

**DENTON FIREFIGHTER'S
RELIEF AND RETIREMENT FUND**

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Denton Firefighter's Relief and Retirement Fund, which comprise the statements of plan net assets as of December 31, 2013 and 2012, and the related statements of changes in plan net assets 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 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.

Auditors' 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 from 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 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 bases for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Denton Firefighter's Relief and Retirement Fund's plan net assets as of December 31, 2013 and 2012, and changes therein for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The required supplementary schedules of Funding Progress, Employer Contributions, and Notes to Required Supplementary Information, together referred to as "supplementary information," are presented for the purpose of additional analysis and are not a required part of the financial statements. 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.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay,
A Professional Corporation
Certified Public Accountants
Denton, Texas

July 25, 2014

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Investments at fair value		
U.S. Government and Agencies obligations	\$ 5,365,198	\$ 8,284,136
Common stocks	35,568,162	30,776,507
Certificates of deposit	10,965,217	9,254,533
Mutual funds and exchange-traded funds	3,742,509	2,499,891
Publicly traded limited partnerships	<u>5,943,330</u>	<u>2,471,115</u>
Total Investments	<u>61,584,416</u>	<u>53,286,182</u>
Receivables		
Accrued interest and dividends	174,895	136,932
Contributions		
City of Denton, Texas	-	-
Plan participants	<u>-</u>	<u>-</u>
Total Receivables	<u>174,895</u>	<u>136,932</u>
Cash and cash equivalents	<u>4,659,124</u>	<u>4,405,661</u>
Total Assets	<u>66,418,435</u>	<u>57,828,775</u>
LIABILITIES		
Accounts payable	6,263	32,584
Benefits payable to participants	<u>-</u>	<u>81,964</u>
Total Liabilities	<u>6,263</u>	<u>114,548</u>
NET ASSETS HELD IN TRUST FOR PENSION		
BENEFITS (A schedule of funding progress is presented on page 8.)	<u>\$ 66,412,172</u>	<u>\$ 57,714,227</u>

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

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

STATEMENTS OF CHANGES IN PLAN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ADDITIONS		
Contributions		
City of Denton, Texas	\$ 2,598,419	\$ 2,332,743
Plan participants	<u>1,718,094</u>	<u>1,645,996</u>
Total Contributions	<u>4,316,513</u>	<u>3,978,739</u>
Investment income		
Interest	318,114	403,446
Dividends	1,218,321	1,103,287
Net appreciation (depreciation) in fair value of investments	<u>7,601,265</u>	<u>2,349,489</u>
	9,137,700	3,856,222
Less investment expense	<u>18,825</u>	<u>18,091</u>
Net Investment Income	<u>9,118,875</u>	<u>3,838,131</u>
Other Income	<u>13</u>	<u>224</u>
Total Additions	<u>13,435,401</u>	<u>7,817,094</u>
DEDUCTIONS		
Monthly benefits	3,115,623	2,516,981
Lump-sum benefits	1,564,789	1,879,682
Professional fees	34,270	68,290
Administrative expenses	<u>22,774</u>	<u>19,581</u>
Total Deductions	<u>4,737,456</u>	<u>4,484,534</u>
NET INCREASE	8,697,945	3,332,560
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>57,714,227</u>	<u>54,381,667</u>
End of year	<u>\$ 66,412,172</u>	<u>\$ 57,714,227</u>

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

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Denton Firefighter's Relief and Retirement Fund (the Plan) financial statements are prepared using the accrual basis of accounting. Contributions from the City of Denton, Texas (the City) and Plan participants are recognized as revenue in the period in which the contributions are due. Investment income is recognized as earned by the Plan. The net appreciation (depreciation) in the fair value of investments held by the Plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the statement of Plan net assets. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments are reported at fair value. U.S. Government Obligations and U.S. Government Agency Obligations are assigned a value based on yields currently available on securities similar to the securities held by the Plan (Level 2 inputs). Securities traded on a national or international exchange are valued at the last reported sales price (Level 1 inputs). Certificates of deposit are valued at cost, which approximates fair value.

No investments other than U.S. Government Obligations and U.S. Government Agency Obligations represent 5% or more of Plan net assets. There are no investments in, loans to, or leases with parties related to the Plan.

