

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS  
A PROFESSIONAL CORPORATION

June 6, 2013

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
City of Orange Firemen's Relief and Retirement Fund  
Orange, Texas

We have audited the accompanying financial statements of the City of Orange 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.

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.

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 of 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.

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

Accounting principles generally accepted in the United States of America require that the actuarial information on pages 12-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Very truly yours,

*Edgar, Kiker & Cross*

EDGAR, KIKER & CROSS, PC  
Certified Public Accountants and Consultants

BDB/cr

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
DECEMBER 31, 2012 AND 2011

	2012	2011
<b>ASSETS</b>		
Cash and cash equivalents	\$ 435,994	\$ 189,114
Accrued interest and dividends	10,491	13,529
Receivable from unsettled purchases		106,798
Investments at fair value		
Fixed income portfolio	2,861,044	2,859,298
Equity portfolio	5,429,377	4,980,246
<b>TOTAL ASSETS</b>	<b>8,736,906</b>	<b>8,148,985</b>
 <b>LIABILITIES</b>		
Payable for unsettled sales	8,629	-
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 8,728,277</b>	<b>\$ 8,148,985</b>

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

CITY OF ORANGE 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	\$ 305,597	\$ 287,395
Participants	240,316	225,810
Total contributions	545,913	513,205
Investment income:		
Net appreciation (depreciation) in fair value of investments		
Fixed income portfolio	(353,256)	(106,068)
Equity portfolio	1,110,684	(135,986)
Total net appreciation (depreciation) in fair value of investments	757,428	(242,054)
Interest income	50,441	54,052
Dividends	169,540	184,726
Total investment income (loss)	977,410	(3,274)
Less investment expenses	(90,906)	(91,695)
Net investment income (loss)	886,505	(94,969)
<b>TOTAL ADDITIONS</b>	<b>1,432,416</b>	<b>418,235</b>
 <b>DEDUCTIONS</b>		
Benefits paid	839,479	770,867
Refunds of contributions	-	39,704
Administrative expenses		
Actuary and audit fees	7,775	17,355
Seminar and travel	2,449	3,925
Dues	42	39
Legal fees and other costs	3,380	823
TOTAL DEDUCTIONS	853,124	832,712
 <b>NET INCREASE (DECREASE)</b>	 579,292	 (414,477)
 <b>NET ASSETS AVAILABLE FOR PENSION BENEFITS</b>		
Beginning of year	8,148,985	8,563,462
End of year	\$ 8,728,277	\$ 8,148,985

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

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2012 AND 2011

PLAN DESCRIPTION

The Board of Trustees is the administrator of the Orange Firemen's Relief and Retirement Fund (The Fund), a single-employer defined benefit pension plan. The Fund is an independent entity for financial reporting purposes. The City of Orange, Texas is the only contributing employer. Members of the Fund also contribute to the plan.

*Participant Status*

The Fund covers current and former fire fighters of the City of Orange, Texas as well as certain beneficiaries of former fire fighters. The Fund is open to new entrants. The types of employees covered, as well as plan membership as of December 31, 2012, the most recently completed biennial actuarial valuation, are as follows:

(i) Retirees and beneficiaries receiving benefits	38
(ii) Terminated employees entitled to but not yet receiving benefits	1
(iii) Active employees:	
(A) Fully vested active employees	9
(B) Partially vested active employees	0
(C) Nonvested active employees	<u>28</u>
Total	76

*Summary of Principal Plan Provisions*

**Authority of the Fund and Definitions**

The Orange Fireman's Relief and Retirement Fund is established under the authority of the Texas Local Fire Fighter's Retirement Act (TLFFRA). The Fund is administered by a Board of Trustees. The Board is made up of three members elected from and by Fund members, two representatives of the City of Orange, Texas, and two citizen members.

Effective October 1, 2006, the City of Orange began contributing at a rate of 14.00 percent of each member's total pay (including regular, longevity, and overtime pay, but excluding lump sum distributions for unused sick leave or vacation).

