

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

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

TYLER, TEXAS

DECEMBER 31, 2010 AND 2009

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
DECEMBER 31, 2010 AND 2009**

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FINANCIAL SECTION

HENRY & PETERS, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Tyler Fire Pension Board
City of Tyler, Texas

We have audited the accompanying basic financial statements of the Tyler Firefighter's Relief and Retirement Fund (Plan) as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2010 and 2009, and the results of its operations for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis and the required supplementary information on pages 2 through 4, and 16 through 18, respectively, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it.

Henry & Peters, P.C.

Tyler, Texas
July 21, 2011

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010**

The Management's Discussion and Analysis (MD&A) of the Tyler Firefighter's Relief and Retirement Fund (Plan) for the year ended December 31, 2010, provides a summary of the financial position and performance of the Plan, including highlights and comparisons. The MD&A is presented as a narrative overview and analysis. For more detailed information regarding the Plan's financial activities, the reader should also review the actual financial statements, including the notes and supplementary schedules.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Plan's basic financial statements, which include the following components:

- Fund financial statements
- Notes to financial statements

Collectively, this information presents the net assets and summarizes the changes in net assets of the Plan as of December 31, 2010. The information available in each of these sections is briefly summarized below.

- **Fund Financial Statements.** The Firefighter's Fund financial statements presented include Fiduciary Fund statements. Fiduciary Fund statements represent the financial position and activities of the Pension Trust Fund. A Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets are presented for the Pension Trust Fund as of December 31, 2010 and for the year then ended. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries.
- **Notes to Financial Statements.** The financial statement notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. Information available in the notes to the financial statements is described below:
 - Note 1 provides a general description of the Plan, including membership and benefit provisions, as well as a description of its reporting entity.
 - Note 2 provides a summary of significant accounting policies, including the basis of presentation and accounting and explanations of investment fair value estimates.
 - Note 3 provides a general description of the contributions including the funded status and funded progress as of the latest actuarial valuation.
 - Note 4 provides information on the Plan's investment portfolio and established investment guidelines. Also included is information pertaining to the investment credit risk of the portfolio.
 - Note 5 describes a framework and the methodologies used by the Plan for measuring the fair values of assets and liabilities.
 - Note 6 summarizes significant information presented by an actuarial valuation performed as of December 31, 2009.
 - Note 7 explains that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code.
 - Note 8 explains that the Plan is exposed to various investment risks.
 - Note 9 explains that the Plan has evaluated subsequent events through the date on which the financial statements were available to be issued.

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2010**

- Required Supplementary Information. Required supplementary information consists of schedules concerning the funding status and contribution trends of the Plan.

Financial Highlights

Fiduciary Fund – Pension Trust Fund

The following table displays a summary of assets, net assets and changes in net assets for the Plan at December 31, 2010 with comparative data.

| | 2010 | 2009 |
|---------------------------|----------------------|----------------------|
| Cash and receivables | \$ 1,599,368 | \$ 984,067 |
| Investments | 44,430,375 | 40,343,284 |
| Accrued income | 68,431 | 82,157 |
| Plan net assets | <u>\$ 46,098,174</u> | <u>\$ 41,409,508</u> |
| Change in plan net assets | <u>\$ 4,688,666</u> | <u>\$ 6,078,639</u> |

Additions to net assets held in trust for pension benefits include employer and member contributions as well as investment income. Such amounts were as follows in 2010 with comparative data.

| | 2010 | 2009 |
|------------------------|---------------------|---------------------|
| Employer contributions | \$ 1,705,225 | \$ 1,527,188 |
| Member contributions | 1,308,958 | 1,341,170 |
| Net investment income | 5,300,234 | 6,634,681 |
| Other income | 4,249 | 2,863 |
| Total additions | <u>\$ 8,318,666</u> | <u>\$ 9,505,902</u> |

Plan membership totaled 238 at December 31, 2010. The employer contribution was increased during the 2009-2010 fiscal year to match the TMRS adopted rate in an effort to better match benefits and contributions.

