

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**

**REPORT ON EXAMINATION  
OF FINANCIAL STATEMENTS AND SCHEDULES**

**DECEMBER 31, 2012 AND 2011**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Irving Firemen's Relief and Retirement Fund

We have audited the accompanying financial statements of the Irving Firemen's Relief and Retirement Fund which comprise the statements of net assets available for benefits as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years then ended and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Plan management is responsible for the preparation and fair presentation of these financial states 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no 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 opinion.

## Opinion

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

## Report on Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of funding progress for the periods ended December 31, 2004 through January 1, 2012 and employer contributions for the years ended December 31, 2004 through December 31, 2012, together referred to as "supplementary information," are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplemental information required by the Governmental Accounting Standards Board. Such information is the responsibility of the Plan's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

R.C. Neal, P.C.

*R.C. Neal, P.C.*

Irving, Texas  
July 12, 2013

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**  
**DECEMBER 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash equivalents	\$ 3,226,430	\$ 2,752,546
Receivables		
Employer's contributions	76,508	71,823
Employees' contributions	75,876	51,469
Accrued interest and dividends	236,352	202,948
Total receivables	<u>388,736</u>	<u>326,240</u>
Investments at fair value		
Stocks-common and preferred	87,726,595	79,623,382
Mutual funds	5,762,847	5,118,755
Mortgage backed securities	4,039,745	10,213,032
Corporate bonds and notes	5,518,455	3,968,866
United States government securities	2,997,806	3,628,577
Alternate investments	32,445,445	18,752,981
International bonds	-	162,117
Total investments	<u>138,490,893</u>	<u>121,467,710</u>
Total assets	<u>142,106,059</u>	<u>124,546,496</u>
<b>LIABILITIES</b>		
Accrued expenses	<u>12,849</u>	<u>15,220</u>
Total liabilities	<u>12,849</u>	<u>15,220</u>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<u>\$ 142,093,210</u>	<u>\$ 124,531,276</u>
(A schedule of funding progress is attached)		

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

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>ADDITIONS</b>		
Contributions		
Employer	\$ 2,986,778	\$ 3,959,536
Employee	2,978,594	2,539,120
Refunded distributions	143,554	-
Other	-	1,495
	6,108,926	6,500,151
Investment income		
Interest, dividends, net partnership earnings and capital gain distributions	8,158,977	2,376,607
Net appreciation (depreciation) in fair value of investments	10,394,655	(4,799,683)
	18,553,632	(2,423,076)
Total investment income (loss)		
	24,662,558	4,077,075
<b>DEDUCTIONS</b>		
Benefit payments	6,086,144	6,799,417
Professional and investment fees	938,518	986,101
Salary and related taxes	26,752	25,746
Other	49,210	24,687
	7,100,624	7,835,951
Total deductions		
Net increase (decrease)	17,561,934	(3,758,876)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
Beginning of year	124,531,276	128,290,152
<b>NET ASSETS AVAILABLE FOR BENEFITS</b> <b>END OF YEAR</b>	\$ 142,093,210	\$ 124,531,276

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

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Irving Firemen's Relief and Retirement Fund (Fund) is a defined benefit pension plan (Plan) which covers current and former firefighters, as well as certain beneficiaries of former firefighters for the City of Irving, Texas. The Fund is established under the authority of the Texas Local Fire Fighters Retirement Act and portions of Title 8 of the Texas Government Code relevant to the Fund.

Basis of Presentation

The accompanying 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 to the Fund 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.

Valuation of Investments and Income Recognition

The Fund is invested in common stocks, mutual funds, fixed income securities, equity and bond funds, real estate, real estate investment trusts, a mutual fund, offshore limited partnerships and other limited partnership investments, all of which are reported at fair value. Any change in market value is reflected in the statement of changes in Fund net assets. The equity and bond funds invest in a variety of securities, including obligations issued or guaranteed by the U.S. Government, mortgage backed investments, foreign debt obligations and corporate bonds with various ratings.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Fund's gains and losses on investments bought and sold as well as held during the year.