Effective November 15, 2007, members began contributing to the Fund at a rate of 11.00 percent of pay. The prior member contribution rate was 9.00 percent of pay. The definition of pay for the purposes of employee contributions is the same as the definition of pay for employer contributions. Employee 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 taxable income when paid into the Fund.

A member's service equals the years and months of continuous employment with the Orange Fire Department during which the member pays into, and keeps on deposit in the fund, the contributions required by the Fund. A Fund member receives service credit for his or her period of continuous employment and those periods during which the member received a disability benefit from the Fund.

CITY OF ORANGE FIREMEN'S RELIEF  
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Retirement, death, disability and termination benefits are calculated using upon a member's highest 60-month average salary. Highest 60-month average salary equals 2.167 times the average of the highest 130 biweekly pay periods out of the 208 biweekly pay periods immediately prior to the member's date of termination of service. If a member's biweekly pay has been offset by workmen's compensation benefits, the total biweekly pay will include the amount by which the biweekly pay was offset.

The plan document may be amended as provided in Section 7 of the Texas Fire Fighters' Retirement Act (Article 6243e. V.T.C.S.) Amending the plan requires approval of any proposed change by (a) an eligible actuary and (b) a majority of the participating members of the Fund. The Fund was most recently amended effective March 17, 2011.

### **Eligibility**

All fire fighters of the City of Orange, Texas are members of the Orange Firemen's Relief and Retirement Fund.

### **Service Retirement Benefits**

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 provisions of the Fund will receive a monthly benefit equal to the sum of a. and b., below, where:

- a. equals 2.60 percent of the member's highest 60-month average salary multiplied by his or her number of years of service not in excess of 20, and
- b. equals \$91.00 per month for each year of service in excess of 20.

Service requirement benefits are payable for the member's lifetime. In the event the member's death precedes that of his spouse, two thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

### **Disability Benefits**

An active member who becomes disabled will receive a monthly disability benefit. Disability benefits are payable in the same form as service retirement benefits. However, disability benefits stop if the member recovers to the point that he or she no longer meets the definition of disability under the fund. There are separate benefits for duty-related disabilities and non-duty related disabilities if a member has less than 15 years of service.

### Definition of Disability

For the first two and one-half years, the member need only be disabled to the extent of being unable to perform the duties of a position offered to him in the fire department providing the member with pay that is greater than or equal to the pay he would have received as an active employee of the fire department.

CITY OF ORANGE FIREMEN'S RELIEF  
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After two and one-half years, the member must have an impairment rating of 50 percent or greater in order to continue receiving full disability benefits.

Amount of Duty-Related Disability Benefit

The amount of disability benefit payable under the Fund to a member who becomes disabled as a result of his duties as a fire fighter will equal to the sum of a. and b., below, where:

- a. equals 52.00 percent of the member's highest 60-month average salary, and
- b. Equals \$91.00 per month for each year of service in excess of 20.

Disability retirement benefits are payable for the member's lifetime as long as the member remains disabled under the terms of the plan. In the event the member's death precedes that of his spouse, two thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

Amount of Benefit for Disability that in Not Duty-Related

The amount of disability benefit payable under the Fund to a member who becomes disabled as a result of causes other than his duties as a fire fighter will equal the amount calculated under the duty-related disability benefit provisions of the Fund, multiplied by a percentage from the table, below, based on the member's years of service as of his date of disability.

Number of Completed Years Of Service	Non-Duty Disability Benefit as a Percent of the Duty-Related Disability Benefit
0	25%
1	25%
2	25%
3	25%
4	25%
5	50%
6	50%
7	50%
8	50%
9	50%
10	75%
11	75%
12	75%
13	75%
14	75%
15 or more	100%



CITY OF ORANGE FIREMEN'S RELIEF  
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**Death Benefits**

If a member's death is duty-related, the member's spouse will receive an immediate monthly benefit, payable for as long as he or she is living. The amount of death benefit payable under the Fund to a member who dies as a result of his duties as a fire fighter will equal to the sum of a. and b., below, where:

- a. equals 34.67 percent of the member's highest 60-month average salary, and
- b. equals \$60.67 per month for each year of service in excess of 20.

