



RETIREMENT SECURITY PLAN

City of Plano, Texas

Financial Statements

December 31, 2012 and 2011

(With Report of Independent Certified Public Accountants Thereon)



KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Retirement Security Plan Committee
City of Plano, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Plano, Texas Retirement Security Plan, which comprise of the statement of plan net assets as of December 31, 2012, the related statement of changes in plan net assets for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 responsibility 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 audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of The City of Plano Retirement Security Plan as of December 31, 2012, and the changes in its financial status for the year ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Management's discussion and analysis and the supplemental schedule of funding progress and contributions are presented for the purpose of additional analysis and are not a required part of the financial statements but are supplementary information 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 the appropriate operational, economic, or historical context. 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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 the 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.

Other Matter – 2011 Financial Statements

The financial statements of the Plan as of December 31, 2011 were audited by predecessor auditors. Their report, dated August 7, 2012, indicated that the financial statements as of December 31, 2011 and for the year then ended are in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
June 27, 2013

RETIREMENT SECURITY PLAN

City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

Our discussion and analysis of the City of Plano, Texas Retirement Security Plan's (RSP or the Plan) financial performance provides an overview and analysis of the Plan's financial activities for the years ended December 31, 2012 and 2011. Please read it in conjunction with the accompanying basic financial statements, including the notes thereto, and required supplementary information.

The City of Plano is the trustee, or fiduciary, for the RSP, a Defined Benefit Pension Plan. The RSP provides specific benefits to members at retirement or disability and to their beneficiaries in case of death.

Financial Highlights

- In 2012, net assets of the Plan increased by approximately \$8.7 million. This increase was caused by approximately \$5.8 million in fair value of the investments, \$2.6 million in interest and dividend income, and approximately \$3.6 million in contributions. The increase was primarily offset by approximately \$3.0 million in employer benefit payments. This is compared to an increase in net assets of approximately \$2.3 million in 2011.
- Net investment return increased in 2012 by approximately \$6.8 million. Equities gained 18.6% across both U.S. and international markets. The domestic portion of the RSP portfolio increased 11%, underperforming the U.S. market reflecting its emphasis on high quality attractive dividend stocks that did not keep up with the strong market gains. The international mutual funds and individual international equities increased 18.5% on average outperforming international indexes. The RSP fixed income holdings gained 5.8% outperforming the 3.9% gain in the benchmark. Interest rates declined slightly and the portfolio benefited from the large holdings of corporate bonds where spreads narrowed in comparison to Treasury securities. Based on returns from the Standard and Poor's 500 and the MSCI World Index.
- The RSP paid approximately \$3.0 million in benefits during 2012, compared to approximately \$2.5 million in 2011. Benefit payments increased due to an increase in retiree and termination payouts and a 3.56% cost of living adjustment in the current year.
- The RSP received approximately \$3.6 million in employer contributions during 2012, virtually unchanged from prior year.
- As of December 31, 2011, the date of the actuarial valuation, the RSP is actuarially funded at 97.2%; a decrease of 1.1% from the December 31, 2009 revised actuarial valuation. The funded ratio declined primarily due to the increase in actuarially accrued liability from 2009 to 2011 outpacing the increase in plan assets.

Overview of the Financial Statements

Basic Financial Statements

In this financial report, the basic financial statements consist of the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets with accompanying Notes to the Financial Statements. Each of those financial statements present information for the RSP as of and for the year ended December 31, 2012, and comparative audited information as of and for the year ended December 31, 2011.

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City of Plano, Texas

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The Statements of Plan Net Assets present the financial position of the plan. The financial position is simply assets (primarily investments) less liabilities (primarily advisory fees owed). The difference between assets and liabilities is net assets, which represents the amount of resources available to pay future benefits to retirees. Investments consist of U.S. government obligations and domestic and international fixed income and equity securities. The liability for future RSP benefit payments is not reported in these financial statements; rather, the statement refers readers to the Schedule of Funding Progress and Contributions that presents an estimate of the actuarial accrued liability.