Cash Equivalents

The Fund considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Estimates

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

Payment of Benefits

Benefit payments to participants are recorded upon distribution.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Actuarial Present Value of Accumulated Plan Benefits

Accumulated plan benefits are those future periodic payments, including lump sum distributions that are attributable under the Plan's provisions to the services firefighters have rendered. Accumulated plan benefits include benefits expected to be paid to retired or terminated firefighters or their beneficiaries, beneficiaries of firefighters who have died and present firefighters or their beneficiaries. Benefits payable under all circumstances are included to the extent they are deemed attributable to service rendered to the valuation date.

The actuarial value of accumulated Plan benefits has been determined and reported on by an actuary and is that amount which results from applying actuarial assumptions to adjust the accumulated Plan benefits to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment. See note 7 for a summary of significant actuarial assumptions. The actuarial assumptions are based on the presumption 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.

Tax Status

The Fund is a governmental plan as defined in Internal Revenue Code Section 414(d) and is exempt from filing Form 5500, Annual Return/Report of Employee Benefit Plan.

NOTE 2 - FUND DESCRIPTION

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

The Plan is a defined benefit pension plan established under the authority of the Texas Local Fire Fighter's Retirement Act (TLFFRA). It is administered by a Board of Trustees which is made up of three members elected from and by its members, two representatives of the City of Irving, Texas, and two citizen members. The Board has been designated to receive, handle, control, manage and disburse Plan assets.

The Plan is an independent entity for financial reporting purposes. The City of Irving, Texas is the only contributing employer. The members of the Plan also contribute to the plan.



**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 2 - FUND DESCRIPTION (Continued)

The table below summarizes the membership in the Plan as of the date of the most recently completed actuarial report, January 1, 2012:

	2012
Retirees and beneficiaries receiving benefits	129
Terminated employees entitled to but not yet receiving benefits	2
Active employees	
Fully vested active employees	141
Partially vested active employees	86
Nonvested active employees	84
Total	442

NOTE 3 – FUNDING POLICY

The plan's minimum required contribution provisions are established under the authority of TLFRA. Specific plan contribution rates are governed by a plan document. Changes in the members' or the city's contribution rate require a plan amendment.

The contribution rates of Plan members and the City are established under the terms of the Plan. An actuarial valuation is performed every two years to evaluate the level to which Plan assets and contributions are able to meet the benefit liability. Costs of administering the Fund are paid from plan assets. For the years ending December 31, 2012 and 2011, the city contributed 12% and 15.35% of each active member's annual compensation, respectively. In addition, for the year ended December 31, 2011, the city made a one time lump sum contribution of \$185,000 to the plan. Members contributed to the Fund at a rate of 10% of pay from January through mid-September of 2011 and 11% from mid-September 2011 to December 31, 2011. The member contribution rate for 2012 was 12%.

There are no contracts governing contributions to the plan. Employer and employee contributions receivable as of December 31, 2012 and 2011 came to \$152,384 and \$123,292, respectively. There are no statutory reserve requirements for the plan.

For 2004 through 2006, the employer required contribution rate (ERCR) was set as the percentage of pay needed to produce a 40-year amortization period. For 2007 and later years, the EERC has been set as the percentage of pay needed to produce a 30-year amortization period.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 4 - SUMMARY OF PRINCIPAL FUND PROVISIONS

The Irving Firemen's Relief and Retirement Fund is subject to a state-mandated minimum employer contribution rate equal to the lesser of (a) the fire fighter contribution rate or (b) 12.00 percent of covered payroll.

As of January 1, 2012, members and the city each contribute to the Fund at a rate of 12.0 percent of pay. Member contributions are "picked up" by the city, as permitted under Section 414(h)(2) of the Internal Revenue Code. For this reason, a member's contributions are excluded from his taxable income when paid into the Fund.

