FIREMEN'S RELIEF AND RETIREMENT
FUND OF LUFKIN, TEXAS

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

December 31, 2012 and 2011

AXLEY & RODE, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012 and 2011, and the related Statement of Changes in Plan Net Assets for the years then ended.

Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial status of the Firemen's Relief and Retirement Fund of Lufkin, Texas as of December 31, 2012 and 2011, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Management's Discussion and Analysis beginning on page 5 and supplemental schedules shown on pages 17 and 18, together referred to as "required supplemental information," are presented for the purpose of additional analysis and are not a part of the financial statements but are supplemental information required by the Governmental Accounting Standards Board and the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The supplemental schedule on page 19, 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.

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
February 26, 2013

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, 2012, as compared to the prior year ending December 31, 2011. Readers should read this discussion and analysis in combination with the financial statements and related notes.

Financial Highlights for Year Ended December 31, 2012

The assets of the Plan are held in an irrevocable trust for the exclusive benefit of eligible Plan participants. Plan net assets, which totaled $11,275,504 as of December 31, 2012, increased $1,324,853 compared to the prior year ending December 31, 2011.

When compared to the prior year:

- Member contributions increased $22,335 (4%), and City contributions increased $13,287 (1%), 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 matched 22.9% of contributions during 2012 compared with 23.5% during 2011.
- Net investment income increased $1,289,930 (1,756%) due to the improving market conditions during the year ended December 31, 2012.
- Benefits paid to participants decreased $137,400 (9%) due to a decrease in the amount paid under the DROP program.
- Plan administrative fees decreased $13,076 (41%) due to actuarial valuation services rendered in 2011 that were not rendered in 2012, and decreased 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 *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 2012, these statements indicate a increase in net plan assets due to the appreciation of the value of Plan's current investments. The Plan's net assets may serve over time as a useful indicator of the Plan's financial position.

Table A-1
The Plan's Net Assets

	2012	2011	% CHANGE
Cash and receivables	$ 7 127	$ 660	980 %
Investments	11 273 577	9 949 991	13 %
TOTAL ASSETS	11 280 704	9 950 651	13 %
Accounts payable	5 200	-	100 %
TOTAL LIABILITIES	5 200	-	100 %
TOTAL NET ASSETS	$ 11 275 504	$ 9 950 651	13 %

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

	2012	2011	% CHANGE
City contributions	$ 1 010 186	$ 996 899	1 %
Member contributions	582 291	559 956	4 %
Net investment income (loss)	1 216 461	(73 469)	1 756 %
Miscellaneous receipts	-	356	(100)%
TOTAL ADDITIONS	2 808 938	1 483 742	89 %
Retirement expenses	1 464 897	1 602 297	(9)%
Administrative expenses	19 188	32 264	(41)%
TOTAL DEDUCTIONS	1 484 085	1 634 561	(9)%
CHANGE IN NET ASSETS	1 324 853	(150 819)	978 %
Net assets, January 1	9 950 651	10 101 470	(1)%
TOTAL NET ASSETS, DECEMBER 31	$ 11 275 504	$ 9 950 651	13 %

Capital Assets and Debt Administration

Capital Assets: There were no capital asset additions or retirements during the year ended December 31, 2012. 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, 2012, the Plan had no long-term debt outstanding. Also, no long-term debt was added or retired during the year ended December 31, 2012.

Economic Factors

The contribution rate for the members remained at 13.2% for the plan year ended December 31, 2012. The employer contribution rate decreased from 23.50% to 22.9% for the plan year ended December 31, 2012. No further changes are expected in contribution rates.

Retirement benefits are expected to be approximately $1.4 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, 2012 and 2011

	2012	2011
ASSETS		
Cash	$ 2 117	$ 648
Receivables:		
Employer contributions	5 000	-
Interest and dividends	10	12
TOTAL RECEIVABLES	5 010	12
Investments at Fair Value:		
Common trust funds	10 606 905	9 735 470
Government agency securities	1 267	1 787
Money markets	665 405	212 734
TOTAL INVESTMENTS AT FAIR VALUE	11 273 577	9 949 991
Capital Assets:		
Computer equipment	2 382	2 382
Accumulated depreciation	(2 382)	(2 382)
NET CAPITAL ASSETS	-	-
TOTAL ASSETS	11 280 704	9 950 651
ASSETS		
Accounts payable	5 200	-
TOTAL LIABILITIES	5 200	-
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 11 275 504	$ 9 950 651

