the prior year ending December 31, 2010. Readers should read this discussion and analysis in combination with the financial statements and related notes.

**Financial Highlights for Year Ended December 31, 2011**

The assets of the Plan are held in an irrevocable trust for the exclusive benefit of eligible Plan participants. Plan net assets, which totaled \$9,950,651 as of December 31, 2011, decreased \$150,819 compared to the prior year ending December 31, 2010.

When compared to the prior year:

- Employee contributions increased \$12,556 (2.3%), and employer contributions increased \$22,362 (2.3%), due to increased compensation for the plan participants and increase in the number of participants. Participants continued to contribute 13.2% of compensation, and the employer continued to match 23.5% of compensation.
- Net investment income decreased \$1,116,010 (107.0%) due to the stabilizing market conditions and the change in investment allocation.
- Benefits paid to participants increased \$303,832 (23.4%) due to an increase in the amount paid under the DROP program and an increased number of participants receiving rollover distributions.
- Plan administrative fees increased \$12,256 (61.2%) due to actuarial valuation services rendered in 2011 that were not rendered in 2010, and increased costs associated with conferences for the Texas Association of Public Employee Retirement Systems (TEXPERS) and the Texas Local Fire Fighters' Retirement Act (TLFFRA).

**Overview of the Financial Statements**

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

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

The *Statement of Accumulated Plan Benefits* presents the actuarial present value of total benefit payments for all participants in the Plan as of the valuation date. This value is based on actuarial assumptions, provisions set forth in the plan document, and demographic data. The impact of these items on the actuarial present value is stated in the *Statement of Changes in Accumulated Benefits*.

The *Statement of Changes in Accumulated Benefits* presents information on how the actuarial present value of the accumulated plan benefits changed since the previous valuation date. Information regarding the changes in actuarial assumptions and methods used that have impacted the valuation can be found in the required supplementary information.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

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

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

**Financial Analysis**

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* provide an indication of the Plan's financial condition. For plan year 2011, these statements indicate a decrease in net plan assets due to the depreciation of the value of Plan's current investments. The Plan's net assets may service over time as a useful indicator of the Plan's financial position.

**Table A-1  
The Plan's Net Assets**

	2011	2010	% CHANGE
Cash and receivables	\$ 660	\$ 159 421	(99)%
Investments	9 949 991	9 942 049	1 %
<b>TOTAL ASSETS</b>	<b>9 950 651</b>	<b>10 101 470</b>	<b>(2)%</b>
<b>TOTAL NET ASSETS</b>	<b>\$ 9 950 651</b>	<b>\$ 10 101 470</b>	<b>(2)%</b>

**Table A-2  
Changes in the Plan's Net Assets**

	2011	2010	% CHANGE
City contributions	\$ 996 899	\$ 974 537	2 %
Member contributions	559 956	547 400	2 %
Net investment income (loss)	(73 469)	1 042 541	(107)%
Miscellaneous receipts	356	-	100 %
<b>TOTAL ADDITIONS</b>	<b>1 483 742</b>	<b>2 564 478</b>	<b>(42)%</b>
Retirement expenses	1 602 297	1 298 465	23 %
Administrative expenses	32 264	20 008	61 %
<b>TOTAL DEDUCTIONS</b>	<b>1 634 561</b>	<b>1 318 473</b>	<b>24 %</b>
<b>CHANGE IN NET ASSETS</b>	<b>(150 819)</b>	<b>1 246 005</b>	<b>(112)%</b>
Net assets, January 1	10 101 470	8 855 465	(88)%
<b>TOTAL NET ASSETS, DECEMBER 31</b>	<b>\$ 9 950 651</b>	<b>\$ 10 101 470</b>	<b>(1)%</b>

**Capital Assets and Debt Administration**

**Capital Assets:** There were no capital asset additions or retirements during the year ended December 31, 2011. The Plan has a computer with a cost of \$2,382 and a net book value of \$-0-.

**Long-Term Debt:** As of December 31, 2011, the Plan had no long-term debt outstanding. Also, no long-term debt was added or retired during the year ended December 31, 2011.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

**Economic Factors**

Contribution rates for the members and employer remained at 13.2% and 23.5%, respectively, for the plan year December 31, 2011. No changes are expected in contribution rates.