The Statements of Changes in Plan Net Assets present the additions to and deductions from the Plan's net assets during the year. The Plan receives contributions from the Plan member's employer as well as income or losses from investments and related activity. The primary deductions are to pay benefits, which is the Plan's primary purpose. Deductions also include administrative expenses. The change in the Plan's net assets during the year is added to or subtracted from the beginning balance of the Plan net assets to obtain the balance of Plan net assets at the end of the year.

Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the basic financial statements. They provide background and more details about the information in the financial statements. Among other matters, the notes describe:

- The RSP purpose and its membership
- The significant accounting policies used to prepare the basic financial statements
- The nature of the plan, including the membership and benefit provisions and contribution requirements
- The RSP's investment authority and policies, how investments are safeguarded, and selected details about various investment activity and balances

Required Supplementary Information

To provide actuarially determined information about the RSP, this report includes a schedule of historical trend information in the Required Supplementary Information (RSI) section. The Schedule of Funding Progress and Contributions provides actuarial information to show the changes in the actuarial funding and the funded status of the Plan over time. The actuarial information is based upon assumptions about future events; therefore, the figures presented are estimates.

The Funding Progress portion of the schedule provides information about the progress made to accumulate sufficient assets to pay benefits when due. It presents the funded status of the Plan by comparing the actuarial value of the assets to the actuarial accrued liability. The Contributions portion of the schedule presents information about the annual required contributions of the employer and the contributions actually made to show the performance of the employer in funding the plan. This schedule presents information for the last six years.

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City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2012 and 2011

Summary and Analysis of the Financial Information

Defined Benefit Pension Plan

The following Condensed Statements of Plan Net Assets and Changes in Plan Net Assets present financial information for the RSP, comparing 2012, 2011, and 2010 audited information. This information comes from the Statements of Plan Net Assets and Statements of Changes in Plan Net Assets for those three years:

Condensed statements of plan net assets Retirement Security Plan

	December 31			2012-2011 Change		2011-2010 Change	
	2012	2011	2010	Amount	Percentage	Amount	Percentage
Assets:							
Cash and short-term investments	\$ 2,275,250	4,555,815	1,784,258	(2,280,565)	(50.1)%	2,771,557	155.3%
Investments, at fair value	87,737,678	76,770,597	77,344,245	10,967,081	14.3	(573,648)	(0.7)
Receivables	355,008	367,289	326,767	(12,281)	(3.3)	40,522	12.4
Total assets	90,367,936	81,693,701	79,455,270	8,674,235	10.6	2,238,431	2.8
Liabilities:							
Administrative fees	7,528	—	40,647	7,528	100.0	(40,647)	(100.0)
Total liabilities	7,528	—	40,647	7,528	100.0	(40,647)	(100.0)
Net assets available for benefits	\$ 90,360,408	81,693,701	79,414,623	8,666,707	10.6%	2,279,078	2.9%

Condensed statements of changes in plan net assets Retirement Security Plan

Additions:							
Employer contributions	\$ 3,564,248	3,520,556	3,508,303	43,692	1.2%	12,253	0.3
Net investment return	8,317,081	1,505,246	9,488,081	6,811,835	452.5	(7,982,835)	(84.1)
Total additions	11,881,329	5,025,802	12,996,384	6,855,527	136.4	(7,970,582)	(61.3)
Deductions:							
Benefit payments	2,928,920	2,509,374	2,204,670	419,546	16.7	304,704	13.8
Administrative expense	285,702	237,350	295,836	48,352	20.4	(58,486)	(19.8)
Total deductions	3,214,622	2,746,724	2,500,506	467,898	17.0	246,218	9.8
Net increase (decrease) in net assets	\$ 8,666,707	2,279,078	10,495,878	6,387,629	280.3%	(8,216,800)	(78.3)%

CY 2012 Compared to CY 2011

- The RSP's net assets increased approximately \$8.7 million during 2012 versus an approximate \$2.3 million increase during 2011. The single largest reason for this increase was the approximate \$6.8 million gain in investment return due to increase of 18.5% for mutual funds in 2012. The Plan's overall portfolio gained 10% in 2012 reflecting the positive financial market backdrop. The overall total

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investment return in 2012 was approximately \$8.3 million. This is compared to an unrealized loss of approximately \$0.7 million with an overall total investment gain of approximately \$1.5 million in 2011.