Members receive credit for service for the period of employment during which they pay into, and keep on deposit in the Fund, the contributions required by the Fund. Service also includes periods during which the member received a disability benefit from the Fund in excess of the minimum \$200 monthly benefit for covered members. However, the service granted during periods of disability is limited to the amount of service, if any, necessary to bring the member's total service up to 20 years.

Retirement, death, disability and termination benefits are calculated based upon a member's average compensation. Average compensation is based on the member's pay for the 78 consecutive two-week pay periods during which his total pay was highest.

The valuation reflects changes to the fund which have been approved by the fire fighters in accordance with the provisions of TLFFRA and which are in the process of being added to the plan document. The fund was originally effective March 10, 1942, and was most recently amended effective August 24, 2011.

All members of the Irving Firemen's Relief and Retirement Fund are full-time employees of the City of Irving Fire Department.

A member is eligible for service retirement upon completion of 20 years of service and attainment of age 50. A member who retires under the service retirement provision of the Fund will receive a monthly benefit equal to the sum of (a) and (b), below, where:

- (a) equals 3.175 percent of the member's average monthly compensation multiplied by the member's whole years of service not in excess of 21 years, and
- (b) equals \$60.00 per month for each year of service in excess of 21.

Service retirement benefits are payable for the member's lifetime. In the event a member's death precedes that of their spouse, two-thirds of the member's pension will be continued to the spouse for their lifetime.

In lieu of the monthly service retirement benefit, a member who has both attained age 51 and completed 20 years of service may elect to receive their benefits under either a Reverse or Forward DROP option. If elected, DROP payments may be taken in a lump sum or in installments and they reduce the standard monthly benefit amount.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 4 - SUMMARY OF PRINCIPAL FUND PROVISIONS (Continued)

A member is eligible to elect early retirement upon completion of 20 years of service and attainment of age 45. A member who retires under the early retirement provisions of the Fund will receive reduced monthly retirement benefits.

An active member meets the definition of disability under the Plan if, for the first two and one-half years, he is unable to perform the duties of his occupation in the department. After that, he must be unable to perform the duties of any occupation for which he is reasonably suited by education, training and/or experience.

A member who becomes disabled before the date he qualifies for service retirement will receive a monthly disability benefit equal to the sum of (a) and (b), below, where:

- (a) equals 63.5 percent of the member's average monthly compensation, and
- (b) equals \$60.00 per month for each year of service in excess of 20.

Disability benefits are payable in the same form as service retirement benefits. However, disability benefits stop if a member recovers to the point they no longer meet the definition of disability under the Plan.

If a member dies while in active service, their spouse will receive a monthly benefit equal to the sum of (a) 42.33 percent of the member's average monthly compensation, plus (b) two-thirds of any additional seniority benefit earned by the member as of the date of their death. The spouse's benefit is payable for their lifetime; however, in the event of the spouse's death, the benefit is continued to children eligible for the orphans' benefit.

An optional benefit is available to the widow or widower of a member who has not elected the Forward DROP and who dies while in service after reaching his Reverse DROP Eligibility Date.

The widow or widower of a member who has elected the Forward DROP will receive two-thirds of the monthly benefit the member had accrued as of his DROP Eligibility Date plus the DROP payment that the member had accumulated as of the date of his death.

In addition to the above spousal benefit, each unmarried child of the member will receive a monthly benefit of 8.47 percent of the member's average monthly compensation. Orphan benefits continue until the child reaches age 18. However, benefits continue until age 22 for a child who is a full-time student (as certified by the student's school, college or university). Orphan benefits are continued for life to disabled children.

If the deceased member's spouse is living, the total of all benefits paid as a result of the death of an active Fund member may not exceed the disability or retirement benefit such member had earned as of the date of his death. If no spouse's benefit is payable or if the spouse dies, each child will receive a pro-rata share of the benefit that would have been payable to the member's spouse. No child, however, may receive a benefit which exceeds 31.75 percent of the member's average monthly compensation.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 4 - SUMMARY OF PRINCIPAL FUND PROVISIONS (Continued)

A member who terminates employment after completing at least 20 years of service but prior to the date he attains age 50 will be entitled to receive a monthly benefit starting at age 50. Such member's monthly benefit will equal the monthly service retirement benefit accumulated on the date they separated from service with the fire department.