Investment income includes appreciation in fair value of investments, and interest and dividends net of expenses. The change in investment income for 2010 was due in large part to reduced unrealized gains and fluctuations of the market and economic conditions.

Deductions from net assets held in trust for pension benefits include payments of retirement benefits and refunds, as well as administrative and other expenses. Such amounts are as follows for 2010 with comparative data.

| | 2010 | 2009 |
|---------------------------------|---------------------|---------------------|
| Benefits paid to members | \$ 3,505,551 | \$ 3,336,552 |
| Administrative & other expenses | 124,448 | 90,711 |
| Total deductions | <u>\$ 3,629,999</u> | <u>\$ 3,427,263</u> |

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)
DECEMBER 31, 2010**

Requests for Information

This financial report is designed to provide a general overview of the Tyler Firefighter's Relief and Retirement Fund finances. Questions and requests for additional information should be addressed to the Fire Pension Board, 1710 W. Houston St., Tyler, TX 75702.

BASIC FINANCIAL STATEMENTS

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
STATEMENTS OF PLAN NET ASSETS
DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents | | |
| Cash | \$ 870 | \$ 1,740 |
| Cash equivalents | 1,432,428 | 832,958 |
| Total cash and cash equivalents | 1,433,298 | 834,698 |
| Receivables | | |
| Employer contributions | 94,835 | 82,326 |
| Member contributions | 71,235 | 67,043 |
| Total receivables | 166,070 | 149,369 |
| Investments, at fair value | | |
| Pooled, common and collective trust funds | 3,293,967 | 2,901,136 |
| Bonds and notes | 5,910,104 | 5,639,934 |
| Common stocks | 13,463,960 | 12,279,934 |
| Foreign stocks | 455,648 | 694,880 |
| Mutual funds | 21,306,696 | 18,827,400 |
| Total investments | 44,430,375 | 40,343,284 |
| Accrued income | 68,431 | 82,157 |
| Total assets | 46,098,174 | 41,409,508 |
| Net assets held in trust for pension benefits | \$ 46,098,174 | \$ 41,409,508 |

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

| | 2010 | 2009 |
|---|---------------|---------------|
| ADDITIONS: | | |
| Contributions | | |
| Employer | \$ 1,705,225 | \$ 1,527,188 |
| Members | 1,308,958 | 1,341,170 |
| Total contributions | 3,014,183 | 2,868,358 |
| Investment income | | |
| Net appreciation in fair value of investments | 4,650,223 | 6,006,743 |
| Interest and dividend income | 729,879 | 695,096 |
| Less: investment expense | (79,868) | (67,158) |
| Total investment income | 5,300,234 | 6,634,681 |
| Other income | 4,249 | 2,863 |
| Total additions | 8,318,666 | 9,505,902 |
| DEDUCTIONS: | | |
| Benefits paid to members | 3,505,551 | 3,336,552 |
| Administrative expenses | 77,623 | 78,743 |
| Other expenses | 46,825 | 11,968 |
| Total deductions | 3,629,999 | 3,427,263 |
| Net increase | 4,688,666 | 6,078,639 |
| Net assets held in trust for pension benefits | | |
| Beginning of year | 41,409,508 | 35,330,869 |
| End of year | \$ 46,098,174 | \$ 41,409,508 |

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

NOTE 1: PLAN DESCRIPTION

BACKGROUND AND REPORTING ENTITY

The Tyler Firefighter's Relief and Retirement Fund (Plan) was established pursuant to the Texas Local Firefighter's Retirement Act of 1937 (Act). The purpose of the Plan is to provide specific benefits to members at retirement or disability and to their beneficiaries in case of death.

The Board of Trustees of the Plan is the administrator of the Plan. The Board oversees the Plan and sets policies for its operation, including appointing management and directing investments.