- In 2012, the overall rate of return on the RSP's investment activity was 10.0%. In 2011, that rate of return was 1.9%. In 2012, the RSP investments, including short-term investments, by type, performed as follows:

	<u>Benchmark</u>	<u>Return Percentages</u>	<u>Amount</u>	<u>Balance at December 31, 2012</u>	<u>Allocation</u>
Investment type:					
Short-term investments	0.1%	0.02%	\$ 387	2,275,250	2.5%
Government agency obligations	3.9	1.9	46,159	2,241,555	2.6
Corporate bonds	3.9	6.3	1,228,565	20,281,345	22.5
Common stocks	16.0	11.0	5,956,572	54,524,369	60.6
Foreign equities	16.4	20.0	126,980	3,281,699	3.6
Mutual Funds	16.4	16.8	958,418	7,408,710	8.2
Overall or totals	12.6	10.0	\$ 8,317,081	90,012,928	100.0%

- At December 31, 2012, the RSP held no commitments for future investment and capital asset purchases.
- The RSP's funding objective is to meet long-term benefit obligations through contributions and investment income. The funded ratio, which is the actuarial value of assets divided by the actuarial accrued liability, is an estimate of how well the RSP is meeting that objective. A higher funded ratio indicates that the plan is well funded. As of December 31, 2011 and 2009, the dates of the most recent and revised actuarial valuations, the funded ratio was approximately 97.2% and 98.3%, respectively.
- The RSP paid approximately \$3.0 million in retirement and disability benefits to 556 members during 2012 compared to approximately \$2.5 million paid to 508 members in 2011. On average, this amounts to payments of \$5,268 per person in 2012 versus \$4,940 per person in 2011.
- The RSP received approximately \$3.6 million in employer contributions in 2012, virtually unchanged from 2011. Employer contribution rates for a year are based on the prior year-end actuarial study. The employer percent contributed increased to 108.7% of required contributions in 2012 as compared to 106.8% in 2011.
- This year's benefit payments were approximately \$0.6 million lower than employer contributions.
- This year's cost of administering the plan for the 2,563 members was \$285,702, which is an average cost of \$111 per person. This cost includes \$88,530 in trustee fees, \$131,360 in advisory fees, \$30,408 in actuary fees, \$31,050 in audit fees, and \$4,354 in miscellaneous expenses. The average cost in 2011 was \$95 per person. This increase in costs is due to higher costs in all administrative expenses.

CY 2011 Compared to CY 2010

- The RSP's net assets increased approximately \$2.3 million during 2011 versus an approximate \$10.5 million increase during 2010. The single largest reason for this increase was the \$8.2 million change in unrealized loss in investment return due to decreases of 12% for the foreign equities and mutual funds and an increase of 2% for domestic equities, as measured by the S&P 500 and MSCI World X-US in 2011.

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The Plan's portfolio outperformed these markets, with domestic equities gaining 3% and foreign equities and mutual funds losing 8% and 16% respectively. The overall total investment return in 2011 was approximately \$1.5 million. This is compared to an unrealized gain of approximately \$7.6 million with an overall total investment gain of approximately \$9.5 million in 2010.