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, 2012 and 2011

	2012	2011
ADDITIONS		
Contributions:		
Employer	$ 1 010 186	$ 996 899
Employee	582 291	559 956
TOTAL CONTRIBUTIONS	1 592 477	1 556 855
Investment Income:		
Net appreciation (depreciation) in fair value of investments	996 646	(291 908)
Interest and dividends	300 243	299 914
	1 296 889	8 006
Less:		
Investment expense	(80 428)	(81 475)
NET INVESTMENT INCOME	1 216 461	(73 469)
Miscellaneous receipts	-	356
TOTAL ADDITIONS	2 808 938	1 483 742
DEDUCTIONS		
Benefits paid directly to participants/beneficiaries	1 464 897	1 602 297
Actuarial consultants	-	7 616
Annual audit fee	6 000	7 500
Other administrative expenses	13 188	17 148
TOTAL DEDUCTIONS	1 484 085	1 634 561
NET INCREASE (DECREASE)	1 324 853	(150 819)
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	9 950 651	10 101 470
END OF YEAR	$ 11 275 504	$ 9 950 651

The notes to financial statements are an integral part of these 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 45th Legislature as amended by the 75th 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 April 25, 2012.

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. As of January 1, 2012, the Plan was amended to decrease the employer match.

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.

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, 2012 and 2011.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Subsequent Events: The Plan management has evaluated subsequent events through February 26, 2013, 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, 2012 and 2011. Investments that represent 5 percent or more of the Plan's net assets are separately identified below.

	FAIR VALUE	
	2011	2012
Westwood AllCap Growth Equity	$ 1 496 791	$ 1 256 034
Westwood International Growth Equity	-	806 242
Westwood International Value Equity	-	845 625
Westwood LargeCap Value Equity	1 184 787	1 190 139
Westwood Core Investment Grade Bond	2 139 168	2 073 997
Westwood Global Strategic Diversification	611 952	594 858
Westwood Income Opportunity	1 348 126	1 112 493
SEI Government Principal Money Market	665 405	212 734
Westwood Emerging Markets Equity	677 809	-
Westwood Global Equity	1 804 112	-
Other Investments	1 345 427	1 857 869
TOTAL	$ 11 273 577	$ 9 949 991

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.

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.

- **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, 2012:				
U.S. Government Bonds and Agency Securities:				
Federal National Mortgage Association Bonds	$ 1 267	$ 1 267	$ -	$ -
TOTAL U.S. GOVERNMENT BONDS AND AGENCY SECURITIES	1 267	1 267	-	-
Common Trust Funds:				
Bond Funds	5 682 718	-	5 682 718	-
Equity Funds	4 608 296	-	4 608 296	-
Real Estate Investment Funds	315 891	-	315 891	-
TOTAL MUTUAL FUNDS	10 606 905	-	10 606 905	-
Short-Term Money Market Funds	665 405	665 405	-	-
	$ 11 273 577	$ 666 672	$ 10 606 905	$ -

NOTE 5 - FAIR VALUE MEASUREMENTS - CONTINUED

	FAIR VALUE	FAIR VALUE MEASUREMENTS AT REPORTING DATE USING: 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	1 787	1 787	-	-
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	9 735 470	-	9 735 470	-
Short-Term Money Market Funds	212 734	212 734	-	-
	$ 9 949 991	$ 214 521	$ 9 735 470	$ -

NOTE 6 - CASH

The carrying amount of the Plan's deposits was $2,117 and $648 as of December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, the deposits were covered by FDIC insurance.

NOTE 7 - FUNDING POLICY

The City's contributions were based on payroll of $4,411,295 and $4,239,090 for the years ending December 31, 2012 and 2011, respectively. Both the City and the covered employees made contributions, amounting to $582,291 (13.2%) and $559,956 (13.2%) by employees and $1,010,186 (22.9%) and $996,899 (23.5%) by the City for the years December 31, 2012 and 2011, respectively.

The contribution rate of the members is determined by the members. The City's contribution rate is determined by the City Council. As of January 1, 2012, the Plan was amended to decrease the City contribution rate to 22.9% of compensation from 23.5% of compensation. 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	134

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, 2012, the Plan held investments totaling $10,606,905 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.

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 ACTURIAL 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.

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.