Retirement benefits are expected to be approximately \$1.3 million, the amount of annualized monthly benefits for current retirees.

**Contacting Plan Management**

This financial report is designed to provide a general overview of the finances of the Firemen's Relief and Retirement Fund of Lufkin, Texas to those that are interested. Questions concerning any information provided in this report or requests for additional information should be addressed to the Plan Administrator, 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, 2011 and 2010

ASSETS	<u>2011</u>	<u>2010</u>
Cash	\$ 648	\$ 151 298
Receivables:		
Interest and dividends	12	8 123
TOTAL RECEIVABLES	<u>12</u>	<u>8 123</u>
Investments at Fair Value:		
Corporate bonds	-	50 272
Common trust funds	9 735 470	-
Government agency securities	1 787	1 074 891
Money markets	212 734	1 481 574
Equity securities	-	7 312 638
Limited partnership	-	22 674
TOTAL INVESTMENTS AT FAIR VALUE	<u>9 949 991</u>	<u>9 942 049</u>
Capital Assets:		
Computer equipment	2 382	2 382
Accumulated depreciation	<u>(2 382)</u>	<u>(2 382)</u>
NET CAPITAL ASSETS	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>9 950 651</u>	<u>10 101 470</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 9 950 651</u>	<u>\$ 10 101 470</u>

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

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
 STATEMENTS OF CHANGES IN PLAN NET ASSETS  
 For the Years Ended December 31, 2011 and 2010

	2011	2010
ADDITIONS		
Contributions:		
Employer	\$ 996 899	\$ 974 537
Employee	559 956	547 400
TOTAL CONTRIBUTIONS	1 556 855	1 521 937
Investment Income:		
Net appreciation (depreciation) in fair value of investments	(291 908)	865 154
Interest and dividends	299 914	255 144
	8 006	1 120 298
Less:		
Investment expense	(81 475)	(77 757)
NET INVESTMENT INCOME	(73 469)	1 042 541
Miscellaneous receipts	356	-
TOTAL ADDITIONS	1 483 742	2 564 478
DEDUCTIONS		
Benefits paid directly to participants/beneficiaries	1 602 297	1 298 465
Actuarial consultants	7 616	-
Annual audit fee	7 500	7 836
Other administrative expenses	17 148	12 172
TOTAL DEDUCTIONS	1 634 561	1 318 473
NET INCREASE (DECREASE)	(150 819)	1 246 005
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	10 101 470	8 855 465
END OF YEAR	\$ 9 950 651	\$ 10 101 470

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

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
STATEMENT OF ACCUMULATED PLAN BENEFITS

	<u>DECEMBER 31,</u> <u>2010</u>
Actuarial Present Value of Accumulated Plan Benefits:	
Vested Benefits:	
Participants currently receiving payments	\$ 14 485 917
Participants with deferred benefits	470 804
Participating employees	<u>16 693 619</u>
	31 650 340
Nonvested and death and disability benefits	<u>257 412</u>
TOTAL ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS	<u>\$ 31 907 752</u>

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

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
STATEMENT OF CHANGES IN ACCUMULATED BENEFITS

	FOR THE YEAR ENDED DECEMBER 31, 2010
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT DECEMBER 31, 2008	\$ <u>29 688 118</u>
Increase (Decrease) During the Year Ended Attributable to:	
Increase due to new entrants	599 208
(Decrease) due to payments to participants/beneficiaries	(2 710 260)
Increase due to change in the discount period	4 409 321
(Decrease) due to plan experience	(193 173)
Increase due to change in actuarial assumptions	66 750
Increase due to plan amendments	47 788
NET INCREASE	<u>2 219 634</u>
ACTUARIAL PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AT DECEMBER 31, 2010	\$ <u>31 907 752</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

NOTE 1 - PLAN DESCRIPTION

The following description of the Firemen's Relief and Retirement Fund of Lufkin, Texas (the Plan) provides only general information. For a more complete description of the Plan's provisions, refer to the Fund Provisions.

The Plan is a single-employer defined benefit pension plan covering all employees of the City of Lufkin Fire Department. The Plan operates primarily under the "Texas Local Fire Fighters Retirement Act," Article 6243.3 Vernon's Texas Civil Statutes 45<sup>th</sup> Legislature as amended by the 75<sup>th</sup> Legislature and administers retirement and death benefits to employees and beneficiaries of the employees of the fire department of the City of Lufkin. The Plan document was amended effective May 25, 2011.