If a member terminates on or after the date they have completed 10 years of service but prior to the date they complete 20 years of service, they will be entitled to receive a monthly benefit starting on the date they would have both completed 20 years of service and attained age 50 had they remained in the service of the fire department. Such member's monthly benefit will equal the monthly service retirement benefit they had accumulated on the date they separated from service with the fire department, multiplied by the vesting percentage as calculated based on their actual years of service.

A fund member who terminates employment prior to completing 10 years of service will be entitled to the return of the excess of their contributions to the Fund over the amount of any benefits they have received from the Fund. Such refund will not include any interest on the member's contributions.

In lieu of receiving benefits under the regular form specified in the Plan, a member who is eligible for a service retirement benefit may elect to receive a reduced monthly benefit which increases one percent, each year.

A member who has both attained age 51 and completed 20 years of service may elect to receive their retirement benefits under the Reverse DROP. A member's benefit under the Reverse DROP is based on his Reverse DROP eligibility date. The Reverse DROP eligibility date is the later of the date the member met the Reverse DROP eligibility requirements, above, or the date 108 months prior to the date they actually retire.

The monthly retirement benefit a member receives under the Reverse DROP option is based on their years of service and average monthly compensation as of their Reverse DROP eligibility date. The benefit formula used, however, will be the service retirement formula in effect on the earlier of the member's actual retirement date or the date that is 4 years after the member's Reverse DROP eligibility date.

Upon retirement, the member will receive, in addition to his monthly retirement benefit, a single payment equal to the sum of:

- (a) the total of the monthly retirement benefits the member would have received between his Reverse DROP eligibility date and the time they retired under the Plan, and
- (b) The amount of member contributions the member has made to the Plan between their Reverse DROP eligibility date and the time they retired under the plan.

Interest, at a rate equal to 2% less than the valuation interest rate will be credited on the monthly benefits and the member contributions in (a) and (b) above. The Reverse DROP may be taken in a lump sum or installments.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 4 - SUMMARY OF PRINCIPAL FUND PROVISIONS (Continued)

The spouse of a member who dies while eligible for the Reverse DROP will have the option of receiving either the member's accumulated Reverse DROP payment plus a survivor's benefit based on the reduced monthly benefit provided under the Reverse DROP or a survivor's benefit based on the member's full accrued retirement benefit with no DROP payment.

A member who has both attained age 51 and completed 20 years of service may elect to enter the Forward DROP. A member's benefit under the Forward DROP does not begin to accumulate until the date they elect to enter the Forward DROP.

The monthly retirement benefit a member will receive under the Forward DROP is based on their years of service and average monthly compensation as of the date the member elects to enter the Forward DROP. The benefit formula used will be the service retirement formula in effect on the date the member elects to enter the Forward DROP.

The Forward DROP payment may be taken in a lump sum or in installments.

The Plan was originally effective March 10, 1942. The Plan contains certain additional provisions that are needed to satisfy Internal Revenue Code requirements for tax-qualified retirement funds. The Plan document may be amended as provided in Section 7 of the Texas Fire Fighters' Retirement Act. Amending the plan requires approval of any change by an eligible actuary and a majority of the participating members of the Plan.

NOTE 5 - CONCENTRATIONS

At December 31, 2011 the Fund held one asset valued at more than 5% of Fund net assets. This was an investment in Pimco II Distressed Mortgage Offering LPC, valued at \$7,848,082. This investment represented 6.30% of net assets at December 31, 2011. No investments exceeded 5% of plan net assets at December 31, 2012.