The spouse's benefit is payable for life, but it ceases upon remarriage unless the deceased member and the member's spouse were married for at least five years prior to the member's death. In addition to the above spouse's benefit, each unmarried child of the member will receive a monthly benefit of 6.93 percent of the member's highest 60-month average salary. Orphan benefits continue until a child reaches age 18. If the member's spouse subsequently dies or if there is no spouse, the benefit paid to each eligible orphan will be 13.86 percent of the member's highest 60-month average salary. Orphan benefits continue until a child reaches age 18. However, benefits will continue until age 25 for a child who is a full-time student. Orphan benefits are continued to disabled children for life.

If the member's death is determined to be not duty-related and the member has less than 15 years of service at the time of his or her death, the benefit payable to the survivors will be equal the amount calculated under the duty-related death benefit provisions of the Fund, multiplied by a percentage from the same table that is used to determine disability benefits which are not duty-related.

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. Benefits are reduced pro-rata, if necessary, in order to satisfy this limitation.

**Termination Benefits**

Members with Less Than Twenty Years of Credited Service

A Fund member who terminates employment prior to completing 20 years of service will be entitled to the return of the excess of his or her contributions to the Fund over the amount of any benefits he has received from the Fund. Such refund will not include any interest on the member's contributions.

Members with Twenty or More Years of Credited Service

A Fund member who terminates employment after completing at least 20 years of credited service, but prior to the date he attains age 50, will be entitled to receive a monthly benefit starting at age 50. The monthly termination benefit will equal the sum of a. and b. below, where:

- a. equals 2.60 percent of the member's highest 60-month average salary multiplied by his or her number of years of service not in excess of 20, and
- b. equals \$91.00 per month for each year of service in excess of 20.

CITY OF ORANGE FIREMEN'S RELIEF  
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Vested termination benefits are payable for the member's lifetime. In the event the member's death precedes that of this spouse, two-thirds of the member's pension will be continued to the spouse for her lifetime. The spouse's benefit is forfeitable upon remarriage unless the member and his spouse were married for at least five years prior to the member's retirement.

The accrued benefit of each fire fighter who was a member of the Fund on December 31, 2007, will not be less than the benefit which the member had earned as of December 31, 2007.

### **Optional Forms of Payment**

In lieu of the regular monthly benefit specified in the plan, a member who retires under the service provision of the Fund may elect to receive his benefits under one or more of the options listed below.

#### Social Security Leveling Option

Under the Social Security Leveling Option, a member receives a larger monthly benefit under the Fund until age 62. At age 62, the monthly amount is reduced. The amounts of monthly benefits are set to produce an approximately level total benefit when Social Security payments are taken into account.

Under the DROP, a member receives a reduced monthly benefit in return for a lump sum amount upon retirement. The lump sum amount is referred to as the DROP payment. The later of (a) the date a member has both attained age 53 and completed 23 years of service or (b) the date 36 months prior to the member's date of retirement is referred to as the member's DROP benefit calculation date. A member may retire under the DROP if his retirement date falls on or after his Retro DROP benefit calculation date. Retirement under the plan's DROP provisions is in lieu of the regular service retirement benefit.

The monthly benefit of a member who retires under the DROP equals the monthly benefit he was entitled to as of his DROP calculation date using the benefit formula in effect on his DROP calculation date.

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

- a. the amount of monthly contributions which the member has made to the fund during the time he participated in the DROP; plus
- b. the total of the monthly retirement benefits the member would have received between his or her DROP benefit calculation date and the date the member retired under the plan.

### **Contributions and Reserves**

The plan's minimum required contribution provisions are established under Title 8, Subtitle A, Chapter 802, Subchapter B, Section 802.101 of the Texas Government Code and under Texas Pension Review Board Guidelines for Actuarial Soundness. Specific employer contribution rates are governed by an agreement between the City and the fire fighters.

CITY OF ORANGE FIREMEN'S RELIEF  
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The contribution rate of plan members is established under the terms of the plan. An actuarial valuation is performed every two years to verify that plan benefits and plan contributions are in balance. Costs of administering the Fund are paid from plan assets.