- In 2011, the overall rate of return on the RSP's investment activity was 1.9%. In 2010, that rate of return was 13.7%. In 2011, the RSP investments, including short-term investments, by type, performed as follows:

	<u>Benchmark</u>	<u>Return Percentages</u>	<u>Amount</u>	<u>Balance at December 31, 2011</u>	<u>Allocation</u>
Investment type:					
Short-term investments	0.1%	0.02%	\$ 741	4,555,815	5.6%
Government agency obligations	5.8	4.2	154,871	2,807,955	3.4
Corporate bonds	5.8	7.2	1,254,027	18,991,105	23.4
Common stocks	2.1	2.7	1,285,808	48,395,780	59.5
Foreign equities	12.2	(7.5)	(169,365)	1,939,500	2.4
Mutual Funds	(12.2)	(16.1)	(1,020,836)	4,636,257	5.7
Overall or totals	1.8	1.9	\$ 1,505,246	81,326,412	100.0%

	<u>Benchmark</u>	<u>Return Percentages</u>	<u>Amount</u>	<u>Balance at December 31, 2010</u>	<u>Allocation</u>
Investment type:					
Short-term investments	0.1%	0.02%	\$ 2,507	1,784,258	2.3%
Government agency obligations	5.9	5.0	219,109	4,565,480	5.8
Corporate bonds	5.9	6.9	1,025,645	16,126,270	20.4
Common stocks	15.1	17.0	6,893,601	47,403,134	59.9
Foreign equities	8.9	23.6	571,407	2,399,060	3.0
Mutual Funds	8.9	12.6	775,812	6,850,301	8.6
Overall or totals	11.6	13.7	\$ 9,488,081	79,128,503	100.0%

At December 31, 2011, the RSP held no commitments for future investment and capital asset purchases.

- The RSP's funding objective is to meet long-term benefit obligations through contributions and investment income. The funded ratio, which is the actuarial value of assets divided by the actuarial accrued liability, is an estimate of how well the RSP is meeting that objective. A higher funded ratio indicates that the plan is well funded. As of December 31, 2011 and 2009, the dates of the most recent and revised actuarial valuations, the funded ratio was approximately 97.2% and 98.3%, respectively.
- The RSP paid approximately 2.5 million in retirement and disability benefits to 508 members during 2011 compared to approximately \$2.2 million paid to 457 members in 2010. On average, this amounts to payments of \$4,940 per person in 2011 versus \$4,842 per person in 2010.

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- The RSP received approximately \$3.5 million in employer contributions in 2011, virtually unchanged from 2010. Employer contribution rates for a year are based on the prior year-end actuarial study. The employer percent contributed increased to 106.8% of required contributions in 2011 as compared to 104.7% in 2010.
- This year's benefit payments were approximately \$1.0 million lower than employer contributions.
- This year's cost of administering the plan for the 2,503 members was \$237,350, which is an average cost of \$95 per person. This cost includes \$36,077 in trustee fees, \$161,325 in advisory fees, \$7,384 in actuary fees, \$30,634 in audit fees, and \$1,930 in miscellaneous expenses. The average cost in 2010 was \$120 per person due to higher costs in all administrative expenses.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Statements of Plan Net Assets

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and short-term investments	\$ 2,275,250	4,555,815
Investments, at fair value:		
U.S. government agency obligations	2,241,555	2,807,955
Corporate bonds	20,281,345	18,991,105
Common stocks	54,524,369	48,395,780
Foreign equities	3,281,699	1,939,500
Mutual funds	7,408,710	4,636,257
Total investments	<u>87,737,678</u>	<u>76,770,597</u>
Receivables:		
Accrued interest and dividends	<u>355,008</u>	<u>367,289</u>
Total assets	<u>90,367,936</u>	<u>81,693,701</u>
Liabilities:		
Advisory fees	<u>7,528</u>	<u>—</u>
Total liabilities	<u>7,528</u>	<u>—</u>
Net assets held in trust for pension benefits (A schedule of funding progress and contributions for the plan is presented on page 18.)	<u>\$ 90,360,408</u>	<u>81,693,701</u>

See accompanying notes to financial statements.

RETIREMENT SECURITY PLAN
City of Plano, Texas
Statements of Changes in Plan Net Assets
Years ended December 31, 2012 and 2011

	2012	2011
Additions:		
Contributions, employer	\$ 3,564,248	3,520,556
Investment return:		
Net increase (decrease) in fair value of investments	5,758,734	(686,540)
Interest	961,324	954,676
Dividends	1,597,023	1,237,110
Total investment return	8,317,081	1,505,246
Net additions	11,881,329	5,025,802
Deductions:		
Benefits	2,928,920	2,509,374
Administrative expense	285,702	237,350
Total deductions	3,214,622	2,746,724
Net increase in net assets	8,666,707	2,279,078
Net assets held in trust for pension benefits:		
Beginning of year	81,693,701	79,414,623
End of year	\$ 90,360,408	81,693,701

See accompanying notes to financial statements.