NOTE 6 - SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as January 1, 2012. Additional information regarding the actuarial valuations as of January 1, 2012 is as follows:

Actuarial cost method	Individual entry age
Remaining amortization period	normal cost method
Assets valuation method	Infinite
	5-yr smoothed market

See schedule of funding progress and schedule of employer contributions in supplementary information.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 7 – ACTUARIAL ASSUMPTIONS

The actuarial assumptions utilized in the preparation of the actuarial report prepared as of January 1, 2012 are as follows:

Rate of return on the actuarial value of assets	8.25% per annum, compounded annually
Mortality	RP2000 Mortality Table, male and female rates, projected to 2015 using scale AA, with separate rates for males and females.
Termination	Table T-1 from the Actuary's Pension Handbook
Disability	Rates developed from 1985 Society of Actuaries Disability Table Study using Class 1 male rates with a 90-day elimination period
Assumed retirement age	Active members are assumed to retire once they have both attained age 56 and completed at least 20 years of service. Active members who have already attained age 56 and completed 20 years of service are assumed to retire on the valuation date.
Assumed retirement age for vested terminated members	Benefits for vested terminated members are assumed to start on the date the member attains age 50 or, if later, the date the member would have completed 20 years of service.
Compensation increases for individual members	4.5% per year, compounded annually
Increases in total payroll	4.5% per year, compounded annually
Marital status	Males: 90% Females: 90% Actual age differences are used for married members. Ninety percent of unmarried individuals are assumed to be married at retirement. Males are assumed to be 2 years older than their spouses.
Assumed death benefits for children	Each member is assumed to have 2 children. The first is assumed to have been born when the member was age 25. The second child is assumed to be 2 years younger. It is also assumed the benefits will be paid until the child reaches the age of 20.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 7 – ACTUARIAL ASSUMPTIONS (Continued)

Assumed contribution rates	12.00% - Members 12.00% - City
Assumed for of payment	Members eligible for the DROP are assumed to elect the DROP 95% of the time and straight service retirement 5% of the time. Other members are assumed to receive straight service retirement.

The assumed 8.25% rate of return can be considered to include a provision for inflation at 3.25% per year, although other combinations of real return, risk premium and inflation are also accounted for by an 8.25% assumed rate. The rate of return is net of Plan expenses. The same inflation component was used in the assumed rate of return on the actuarial value of assets, the assumed increases in compensation for individual members and the other actuarial assumptions.

Changes in Actuarial Assumptions

For the 2012 valuation, the mortality table used for the valuation was changed from the UP 1994 Mortality Table, male and female rates, to employee and healthy annuitant combined rates from the RP-2000 Mortality Table, projected to 2015 using Scale AA, with separate rates for males and females. The change in mortality tables was made in order to recognize mortality improvement through the valuation date, provide a margin for future mortality improvement, and to most accurately reflect anticipated plan experience. In addition, the assumed City contribution rate was lowered from 15.50 percent of pay to 12.00 percent of pay. The rate at which fire fighters were assumed to contribute to the plan was raised from 10.00 percent of pay to 12.00 percent of pay. The changes in contribution rates were made in order to most accurately reflect anticipated plan experience.

Changes in the Actuarial Cost Method

The valuation date was changed from December 31 to January 1, and the actuarial cost method was changed to the *individual* entry age normal cost method. The previous valuation method was the *aggregate* entry age normal cost method. The change in the version of the entry age cost method used was made in order to conform with changes in actuarial cost method requirements. The changes increased the percentage of pay needed to fund the normal cost by 0.32 percent of pay.