There are no contracts governing contributions to the plan. There are no statutory reserve requirements for the plan.

### **Actuarial Valuations**

The most recently completed biennial actuarial calculations were performed as of December 31, 2012.

The actuarial methods and assumptions used to develop the amounts given in this report are the same as those used for the Fund's actuarial valuation. The valuation report's certification was based on Texas law, which requires that assumptions be reasonable in the aggregate. The assumptions used for the valuation, however, were also individually reasonable and were consistent with one another. The selection of assumptions was guided by Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*, and by Actuarial Standard of Practice No. 35, *Selection of Demographic Assumptions for Measuring Pension Obligations* as published by the Actuarial Standards Board, and by the requirements of GASB Statement No. 50. The actuarial assumptions used in the valuations and in the calculations under GASB Statement No. 50 are summarized in the Supplemental Information section. For purposes of this Note, the term "actuarial assumptions" includes both economic assumptions and demographic assumptions.

The investment return assumption (discount rate) was based on a study of the historical yield of the trust fund as well as a best-estimate of future rates of return, given the nature and mix of current and expected plan investments. The basis used to calculate the actuarial value of assets was also taken into account. The investment return assumption and the projected salary increase assumption used the same assumptions with respect to inflation. Studies of the plan's experience with respect to rate of return, average age at retirement and salary increase rates were performed in connection with the December 31, 2010 actuarial valuation.

The actuarial cost method used for the actuarial valuation and the values given in this report is referred to as the "Entry Age Actuarial Cost Method" or the "Entry Age Normal Actuarial Cost Method." Allocation is based on earnings; the normal cost is developed on a participant-by-participant basis. The projected benefit at each member's assumed retirement age takes into account all applicable benefit formulas through assumed retirement date. All retirement, death, disability, and termination benefits were valued using the entry age actuarial cost method.

The method for developing the actuarial value of assets is shown in the Supplementary Information section. The method is market related and is consistent with the classes of current and anticipated assets. The method is consistent with the assumptions used to develop the actuarial present value of total projected benefits, and current actuarial standards for asset valuation.

CITY OF ORANGE FIREMEN'S RELIEF  
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The amortization of the unfunded actuarial accrued liability was determined as level percentage of projected payroll. The annual compound rate of increase assumed was 4.00 percent per year. No increase in the number of active participants was assumed.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Financial Presentation*

The Fund presents its financial statements according to Government Accounting Standards Board (GASB) Statement No. 50 which generally requires a presentation of net assets and valuation of investments at fair value.

*Basis of Accounting*

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which services are performed. Investment income includes dividend, interest and net appreciation (depreciation) in fair values of investments.

Net appreciation (depreciation) in fair values of investments includes (1) capital gain distributions and realized gain (loss) for sale of securities, (2) unrealized gain (loss) and (3) amortization of premiums and discounts.

Interest and dividend income are recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Fund.

*Valuation of Investments*

In accordance with GASB No. 50, investments in traded securities are reported at market quoted prices. Investments in money market funds are considered to be cash equivalents.

*Estimates*

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires the Fund to make estimates and assumptions that affect the reported amounts of assets, liabilities, and pension benefit obligation at the date of the financial statements and the reported amounts of additions and deductions from net assets available for benefits during the reporting period. Actual results could differ from these estimates.

CITY OF ORANGE FIREMEN'S RELIEF  
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*Income Tax Status*

The Fund obtained its latest determination letter under Section 401(a) of the Internal Revenue Code on February 28, 2011 in which the Internal Revenue Service stated that the plan, as then designated, was in compliance with the applicable requirements of the Internal Revenue Code. The plan had been amended prior to receiving the determination letter. The Fund worked with its Actuary and Attorney to receive an updated determination letter in compliance with the recent changes in the Internal Revenue Code. No income taxes were required to be paid as a result of these changes. As a governmental plan, the Fund is exempt from regulations under Title I of ERISA.