The Plan provides for normal retirement when the participant is 50 years old and has completed 10 years of service. As of September 1, 2009, a participant must have completed 15 years of service. Monthly benefits are computed under one of two benefit formulas whichever is greater. Eligibility for participation begins upon date of employment.

Length of service is determined by the length of time the firefighter makes the required deposits and keeps on deposit with the fund the contributions the Plan requires.

Vesting service begins from date of hire to date of termination. A participant is 100% vested after ten years of service (fifteen years for hires after September 1, 2009) with no vesting occurring prior to ten (or fifteen) years of service. A participant whose service is terminated after 10 (or fifteen) years of service may elect to receive, at the time of termination, his own contributions to the fund; however, if he makes such an election, he will forfeit his right to all benefits which he otherwise would have been entitled to receive. A participant whose service is terminated prior to 10 (or fifteen) years of service will receive an amount equal to his own contributions to the Plan in excess of the amount of benefits he has previously received from the Plan. If a firefighter has completed 10 (or fifteen) years of service but has not attained the age of 50 at the time of termination of his service, a deferred retirement is available commencing on the end of the month age 50 is attained.

An active firefighter who has completed his probationary period will qualify for a disability benefit if he becomes disabled from any cause whatsoever for either physical or mental reasons, except for those causes specified in the Plan document. Under certain circumstances (as specified in the Plan) the Board of Trustees may deny benefits.

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.

If a firefighter is eligible for a service retirement as described above, they may elect an alternative form of retirement know as the Deferred Retirement Option Provision (DROP). Under the DROP, a firefighter is treated by the Plan 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 Plan remain in the Plan. 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 Plan 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 installment beginning not more than thirteen months from leaving the DROP. They are also entitled to begin receiving their monthly pension that was previously being paid monthly into the Plan. They must also retire from active duty with the Fire Department at the time they leave the DROP.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting:** The Plan's financial statements are presented in accordance with the generally accepted accounting principles established by the Governmental Accounting Standards Board ("GASB"), which designates the accounting principles and financial reporting standards applicable to state and local governmental units. The Plan maintains a fiduciary fund to account for its operations and uses the accrual basis of accounting in preparing its financial statements. Plan 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 Plan.

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

**Investment Valuation and Income Recognition:** Investments are recorded at fair value. Investments with quoted market values are valued at the last reported sales price on the last business day of the Plan's year. The change in the difference between current value and cost of investments is reflected in the statement of changes in net assets available for Plan benefits as net appreciation (depreciation) in the fair value of investments. Purchases and sales of securities are recorded on a trade-date basis. Interest is recognized when earned and dividends are recorded on the ex-dividend date.

**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 amount to \$-0- for the years ended December 31, 2011 and 2010.

**Payment of Benefits:** Benefit payments are recorded when due to be paid.

**Actuarial Present Value of Accumulated Plan Benefits:** Accumulated plan benefits are those future periodic payments, including lump-sum distribution, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service. The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the valuation date). Benefits payable under all circumstances - retirement, death, disability, and termination of employment - are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated plan benefits is determined by an actuary from Retirement Horizons, Inc. and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuation as of December 31, 2010 were (a) life expectancy (the RP 2000 Combined Group Mortality Table was used), (b) retirement age assumptions (active firefighters are assumed to retire at the later of age 53 or 20 years of service, or age on valuation date, if older; terminated firefighters entitled to deferred benefits are assumed to retire at age 50 or age on valuation date, if older), and (c) investment return. The 2010 valuation included an assumed average rate of return of 7.5%, projected salary increases of 3.0%, and projected payroll growth of 2.0%. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

**Reclassifications:** Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

**Subsequent Events:** The Plan management has evaluated subsequent events through March 20, 2012, the date the financial statements were available to be issued.

NOTE 3 - INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan has been amended since receiving the determination letter; however the Retirement Committee is not aware of any action or event that has occurred that might affect the Plan's qualified status.

NOTE 4 - INVESTMENTS

The Plan's investment policy was approved by the Board of Trustees on May 22, 2003. The policy allows for a maximum of 70% of Plan assets to be allocated to equity investments, excluding alternative investments. The Plan's investment in non-US equities must not exceed 20% of total Plan assets. The remaining percentage will be allocated to active fixed income management and cash.