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 8 – ACCUMULATED FUND BENEFITS

The actuarial present value of vested accumulated Fund benefits as of the last two actuarial valuation dates are as follows:

	Valuation as of 1/1/2012	Valuation as of 12/31/2009
Retirees and beneficiaries currently receiving benefits	\$ 61,679,010	\$ 43,585,739
Active members	108,240,877	98,963,454
Total actuarial present value	<u>\$ 169,919,887</u>	<u>\$ 142,549,193</u>

The actuarial present value of accumulated Fund benefits, both vested and non-vested, as of the last two actuarial valuation dates are as follows:

	Valuation as of 1/1/2012	Valuation as of 12/31/2009
Retirees and beneficiaries currently receiving benefits	\$ 61,332,880	\$ 43,585,739
Terminated employees entitled to but not yet receiving benefits	346,130	-
Active members	111,995,984	102,327,130
Total actuarial present value	<u>\$ 173,674,994</u>	<u>\$ 145,912,869</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

At December 31, 2012, the Fund had made commitments to make additional investments in five alternate investment funds: a private equity offshore limited partnership, total commitment \$5,000,000 and remaining commitment \$2,193,051; an early secondary fund limited partnership, total commitment \$1,500,000 and remaining commitment \$830,775; a franchise investment limited partnership, total commitment \$1,000,000 and remaining commitment \$28,645; a real estate partnership, total commitment \$5,000,000 and remaining commitment \$13,638; and a technology partnership, total commitment \$5,000,000 and remaining commitment \$3,133,733.



**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 10 – PLAN TERMINATION

In the event of Plan termination it shall be impossible for the Fund, at any time prior to satisfaction of all liabilities with respect to employees and their beneficiaries under the Plan, for any part of the corpus or income to be used for, or diverted to, purposes other than the exclusive benefit of members or their beneficiaries.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide for accumulated benefit obligations, and may also depend on the financial condition of the City of Irving.

As of January 1, 2012, on a termination basis, the present value of accrued retirement benefits was \$196,609,961 which was 63.3 percent funded. The funding percentage is subject to fluctuation, and could go down, since the value of the Fund's net assets is based on current market prices.

NOTE 11 – RECEIVABLES

Management believes an allowance for bad debts is not necessary due to the nature of receivables and past experience.

NOTE 12 – APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

During the years ended December 31, 2012 and 2011, the Fund's investments, including gains and losses on investments bought and sold as well as held during the year, appreciated (depreciated) in value as follows:

	<u>2012</u>	<u>2011</u>
Stocks - common	\$ 13,623,449	\$ 6,237,267
Mutual funds	72,301	(10,813)
Mortgage backed securites	539,745	(868,558)
Corporate bonds and notes	256,902	39,388
United States govement securites	86,921	33,102
Alternative investments	3,386,211	3,573,445
International investments	-	2,376
	<u>                    </u>	<u>                    </u>
Current year unrealized appreciation	17,965,529	9,006,207
Realized gains	1,435,333	4,773,822
Accumulated (appreciation) depreciation realized in prior years	<u>(9,006,207)</u>	<u>(18,579,712)</u>
	<u>\$ 10,394,655</u>	<u>\$ (4,799,683)</u>

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012 AND 2011**

NOTE 13 – INVESTMENT UNCERTAINTIES

The Fund invests in various investment securities, including investments in certain entities which are defined as alternate investments. Alternate investments include holdings in real estate, real estate investment trust, a franchise limited partnership, offshore private equity limited partnerships and other investment limited partnerships. The fair value of alternate investments has been reported at amounts provided by each of the entities and determined by good faith estimates of their respective management groups. These investments are not necessarily readily marketable and as a result they do not have readily ascertainable fair values. They generally represent long-term investments. All 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 changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of net assets available for benefits.

Fund 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 changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 14 – FAIR VALUE MEASUREMENTS

The Plan's investments are valued primarily at fair value on the basis of the last quoted sales price on the exchange or system on which they are principally traded. Short and long term debt securities, including U.S. government securities, listed corporate bonds, other fixed income securities and unlisted securities, are generally valued at the latest price furnished by an independent pricing service. Foreign securities traded on an exchange are valued on the basis of market quotations most recently available from that exchange.