HISTORICAL TREND INFORMATION

Historical trend information designed to provide information about the Fund's progress made in accumulating sufficient assets to pay benefits when dues is presented in the Supplemental Information of these financial statements.

CASH AND INVESTMENTS

The Fund portfolio is under professional management by investment advisors. The investment advisors are subject to the investment policies and guidelines established by the Fund's Board. Following is a summary of the Fund's investment portfolio at December 31, 2012 and 2011:

	2012		2011	
	Cost	Market	Cost	Market
Cash	\$ 249,690	\$ 249,690	\$ 63,595	\$ 63,595
Cash Equivalents: Money Market Funds	186,304	186,304	125,519	125,519
Total Cash and Cash Equivalents	435,994	435,994	189,114	189,114
Fixed Income Portfolio				
Mortgage & Asset Backed Securities	853,751	855,502	892,606	894,114
Corporate, Government and and International Bonds	1,919,376	2,005,542	1,950,021	1,965,184
Total Fixed Income Securities	2,773,127	2,861,044	2,842,627	2,859,298
Equity Portfolio				
Common Stocks & Options	4,634,006	5,429,377	4,679,310	4,980,246
Total Cash and Investments	\$ 7,843,127	\$ 8,726,415	\$ 7,711,052	\$ 8,028,658

CITY OF ORANGE FIREMEN'S RELIEF  
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INADEQUATE FUNDING ARRANGEMENT

The December 31, 2012 valuation of the Orange Firemen's Relief and Retirement Fund determined that the plan's amortization period was 82.3 years. Guidelines published by the Texas State Pension Review Board specify that the amortization period should not exceed 40 years, with a 15- to 25-year period being preferable. Thus, under Pension Review Board guidelines, the fund does not represent an adequate funding arrangement at this time.

Section 802.106 of the Texas Government Code requires a public retirement system to notify members if the actuary determines that the financing arrangement of the system is not adequate. The Plan complied with this provision of the Code and issued a notice to members.

The actuaries have recommended that the members of the fund and the City of Orange each increase the rate at which they contribute to the fund by one percent of pay. Both the members and the City will consider the increase when the current Collective Bargaining Agreement terminates on September 30, 2014.

**SUPPLEMENTAL INFORMATION  
CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND**

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
 REQUIRED SUPPLEMENTAL INFORMATION  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

SCHEDULE OF FUNDING PROGRESS						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets <sup>1</sup>	Actuarial Accrued Liability (AAL) <sup>2</sup>	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio (2) ÷ (3)	Covered Payroll	UAAL as a Percentage of Covered Payroll ((3) - (2)) ÷ (6)
12/31/00	7,515,985	8,945,411	1,429,426	84.0%	1,586,755	90.1%
12/31/02	6,909,671	9,242,230	2,332,559	74.8%	1,646,865	141.6%
12/31/04	7,828,873	10,461,763	2,632,890	74.8%	1,672,996	157.4%
12/31/06	8,211,861	11,390,544	3,178,683	72.1%	1,716,803	185.2%
12/31/08	8,115,580	12,687,217	4,571,637	64.0%	1,999,997	228.6%
12/31/10	9,035,613	13,679,257	4,643,644	66.1%	1,907,382	243.5%
12/31/12	8,766,374	15,311,319	6,544,945	57.3%	1,996,008	327.9%

<sup>1</sup> Based on smoothed market value

<sup>2</sup> Calculated under the individual entry age actuarial cost method

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.



CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
 REQUIRED SUPPLEMENTAL INFORMATION  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Schedule of Contributions from the Employer and Net Pension Obligation