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Notes to Financial Statements

December 31, 2012 and 2011

The Retirement Security Plan (RSP or the Plan) was established on January 1, 1983 pursuant to the City of Plano's (the City) withdrawal from the Federal Social Security system. The RSP is a single-employer defined benefit pension plan and provides retirement benefits for all full-time employees of the City. The purpose of the RSP is to provide specific benefits to employees at retirement or disability, and to their beneficiaries in case of death. As of December 31, 2012, there were 2,563 members consisting of 1,969 active members of whom 1,460 were vested and 509 were nonvested, 38 terminated members entitled to benefits, but not yet receiving them and 556 terminated participants receiving benefits.

The RSP was created by City ordinance and is administered by a committee of five (the Committee), which meets four times a year. The Committee oversees the RSP and sets policies for operations, including appointing management and directing investment decisions. Professional investment management is used and a custodial bank retains the assets and provides for administration of benefit payments.

(1) Plan Description

(a) Membership

The RSP's membership consisted of the following as of December 31, 2012:

Active members:	
Vested	1,460
Nonvested	509
	<hr/>
Total active members	1,969
Terminated members entitled to benefits, but not yet receiving them	38
Retirees and beneficiaries currently receiving benefits	556
	<hr/>
Total	<u>2,563</u>

The RSP's membership consisted of the following as of December 31, 2011:

Active members:	
Vested	1,439
Nonvested	518
	<hr/>
Total active members	1,957
Terminated members entitled to benefits, but not yet receiving them	38
Retirees and beneficiaries currently receiving benefits	508
	<hr/>
Total	<u>2,503</u>

RETIREMENT SECURITY PLAN

City of Plano, Texas

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(1) Plan Description (Continued)

(b) Benefit Provisions

Retirement benefits become vested after 5 years of service. Members who terminate employment prior to completing 5 years of service are not eligible for any benefit, and all contributions made on their behalf remain with the Plan. Members are eligible to receive full retirement income benefits when they reach age 65 or full or reduced benefits when they reach a younger age and meet certain length-of-service requirements. Early retirement benefits are paid upon completion of 20 years of vesting (Texas Municipal Retirement System credited service) or upon attaining age 60 with 5 years of vesting service. At least 5 years of vesting service must be with the City of Plano, Texas. The RSP provides retirement income benefits, with annual cost-of-living adjustments, based on a member's years of service, average compensation (highest 3 years of last 10), and choice of single or joint-life monthly payments or a lump-sum payment as noted below.

For normal retirement, the monthly benefit payment is calculated as follows:

- $0.007 \times$ City of Plano credited service since January 1, 1983 (not to exceed 25 years) \times average compensation (highest 3 years of last 10).

Early retirement benefits paid upon completion of 20 years of vesting (Texas Municipal Retirement System credited service) or upon attaining age 60 with 5 years of vesting service with the City are calculated as follows:

- $0.007 \times$ City of Plano credited service since January 1, 1983 (not to exceed 25 years) \times average compensation (highest 3 years of last 10) \times a reduction factor based on the number of years which the benefit start date precedes the normal retirement date. The benefit is reduced 1/15 for each of the first 5 years and 1/30 for each of the next 5 years (and on an Actuarial Equivalent basis thereafter) by which the starting date of pension payments precedes the employee's normal retirement date.

Benefits are paid as a monthly life annuity to the participant, with a guarantee that should the participant die prior to receiving 60 monthly payments, the payments will continue to a beneficiary for the balance of the 60 month period. There is no reduction factor if the participant waits until age 65 to begin drawing a monthly benefit.