The Plan is a single-employer defined benefit pension plan. The Plan is considered an independent reporting entity and is not included as a subdivision or component of any other entity.

MEMBERSHIP

Firefighters in the Tyler Fire Department are covered by the Plan. The membership consisted of the following as of December 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|---|-------------|-------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving benefits | 88 | 85 |
| Current employees | | |
| Vested | 44 | 45 |
| Non-vested | <u>106</u> | <u>99</u> |
| Total membership | <u>238</u> | <u>229</u> |

BENEFIT PROVISIONS

The Plan provides service retirement, death, disability and withdrawal benefits. These benefits fully vest after 20 years of credited service. Employees may retire at age 50 with 25 years of service or age 55 with 20 years of service. The Plan, effective January 1, 2005 and amended August 13, 2007, provides a monthly normal retirement benefit, payable in a joint and 66 2/3% to spouse form of annuity, equal to 71.5% of the highest 60-month average salary plus an additional \$113 per year of service for service in excess of 20 years.

There is no provision for automatic postretirement benefit increases. The Plan has the authority to provide, and has periodically in the past provided, ad hoc postretirement benefit increases. The benefit provisions of the Plan are authorized by the Act. The Act provides the authority and procedure to amend benefit provisions.

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION AND ACCOUNTING

The Plan financial statements are prepared in accordance with the standards of the Governmental Accounting Standards Board for pension trust funds, with the financial activities recorded in a separate fund. The financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Investment transactions are recorded as of the date a transaction is agreed upon and investment income from interest and dividends is recorded when earned or declared. All other expenses are recognized when incurred.

ESTIMATES

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

INVESTMENTS

Investments are reported at fair value. The Plan determines the fair value of investments as follows:

- Debt and equity securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.
- Debt securities not traded on national or international exchanges are reported at estimated fair value based on equivalent values of comparable securities with similar yield and risk.
- Investments in open-ended mutual funds are based on the funds' current share price.

RECLASSIFICATION

Certain amounts in the 2009 financial statements have been reclassified to conform to the presentation in 2010.

NOTE 3: CONTRIBUTIONS

The contribution provisions of the Plan are authorized by the Act. The Act provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the City of Tyler (City).

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 3: CONTRIBUTIONS - CONTINUED

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 firefighters 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 the payroll. The excess of the total contribution rate over the normal cost contribution rate is used to amortize the Plan's unfunded actuarial accrued liability (UAAL). The number of years needed to amortize the Plan's UAAL is determined using an open, level percentage of payroll method. The actuarial valuation as of December 31, 2009 revealed that total contributions are sufficient to pay the Plan's normal cost and to amortize the Plan's UAAL within the maximum acceptable period (15 years to 25 years to be preferable and 40 years to be the maximum acceptable period, based on guidelines from the Texas State Pension Review Board). Additionally, the actuarial valuation revealed the adequacy of the fund's contribution arrangement. See further information including Actuarial Assumptions (Note 6) and Methods and the Schedule of Funding Progress and Schedule of Employer Contributions in Required Supplementary Information (pages 17 – 18).

The administrative costs are financed by the Plan and a percentage of actuarial and annual audit fees are reimbursed by the City, and included in other income on the Statement of Changes in Plan Net Assets.

For the Plan effective January 1, 2005 and amended August 13, 2007, the funding policy of the Plan requires contributions equal to 13.50% of pay by the firefighters. The City's contribution rate is based on the Texas Municipal Retirement System's formula, which for the years ended December 31, 2010 and 2009 were 17.55% and 15.96%, respectively. The December 31, 2009 actuarial valuation assumes that the City's contribution rate will average 18.00% of payroll in the future.

FUNDED STATUS AND FUNDING PROGRESS

The schedule below reflects the funded status and progress of the Plan as of the most recent valuation date.