Fiscal Year End	Employer Required Cont Rate as a Percentage of Comp	Actual Contribution Rate	Actual Employer Contribution as a Dollar Amount	ARC:Emplr Req'd Dollar Cont + Amt of L/(G) (2) / (3) X (4) /16	Interest on NPO 8.00% X Prior Year (13)	ARC Adjustment Prior Year (13) / (8)	Amortization Factor <sup>1</sup>
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
09/30/2006	13.00%	13.00%	226,474	226,474	-	-	19.474978
12/31/2006	13.25%	13.25%	225,714	225,714	-	-	16.941899
12/31/2007	13.43%	14.00%	252,410	242,133	-	-	16.941899
12/31/2008	13.43%	14.00%	287,362	275,055	(822)	(607)	16.941899
12/31/2009	14.01%	14.00%	280,069	278,923	(1,824)	(1,346)	16.941899
12/31/2010	14.01%	14.00%	284,686	283,447	(1,954)	(1,442)	16.941899
12/31/2011	14.95%	14.00%	287,395	305,352	(2,094)	(1,545)	16.941899

<sup>1</sup> For 9/30/1999 through 12/31/2006, the employer required contribution rate was set to equal the contribution rate of the City under the plan document. The entries came from the City of Orange CAFR. Valuations were performed by Rudd & Wisdom, Inc. For 2007 and later years, the required contribution rate is being set as the percentage of pay needed to produce a 30-year amortization.

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
 REQUIRED SUPPLEMENTAL INFORMATION  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Schedule of Contributions from the Employer and Net Pension Obligation (continued)

Fiscal Year End	Annual Pension Cost (5) + (6) - (7)	Actual Employer Contribution as a Dollar Amount (11)	Change in NPO (10) - (11)	NPO Balance Prior Year (13) / (12)	Loss/ Gain (5) - (11)	Amorization Factor <sup>1</sup> (15)	Amort of Loss/ (Gain) Prior Year (17) / (15)	Ending Balance Prior Year (17) X 1.0800 (14) - (16)
(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
09/30/2006	226,474	226,474	-	-	-	19.474978	-	-
12/31/2006 <sup>2</sup>	225,714	225,714	-	-	-	16.941899	-	-
12/31/2007	242,133	252,410	(10,277)	(10,277)	(10,277)	16.941899	-	(10,277)
12/31/2008	274,840	287,362	(12,522)	(22,799)	(12,307)	16.941899	(607)	(22,799)
12/31/2009	278,445	280,069	(1,624)	(24,423)	(1,146)	16.941899	(1,346)	(24,423)
12/31/2010	282,935	284,686	(1,751)	(26,174)	(1,239)	16.941899	(1,442)	(26,174)
12/31/2011	304,803	287,395	17,408	(8,766)	17,957	16.941899	(1,545)	(8,766)

<sup>2</sup> The date as of which the Net Pension Obligation was calculated was changed to the end of the plan year, effective December 31, 2006.

CITY OF ORANGE FIREMEN'S RELIEF AND RETIREMENT FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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, 2012
Actuarial cost method	Entry Age
Amortization method	Level percentage of projected payroll
Amortization period	82.3 years
Asset valuation method	Market value smoothed by a 5 year deferred recognition method with a 80%/120% corridor on market

Actuarial assumptions:

-Investment rate of return, net of expenses	8.00% per year
-Inflation	3.00% per year
-Projected salary increases including Promotion and longevity	4.00% per year on average
-Payroll growth rate	4.00% per year
-Postretirement cost-of-living adjustments	None

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 Charlotte Yeates, CPA  
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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS  
 A PROFESSIONAL CORPORATION

June 6, 2013

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

We have audited the financial statements of the City of Orange Firemen's Relief and Retirement Fund as of and for the year ended December 31, 2012, and have issued our report thereon dated June 6, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated March 23, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended December 31, 2012. We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on your knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We noted no significant accounting estimated used by the Fund.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no financial statement disclosures that were of particular significance.

The financial statement disclosures are neutral, consistent, and clear.

To the Board of Directors  
City of Orange Firemen's Relief and Retirement Fund

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in performing and completing our audit.

*Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We noted no such uncorrected misstatements.

*Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Other Matters*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of you and evaluated the form, content, and methods of preparing the information to determine that the information complies with the Governmental Accounting Standards Board, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the information and use of management, others within the organization and the Plan's Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Edgar, Kiker & Cross*

EDGAR, KIKER & CROSS, PC  
Certified Public Accountants and Consultants

BDB/cr