The Plan has adopted authoritative fair value accounting standards which establish an authoritative definition of fair value and set out a hierarchy for measuring fair value. These standards require additional disclosures about the various inputs and valuation techniques used to develop the measurements of fair value a discussion in changes in valuation techniques and related inputs during a reporting period and expanded disclosure of valuation levels for major security types. These inputs are summarized in the three broad levels listed below.

Level 1 – Fair Value Measurements

The fair values of common stock, most corporate bonds and government securities are based on quoted market prices.

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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

Level 2 – Fair Value Measurements

The Plan's Level 2 valuation techniques include inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly. Observable inputs may include quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active, in which there are few transactions, where prices may not be current, or where price quotations vary substantially over time or among market participants. Inputs that are observable for an asset or liability in Level 2 include such factors as interest rates, yield curves, foreign exchange rates, put or call provisions, credit risk and default rates of similar assets or liabilities.

Level 3 – Fair Value Measurements

The Plan's Level 3 valuation techniques include the use of unobservable inputs that reflect assumptions market participants may use or could be expected to use in pricing an asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, and are developed based on the best information available under the circumstances. In developing unobservable inputs, market participant assumptions are used if they are reasonably available without undue cost and effort.

The Plan may record changes to valuations based on the amount that it might reasonably be expected to receive for an investment upon its current sale, consistent with the fair value measurement objective. Each determination is based on consideration of all relevant factors, which are likely to vary from one pricing context to another. Examples of such factors may include, but are not limited to: (i) type of the investment; (ii) existence of any contractual restrictions on the investment's disposition; (iii) price and extent of public trading in similar investments or of comparable investments; (iv) quotations or evaluated prices from broker-dealers and/or pricing services; (v) information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange-traded securities); (vi) analysis of an issuer's financial statements; (vii) evaluation of the forces that influence the issuer and the market(s) in which the investment is purchased and sold; and (viii) with respect to debt securities, maturity, coupon, creditworthiness, currency denomination, and the movement of the market in which the security is normally traded. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value determined upon sale of those investments.

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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at Reporting Date Using:		Significant Unobservable Inputs (Level 3)
			Significant Observable Inputs (Level 2)	Other	
<u>December 31, 2012</u>					
Stocks-common and preferred	\$ 87,726,596	\$ 87,726,596	\$ -	\$ -	\$ -
Mutual funds	5,762,847	5,762,847	-	-	-
Mortgage backed securities	4,039,745	-	-	-	4,039,745
Corporate bonds and notes	5,518,455	5,518,455	-	-	-
U.S. government securities	2,997,805	2,997,805	-	-	-
Alternative investments	32,445,445	-	-	-	32,445,445
<b>Total</b>	<b>\$ 138,490,893</b>	<b>\$ 102,005,703</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 36,485,190</b>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements at Reporting Date Using:		Significant Unobservable Inputs (Level 3)
			Significant Observable Inputs (Level 2)	Other	
<u>December 31, 2011</u>					
Stocks-common	\$ 79,623,382	\$ 79,623,382	\$ -	\$ -	\$ -
Mutual funds	5,118,755	5,118,755	-	-	-
Mortgage backed securities	10,213,032	-	-	-	10,213,032
Corporate bonds and notes	3,968,866	3,968,866	-	-	-
U.S. government securities	3,628,577	3,628,577	-	-	-
Alternative investments	18,752,981	-	-	-	18,752,981
International bonds	162,117	162,117	-	-	-
<b>Total</b>	<b>\$ 121,467,710</b>	<b>\$ 92,501,697</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 28,966,013</b>

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs, level 3, for the year ended December 31, 2012:

	Real Estate Investment Trusts	Other Alternate Investments	Real Estate Partnerships	Offshore Equity Funds	Total
Beginning balance	\$ 7,108,469	\$ 921,472	\$ 10,326,666	\$ 10,609,406	\$ 28,966,013
Total gains or losses included in changes in net assets available for benefits	1,253,797	275,272	1,629,777	3,586,201	6,745,047
Sales and distributions	(4,322,523)	(254,203)	(764,730)	(5,242,093)	(10,583,549)
Purchases	-	8,366,267	2,226,642	764,770	11,357,679
Ending balance	<u>\$ 4,039,743</u>	<u>\$ 9,308,808</u>	<u>\$ 13,418,355</u>	<u>\$ 9,718,284</u>	<u>\$ 36,485,190</u>
Total gains or losses for the year included in changes in net assets available for benefits attributable to the change in unrealized gains or losses relating to investments still held at December 31, 2012	<u>\$ 417,448</u>	<u>\$ 21,069</u>	<u>\$ 865,047</u>	<u>\$ (891,124)</u>	<u>\$ 412,440</u>

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND**  
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NOTE 14 – FAIR VALUE MEASUREMENTS (Continued)

The following table reconciles the beginning and ending balances of fair value measurements using significant unobservable inputs, level 3, for the year ended December 31, 2011:

	Real Estate Investment Trusts	Other Alternate Investments	Real Estate Partnerships	Offshore Equity Funds	Total
Beginning balance	\$ 6,098,749	\$ 662,054	\$ 5,488,459	\$ 9,916,160	\$ 22,165,422
Total gains or losses included in changes in net assets available for benefits	1,009,719	259,418	(579,665)	(275,335)	414,137
Purchases	-	-	5,417,872	968,582	6,386,454
Ending balance	<u>\$ 7,108,468</u>	<u>\$ 921,472</u>	<u>\$ 10,326,666</u>	<u>\$ 10,609,407</u>	<u>\$ 28,966,013</u>
Total gains or losses for the year included in changes in net assets available for for benefits attributable to the change in unrealized gains or losses relating to investments still held at December 31, 2011	<u>\$ 836,698</u>	<u>\$ 178,791</u>	<u>\$ (396,417)</u>	<u>\$ (357,179)</u>	<u>\$ 261,893</u>

NOTE 15 – CONCENTRATION OF CREDIT RISK

The Plan maintains its cash balances at two financial institutions located in Texas. At December 31, 2012 and 2011 uninsured balances totaled \$3,255,537 and \$2,286,268, respectively.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated the impact of subsequent events through the date of this report, July 12, 2013. Effective in mid-May 2013, the City of Irving, Texas increased its contribution rate to the Plan to 15.0% of each active member's compensation.

SUPPLEMENTARY INFORMATION

**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND  
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(b)	Unfunded AAL (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Covered Payroll (6)	UAAL as a Percentage of Covered Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/2004						
12/31/2005	\$ 92,445,425	\$ 125,179,454	Not Calculated	73.9%	18,375,492	178.1%
12/31/2006			Not Calculated			
12/31/2007	\$ 116,694,181	\$ 149,020,808	32,326,627	78.3%	19,514,322	165.7%
12/31/2008			Not Calculated			
12/31/2009	\$ 125,068,342	\$ 176,196,779	51,128,437	71.0%	22,903,911	223.2%
12/31/2010			Not Calculated			
01/01/2012	\$ 134,886,668	\$ 200,139,815	65,253,147	67.4%	20,637,744	316.2%

(a) Based on smoothed market value.

(b) Calculated under the entry age actuarial cost method.



**IRVING FIREMEN'S RELIEF AND RETIREMENT FUND  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year End (1)	Annual Required Contributions (a) (ARC) (2)	Actual Contributions (3)	Percentage Contributed (4)
12/31/2004	14.87%	13.53%	91.00%
12/31/2005	14.87%	14.26%	95.90%
12/31/2006	15.33%	14.42%	94.06%
12/31/2007	16.73%	14.70%	87.87%
12/31/2008	15.93%	15.04%	94.41%
12/31/2009	15.93%	15.20%	95.42%
12/31/2010	19.04%	15.50%	81.41%
12/31/2011	19.04%	15.35%	80.62%
12/31/2012	23.27%	12.00%	51.57%

(a) The Annual Required Contribution (ARC) has been expressed as a percentage of annual compensation.