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|-------------------------------------|---|
| 12/31/2009 | \$ 45,386,149 | \$ 64,422,078 | \$ 19,035,929 | 70.5% | \$9,851,022 | 193.2% |

NOTE 4: INVESTMENTS

The board of trustees has established the following investment guidelines:

Equity Holdings

Type of Securities – Only individual equity securities, no-load domestic and international equity, alternative mutual funds, no-load equity and alternative collective funds, and/or exchange traded funds are permitted. Individual equity securities shall mean funds that include Real Estate Investment Trusts and Commodity markets. No direct derivative type products can be used for equity or alternative holdings.

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 4: INVESTMENTS - CONTINUED

Equity Holdings - Continued

Diversification – For equity holdings, a high level of diversification across industry and individual holdings will be maintained. The maximum exposure to any industry shall be 30% of the total portfolio's market value and the maximum exposure to an individual security shall be 5% of the portfolio's market value. For alternative holdings, a high level of diversification across all industries of the real estate and commodities market will be maintained through no-load mutual and collective funds and/or exchange traded funds. No individual direct exposure to alternatives can be used. The allocation range for alternative holdings shall be a minimum of 0% and a maximum of 15% of the portfolio's market value.

Quality – Prudent standards of quality will be developed and maintained by the investment manager. Companies should exhibit a strong financial position and have a record of profitable operating results. The trustees have a preference of high quality dividend paying securities. The stocks must have a quality rating of B+ or better as a group as measured by Standard & Poor's rating service.

Fixed Income Holdings

Type of Securities – Only fixed income securities of any U.S. equity not otherwise prohibited, no-load mutual funds, no-load collective funds, or certificates of deposit with maturities greater than one year are permitted for the Plan's investment portfolio. No derivative type products can be used.

Diversification – Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 10% from any given issuer (valued at market). Also, with exception of U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than 25% of any given industry or sector.

Maturities – At managers discretion, a maximum of 20% of the fixed income portion of the portfolio may be invested in long-term maturities not to exceed 25 years; otherwise, maturities should be limited to 15 years or less, excluding convertibles. The average maturity of the fixed income portion of the portfolio must not exceed 10 years.

Quality – The average quality rating of the fixed income portion of the portfolio should be A rated or better at the time of purchase. The total percentage of the fixed income portion of the portfolio rated less than A may not exceed 10%.

Cash Equivalents

Type of Securities – Only debt securities of any U.S. entity not otherwise prohibited, U.S. government issues, no-load money market mutual funds, short-term investment funds or certificates of deposit with maturities of less than one year are permitted.

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 4: INVESTMENTS - CONTINUED

Cash Equivalents - Continued

The Plan's investments at December 31, 2010 are summarized below:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Credit Rating</u> |
|---|----------------------|--|--------------------------|
| <u>Fixed Income and Cash Equivalents</u> | | | |
| Money market funds | \$ 1,432,428 | | |
| U.S. Treasury securities | 251,408 | 0.13 | AAA |
| Corporate bonds | 208,196 | 3.42 | AAA |
| Corporate bonds | 821,931 | 2.33 | AA |
| Corporate bonds | 4,209,131 | 2.13 | A |
| Corporate bonds | <u>419,438</u> | 1.94 | BBB |
| Total fixed income and cash equivalents | 7,342,532 | | |
| Portfolio weighted average maturity | | 2.11 | |
| <u>Equity Holdings</u> | | | |
| Common stocks | 13,463,960 | | |
| Foreign stocks | 455,648 | | |
| Pooled, common and collective funds | 3,293,967 | | |
| Mutual funds | <u>21,306,696</u> | | |
| Total equity holdings | <u>38,520,271</u> | | |
| Total investments and cash equivalents | <u>\$ 45,862,803</u> | | |