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

B. PLAN DESCRIPTION

The Board of Trustees of the Denton Firefighter's Relief and Retirement Fund is the administrator of a single-employer defined benefit pension plan.

Firefighters and certain other employees in the City of Denton, Texas Fire Department are covered by the Plan. The table below summarizes the membership of the Plan as of December 31, 2011, the date of the most recent biennial actuarial valuation.

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	67
Current employees	
Vested	95
Nonvested	<u>66</u>
Total	<u>228</u>

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

B. PLAN DESCRIPTION (CONTINUED)

The Plan provides service retirement, death, disability and withdrawal benefits. These benefits vest after 10 years of credited service. Participants may retire at age 50 with 20 years of service. As of the December 31, 2011 actuarial valuation date, the Plan effective January 1, 2011 provided a monthly normal service retirement benefit, payable in a joint and two-thirds to spouse form of annuity, equal to 2.59% of highest 36-month average salary for each year of service.

There is no provision in the Plan for automatic postretirement benefit increases. The Plan has the authority to provide, and has periodically in the past provided for, ad hoc postretirement benefit increases. The benefit provisions of the Plan are authorized by the Texas Local Fire Fighters' Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions.

See NOTE E concerning Plan amendments in 2008 and 2011.

C. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The contribution provisions of the Plan are authorized by TLFFRA. TLFFRA provides the authority to change the amount of contributions determined as a percentage of pay by each participant and a percentage of payroll by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Plan must be approved by an eligible actuary. The actuary certifies that the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the Plan's normal cost contribution rate is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the Plan's unfunded actuarial liability, and the number of years needed to amortize the plan's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method.

The costs of administering the Plan are financed from the Plan.

Effective January 1, 2000, the funding policy of the Plan required contributions equal to 10% of pay by the participants and 10% of payroll by the City.

Effective November 1, 2002, the Plan increased the contribution rate paid by the participants to 12% of pay. The City contribution remained 10% of payroll.

Effective October 2006, the City increased its contribution rate to 11% of payroll.

Effective October 2007, the City increased its contribution rate to 12% of payroll.

Effective October 2008, the City increased its contribution rate to 14% of payroll.

Effective December 2009, the City increased its contribution rate to 15.41% of payroll.

Effective January 2011, the City increased its contribution rate to 17.17% of payroll and the required contribution rate paid by the participants increased to 12.6% of pay.

Effective January 2012, the city increased its contribution rate to 17.857% of payroll.

Effective January 2013, the city increased its contribution rate to 18.98% of payroll.

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

D. INVESTMENTS

The Plan's investments are held by a bank-administered trust fund. The following table presents the fair values of investments.

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Investments at Fair Value as Determined by Quoted Market Price		
U.S. Government and Agency Obligations	\$ 5,365,198	\$ 8,284,136
Common Stocks	35,568,162	30,776,507
Mutual Funds and Exchange-Traded Funds	3,742,509	2,499,891
Publicly Traded Limited Partnerships	<u>5,943,330</u>	<u>2,471,115</u>
Subtotal	<u>50,619,199</u>	<u>44,031,649</u>
Investments at Cost, which approximates Fair Value		
Certificates of Deposit	<u>10,965,217</u>	<u>9,254,533</u>
Total Investments At Fair Value	<u>\$61,584,416</u>	<u>\$53,286,182</u>

During 2013 and 2012 the Plan's investments (including investments bought, sold and held during the year) appreciated in value by \$7,601,265 and \$2,349,489, respectively, as follows:

	<u>Year Ended</u> <u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Investments at Fair Value as Determined by Quoted Market Price		
U.S. Government and Agency Securities	\$ (235,097)	\$ (161,056)
Corporate Obligations	-	-
Common Stocks	7,335,841	2,416,975
Mutual Funds and Exchange-Traded Funds	86,405	87,163
Publicly Traded Limited Partnerships	<u>414,116</u>	<u>6,407</u>
Net Change In Fair Value	<u>\$ 7,601,265</u>	<u>\$ 2,349,489</u>

E. PLAN AMENDMENTS

The Plan was amended effective September 1, 2008 to increase pension benefits to 2.59% of highest 36 – month average salary per year of service from 2.56%. The amendments also increased retirement benefits to current retirees 2.0% and increased the maximum retro-DROP period available to retirees from two to three years. These amendments increased the unfunded actuarial accrued liability from \$11,654,893 to \$12,796,725 and increased the remaining amortization period from 21 years to 25 years as of the December 31, 2007 actuarial valuation date.