The following table presents the fair value of the Plan's investments at December 31, 2011 and 2010. Investments that represent 5 percent or more of the Plan's net assets are separately identified below.

	FAIR VALUE	
	2011	2010
Westwood AllCap Growth Equity	\$ 1 256 034	\$ -
Westwood International Growth Equity	806 242	-
Westwood International Value Equity	845 625	-
Westwood LargeCap Value Equity	1 190 139	-
Westwood Core Investment Grade Bond	2 073 997	-
Westwood Global Strategic Diversification	594 858	-
Westwood Income Opportunity	1 112 493	-
SEI Government Principal Money Market	212 734	1 481 574
Vanguard Index Fds Growth Etf	-	817 930
Vanguard Index Fds Mid Cap Etf	-	562 173
Vanguard Index Fds Value Etf	-	761 712
Ishares Tr Russell Midcap	-	559 625
Spdr Series Trust Dj Mid Cap Etf	-	564 623
Other Investments	1 857 869	5 194 412
TOTAL	\$ 9 949 991	\$ 9 942 049

NOTE 5 - FAIR VALUE MEASUREMENTS

The Plan's investments are reported at fair value in the accompanying statement of net assets available for benefits. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE MEASUREMENTS - CONTINUED

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, Level 1 measurements, and the lowest priority to measurements involving significant unobservable inputs, Level 3 measurements. The Plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Plan measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value; Level 3 inputs were only used when Level 1 or Level 2 inputs were not available. The three levels of the fair value hierarchy are as follows:

- **Level 1** inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Plan has the ability to access at the measurement date. Investments whose values are based on quoted market prices in active markets, and whose values are therefore classified as Level 1 prices, include active listed equities and debt securities. Investments in government securities, money market accounts, corporate bonds, and corporate stock are publicly traded and are considered to be Level 1 asset.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) The Plan invests in various common trust funds managed by the Trustee. The investments are not publicly traded and are considered to Level 2 assets. The valuation for these investments is determined by the values of the underlying investments which are publicly traded. The investment in the limited partnership was not publicly traded and is considered to be a Level 2 asset.
- **Level 3** inputs are unobservable inputs (including the Trustee's own assumption in determining the fair value of investments) for the asset or liability. Investments whose values are classified as Level 3 prices have significant unobservable inputs, as they may trade infrequently or not at all. When observable prices are not available for these securities, the Funds use one or more valuation techniques for which sufficient and reliable data is available.

	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING			
	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS/ LIABILITIES (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
December 31, 2011:				
U.S. Government Bonds and Agency Securities:				
Federal National Mortgage Association Bonds	\$ 1 787	\$ 1 787	\$ -	\$ -
TOTAL U.S. GOVERNMENT BONDS AND AGENCY SECURITIES	<u>1 787</u>	<u>1 787</u>	<u>-</u>	<u>-</u>
Common Trust Funds:				
Bond Funds	4 268 518	-	4 268 518	-
Equity Funds	5 164 214	-	5 164 214	-
Real Estate Investment Funds	302 738	-	302 738	-
TOTAL MUTUAL FUNDS	<u>9 735 470</u>	<u>-</u>	<u>9 735 470</u>	<u>-</u>
Short-Term Money Market Funds	212 734	212 734	-	-
	<u>\$ 9 949 991</u>	<u>\$ 214 521</u>	<u>\$ 9 735 470</u>	<u>\$ -</u>

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - CASH

The carrying amount of the Plan's deposits was \$648 and \$151,298 as of December 31, 2011 and 2010, respectively. As of December 31, 2011, the deposits were covered by FDIC insurance. As of December 31, 2010, the deposits were covered by Securities Investor Protection Corporation and by insurance purchased by the Plan's custodian and by FDIC insurance.

NOTE 7 - FUNDING POLICY

The City's contributions were based on payroll of \$4,239,090 and \$4,146,973 for the years ending December 31, 2011 and 2010, respectively. Both the City and the covered employees made contributions, amounting to \$559,956 (13.2%) and \$547,400 (13.2%) by employees and \$996,899 (23.5%) and \$974,537 (23.5%) by the City for the years presented, respectively.