The Plan's investments at December 31, 2009 are summarized below:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> | <u>Credit Rating</u> |
|---|----------------------|--|--------------------------|
| <u>Fixed Income and Cash Equivalents</u> | | | |
| Money market funds | \$ 832,958 | | |
| U.S. Treasury securities | 514,473 | 0.78 | AAA |
| Corporate bonds | 202,142 | 4.42 | AAA |
| Corporate bonds | 816,047 | 3.32 | AA |
| Corporate bonds | 3,648,726 | 2.59 | A |
| Corporate bonds | <u>458,546</u> | 2.43 | BBB |
| Total fixed income and cash equivalents | 6,472,892 | | |
| Portfolio weighted average maturity | | 2.58 | |
| <u>Equity Holdings</u> | | | |
| Common stocks | 12,279,934 | | |
| Foreign stocks | 694,880 | | |
| Pooled, common and collective funds | 2,901,136 | | |
| Mutual funds | <u>18,827,400</u> | | |
| Total equity holdings | <u>34,703,350</u> | | |
| Total investments and cash equivalents | <u>\$ 41,176,242</u> | | |

Credit Risk – Prudent standards of quality have been developed and are maintained by the investment manager. Equity holdings should exhibit a strong financial position and have a record of profitable operating results. The trustees have a preference of high quality dividend paying securities. The stocks must have a quality rating of B+ or better as a group as measured by Standard & Poor's rating service. The average quality rating of the fixed income portion of the portfolio should be A rated or better at time of purchase. The total percentage of the fixed income portion of the portfolio rated less than A may not exceed ten percent (10%).

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 4: INVESTMENTS - CONTINUED

Interest Rate Risk – In order to reduce or limit interest rate risk, a maximum of 20% of the fixed income portion of the portfolio may be invested in long-term maturities not to exceed 25 years; otherwise, maturities should be limited to 15 years or less, excluding convertibles. The average maturity of the fixed income portion of the portfolio must not exceed ten years. In addition, the Plan prohibits any derivative type products (i.e. options, futures, etc.).

Concentration of Credit Risk – The investment objectives of the Plan require a high level of diversification across industries and individual holdings. The maximum exposure to any industry is 20% of the total portfolio's market value and the maximum exposure to an individual security shall be 5% of the portfolio's market value. Except for U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than ten percent (10%) from any given issuer (valued at market). Also, with the exception of U.S. Treasury and Agency obligations, the debt portion of the portfolio shall not contain more than twenty-five percent (25%) any given industry or sector (example: utilities, energy, industrials, etc.).

NOTE 5: FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board Accounting Standards Codification 820 (ASC 820), *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methodologies used by the Plan for assets measured at fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**TYLER FIREFIGHTER'S RELIEF
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NOTES TO FINANCIAL STATEMENTS
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CONTINUED**

NOTE 5: FAIR VALUE MEASUREMENTS - CONTINUED

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010:

| | December 31, 2010 | Quoted Prices in | | |
|-------------------------------------|----------------------|--|--|--|
| | | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| Pooled, common and collective funds | \$ 3,293,967 | \$ - | \$ 3,293,967 | \$ - |
| U.S. Treasury notes | 251,408 | 251,408 | - | - |
| Corporate bonds | 5,658,696 | - | 5,658,696 | - |
| Common stocks | 13,463,960 | 13,463,960 | - | - |
| Foreign stocks | 455,648 | - | 455,648 | - |
| Mutual funds: | | | | |
| Equity funds | 18,007,844 | - | 18,007,844 | - |
| Taxable funds | 3,298,852 | - | 3,298,852 | - |
| Total | <u>\$ 44,430,375</u> | <u>\$ 13,715,368</u> | <u>\$ 30,715,007</u> | <u>\$ -</u> |

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2009:

| | December 31, 2009 | Quoted Prices in | | |
|-------------------------------------|----------------------|--|--|--|
| | | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Other Unobservable Inputs (Level 3) |
| Pooled, common and collective funds | \$ 2,901,136 | \$ - | \$ 2,901,136 | \$ - |
| U.S. Treasury notes | 514,473 | 514,473 | - | - |
| Corporate bonds | 5,125,461 | - | 5,125,461 | - |
| Common stocks | 12,279,934 | 12,279,934 | - | - |
| Foreign stocks | 694,880 | - | 694,880 | - |
| Mutual funds: | | | | |
| Equity funds | 15,918,387 | - | 15,918,387 | - |
| Taxable funds | 2,909,013 | - | 2,909,013 | - |
| Total | <u>\$ 40,343,284</u> | <u>\$ 12,794,407</u> | <u>\$ 27,548,877</u> | <u>\$ -</u> |