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

E. PLAN AMENDMENTS (CONTINUED)

The Plan was amended effective January 1, 2011 to increase the contribution rate paid by Plan participants to 12.6% of pay from 12.0% of pay. The amendments also increased the maximum retro-DROP period available to retirees from three to four years and provide for additional death benefits to surviving spouses of deceased Plan participants. These amendments increased the unfunded actuarial accrued liability from \$19,617,547 to \$19,935,107 and decreased the remaining amortization period from 26.5 years to 25 years as of the December 31, 2009 actuarial valuation date.

F. SUBSEQUENT EVENTS

Management has reviewed events subsequent to December 31, 2013 through July 25, 2014, which is the date the financial statements were available to be issued.

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

Exhibit 1

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Entry Age Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll(1) (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a)/c)</u>
12/31/05(2,5)	34,677,009	45,341,724	10,664,715	76.5%	10,445,026	102.1%
12/31/07(3,5)	41,020,648	52,675,541	11,654,893	77.9%	11,320,817	103.0%
12/31/09(4,5)	46,256,617	65,874,164	19,617,547	70.2%	12,750,355	153.9%
12/31/11(5,6)	54,169,459	75,228,727	21,059,268	72.0%	12,938,426	162.8%

1. The covered payroll is based on estimated annualized salaries for the year following the valuation date.
2. Reflects plan benefit provisions effective May 1, 2005.
3. Reflects plan benefit provisions effective April 1, 2007.
4. Reflects plan benefit provisions effective September 1, 2008.
5. Economic and demographic assumptions were revised.
6. Reflects plan benefit provisions effective January 1, 2011.

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

Exhibit 2

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Plan Year Ended December 31</u>	<u>Annual Contribution As a Fixed Percentage of Payroll</u>	<u>Annual Required Contribution(1)</u>	<u>Percentage Contributed</u>
2004	10%	849,332	100%
2005	10%	895,757	100%
2006	10/11%(2)	981,683	100%
2007	11/12%(3)	1,243,854	100%
2008	12/14%(4)	1,555,679	100%
2009	14/15.41%(5)	1,800,270	100%
2010	15.41%(5)	1,982,405	100%
2011	17.17%(6)	2,196,958	100%
2012	17.857% (7)	2,332,743	100%
2013	18.98% (8)	2,598,419	100%

1. The annual required contribution is based on actual covered payroll of plan participants.
2. The City of Denton increased its contribution rate to 11% of payroll as of October 2006.
3. The City of Denton increased its contribution rate to 12% of payroll as of October 2007.
4. The City of Denton increased its contribution rate to 14% of payroll as of October 2008.
5. The City of Denton increased its contribution rate to 15.41% of payroll as of December 2009.
6. The City of Denton increased its contribution rate to 17.17% of payroll as of January 2011.
7. The City of Denton increased its contribution rate to 17.857% of payroll as of January 2012.
8. The City of Denton increased its contribution rate to 18.98% of payroll as of January 2013.

DENTON FIREFIGHTER'S RELIEF AND RETIREMENT FUND

Exhibit 3

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	December 31, 2011
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period for plan in Effect on December 31, 2011 which was the Plan effective January 1, 2011	31.7 years
Asset valuation method	Market value smoothed by a five-year deferred recognition method with a 90%/110% corridor on market.

Actuarial assumptions:

- Investment rate of return, net of expenses, compounded annually 7.0% per year
- Inflation 3.50% per year
- Projected salary increases:
 - General salary increase 3.50% per year
 - Promotion and longevity increase 0% to 6% per year
 - Total increase (average for a 30-year career) 3.50% to 9.71% per year
- Payroll growth rate 3.5% per year
- Postretirement cost-of-living adjustments None