The contribution rate of the members is determined by the members. The City's contribution rate is determined by the City Council. The actuary certifies whether the contribution commitment by the members and the City provides an adequate financing arrangement. The total contributions of the firefighters and the City are less than the actuarial annual required contribution (ARC) of 1,728,850. At December 31, 2010, the City's net pension obligation for the Plan was actuarially estimated to be \$2,263,975.

NOTE 8 - PLAN ADMINISTRATION

Certain administrative functions are performed by the Plan's Board of Trustees. No such Trustee receives compensation from the Plan. All investment decisions are made by an independent investment firm based upon an investment policy approved by the Plan's Board of Trustees.

NOTE 9 - MEMBERSHIP INFORMATION

As of the latest actuarial information dated December 31, 2010 the Plan had the following membership information:

Retirees members and their beneficiaries	53
Vested terminated members	4
Current Active Members:	
Electing DROP (vested)	4
Vested	34
Nonvested	39
TOTAL	<u>134</u>

NOTE 10 - PLAN TERMINATION

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

NOTE 11 - RELATED-PARTY TRANSACTIONS

As of December 31, 2011, the Plan held investments totaling \$9,735,470 in common trust funds managed by the Trustee. During the Plan year, the Trustee may initiate purchase or sales transactions involving these common trust funds at its discretion. The Plan's investment in these common trust funds has been consummated on terms equivalent to those that prevail in an arm's-length transaction.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - RISKS AND UNCERTAINTIES

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net assets.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumption in the near term would be material to the financial statements.

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) UNFUNDED ACTUARIAL ACCRUED LIABILITY (2) - (1)	(4) FUNDED RATIO (1) / (2)	(5) ANNUAL COVERED PAYROLL	(6) UNFUNDED ACTUARIAL ACCRUED LIABILITY AS A PERCENTAGE OF COVERED PAYROLL (3) / (5)
12/31/2000	\$ 11 018 263	\$ 13 937 639	\$ 2 919 376	79.1%	\$ 2 685 849	108.7%
12/31/2002	\$ 9 611 084	\$ 15 747 613	\$ 6 136 529	61.0%	\$ 3 226 247	190.2%
12/31/2004	\$ 10 673 969	\$ 17 613 892	\$ 6 939 923	60.6%	\$ 3 041 650	228.2%
12/31/2006	\$ 10 612 279	\$ 21 164 321	\$ 10 552 042	50.1%	\$ 3 552 919	297.0%
12/31/2008	\$ 9 456 907	\$ 24 777 439	\$ 15 320 532	38.2%	\$ 4 148 732	369.3%
12/31/2010	\$ 10 101 470	\$ 27 051 949	\$ 16 950 479	37.3%	\$ 4 146 970	408.7%

See independent auditors' report.

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

Annual Contribution Requirement

FISCAL YEAR ENDING DECEMBER 31,	ANNUAL PENSION COST (APC)	AMOUNT OF CONTRIBUTION MADE	PERCENTAGE CONTRIBUTED
2004	\$ 442 123	\$ 360 849	81.6%
2005	\$ 664 257	\$ 412 016	62.0%
2006	\$ 941 146	\$ 494 984	52.6%
2007	\$ 959 751	\$ 533 523	55.6%
2008	\$ 1 093 189	\$ 700 739	64.1%
2009	\$ 1 149 232	\$ 778 632	67.8%
2010	\$ 1 195 773	\$ 974 537	81.5%

See independent auditors' report.

FIREMEN'S RELIEF AND RETIREMENT FUND OF LUFKIN, TEXAS  
SUPPLEMENTAL DATA - UNAUDITED  
December 31, 2011

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, 2010
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Pay
Remaining Amortization Period:	53.7 years
Asset Valuation Method:	Smoothed Market Value
Actuarial Assumptions:	
Investment rate return	7.5%
Projected salary increases	3.0%
Projected payroll growth	2.0%
Amortization increase	2.4%

Changes in the mortality tables used by the actuary to determine the actuarial present value of the plan benefits represent the sole change in actuarial assumptions to impact the calculated actuarial present value of the accumulated plan benefits on page 10.

The remaining amortization period used by the actuary was decreased from an infinite period to 53.7 years as the change in the employer contribution rate effective January 1, 2010 is considered sufficient to amortize the unfunded actuarial accrued liability within this period of time.

See independent auditors' report.