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
CONTINUED**

NOTE 6: ACTUARIAL ASSUMPTIONS AND METHODS

The Plan had an actuarial valuation performed as of December 31, 2009. The Annual Required Contribution (ARC) is based on the actual employer contribution reported in the fund's annual report to the State of Texas Firefighter's Pension Commission because the actuarial valuation that was the basis for each ARC had an amortization period that was compliant with GASB parameters (up to 40 years through the 2006 Plan year and up to 30 years after the 2006 Plan year).

| | |
|--|---|
| Valuation date | December 31, 2009 |
| Actuarial cost method | Entry age |
| Amortization method | Level percentage of projected payroll, open |
| Remaining amortization period | 26 years |
| Asset valuation method | 5-year adjusted market value |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% per year |
| Inflation | 3.75% per year |
| Projected salary increases | 5.7% per year |
| Payroll growth rate | 4% per year |
| Postretirement cost-of-living Adjustments | None |

For financial reporting purposes, the projection of benefits for the Plan does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in Note 3.

NOTE 7: TAX STATUS

The Internal Revenue Service has determined and informed the Plan by a letter dated November 7, 2003, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan's board and tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

NOTE 8: RISKS AND UNCERTAINTIES

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

NOTE 9: SUBSEQUENT EVENTS

The Plan has evaluated subsequent events through July 21, 2011, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2010**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll ¹ (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|--|---|
| 12/31/1999 ² | \$ 33,665,709 | \$ 35,083,170 | \$ 1,417,461 | 96.0% | \$ 5,096,747 | 27.8% |
| 12/31/2001 ² | 38,040,060 | 39,820,577 | 1,780,517 | 95.5% | 5,641,878 | 31.6% |
| 12/31/2003 ³ | 38,363,213 | 44,815,187 | 6,451,974 | 85.6% | 6,434,890 | 100.3% |
| 12/31/2005 ⁴ | 38,914,954 | 50,047,120 | 11,132,166 | 77.8% | 7,283,688 | 152.8% |
| 12/31/2007 ⁴ | 45,113,845 | 55,606,678 | 10,492,833 | 81.1% | 8,402,637 | 124.9% |
| 12/31/2009 ⁴ | 45,386,149 | 64,422,078 | 19,035,929 | 70.5% | 9,851,022 | 193.2% |

¹ The covered payroll is based on estimated annualized salaries used in the valuation.

² Based on the Plan effective as of November 1, 2000.

³ Based on the Plan effective as of December 12, 2002.

⁴ Based on the Plan effective as of January 1, 2005 and amended November 1, 2005.

**TYLER FIREFIGHTER'S RELIEF
AND RETIREMENT FUND
REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
SCHEDULE OF EMPLOYER CONTRIBUTIONS
DECEMBER 31, 2010**

| Plan Year Ended December 31 | Annual Contribution As a Percentage of Payroll | Annual Required Contribution (ARC) ¹ | Percentage Contributed |
|-----------------------------------|--|--|---------------------------|
| 2005 | 13.97% | \$ 992,758 | 100% |
| 2006 | 14.60% | 1,036,802 | 100% |
| 2007 | 14.75% | 1,157,167 | 100% |
| 2008 | 15.12% | 1,550,367 | 100% |
| 2009 | 15.96% | 1,542,287 | 100% |
| 2010 | 17.55% | 1,705,225 | 100% |

¹ The annual required contribution is based on actual covered payroll as reported in the fund's annual report to the State of Texas Firefighter's Pension Commission.