A lump sum payment option is available to eligible employees. Lump sum payments follow these guidelines:

- When the lump sum value is less than \$5,000, the benefit must be in the form of a single lump sum payment.
- When the lump sum value is \$5,000 – \$12,000, the participant has a choice of single lump sum payment or monthly annuity payments.
- When the lump sum value exceeds \$12,000, the participant must receive monthly annuity payments.

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Notes to Financial Statements

December 31, 2012 and 2011

(1) Plan Description (Continued)

Joint and survivor options are available. Total and permanent disability retirement benefits are provided. Each April 1, retirement benefits that have been paid for at least 12 months are adjusted to reflect changes in the U.S. Consumer Price Index (not to exceed 4%). This adjustment is applied to only the participant's benefits; spouses or beneficiaries are excluded.

(c) *Contributions*

Contributions by the employer are established as a part of the City budget process and the actuarially determined percentage of each payroll. The December 31, 2011 actuarial report required contribution rate is 3.28%. No employee contributions are required by the Plan.

(d) *Tax Status*

The Internal Revenue Service has determined and informed the City by a letter dated May 4, 2012, that the Plan is designed in accordance with applicable sections of the Internal Revenue Code (IRC). The plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently operated in compliance with the applicable requirements of the IRC.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the organization has taken an uncertain tax position that more likely than not would be sustained upon examination by the Internal Revenue Service. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that as of December 31, 2012, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The plan administrator believes it is no longer subject to income tax examinations for years prior to 2010.

(e) *Other Information*

The RSP finances its administrative costs through investment earnings. If the Plan is partially or fully terminated for any reason, state statute provides that the rights of all benefits on the date of termination to all members and benefit recipients to the extent then funded, will become nonforfeitable.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to Financial Statements

December 31, 2012 and 2011

(2) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The RSP is one of the City of Plano's Fiduciary Funds and is presented as such in the City's financial statements. The assets of the RSP are being held for benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government.

(b) *Basis of Presentation and Accounting*

The Plan's financial statements are prepared in accordance with the standards of the Governmental Accounting Standards Board for pension trust funds. Employer contributions are recognized when due, and benefits are recognized when due and payable. Investment transactions are recorded as of the trade date, and investment income from interest and dividends is recorded when earned or declared.

(c) *Use of Estimates*

The preparation of financial statements and required supplementary Information in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of plan net assets available for benefits and changes therein. Actual results could differ from those estimates.

(d) *Investments*

Investments of the Plan are reported at fair value. The RSP determines the fair value of investments as of December 31, 2012 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-end mutual funds are based on the funds' current share prices as determined by quoted market prices.

(3) Investments

(a) *Investment Authority and Policies*

The assets of the RSP will be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility. The safeguards that would guide a prudent person will be observed. All transactions undertaken on behalf of the Plan will be for the sole benefit of the participants of the Plan. The assets that comprise the RSP shall be managed by one or more investment managers on a fully discretionary basis. Investment guidelines and portfolio asset allocation will be reviewed periodically by the Committee. Taking into consideration the long-term performance and risk characteristics of various asset classes and balancing the risk and rewards of market behavior with the long-term objectives of the RSP, the current investment guidelines are as follows:

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City of Plano, Texas

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(3) Investments (Continued)

- Permissible investments include: U.S. government securities, U.S. government agency securities, corporate bonds rated BBB or better, corporate common stocks, and open and closed-end investment companies. All other investments are prohibited unless approved in advance by the Committee.
- The aggregate amount of moneys invested in permissible equity securities cannot exceed 75% of the assets of the RSP and cannot be less than 60%.
- Reasonable diversification should be achieved in both the bond and equity portfolios.
- International equities may comprise up to 15% of the assets of the RSP.

The above limitations and portfolio diversification over several asset classes are intended to reduce the RSP's overall investment risk exposure. The Committee has a written set of investment policies that may be viewed by request to the City's Human Resources Department, at City of Plano, 1520 Avenue K, Suite 130, Plano, TX 75074. Those policies address asset allocations for the various investment types, risk management, and investment monitoring. They also include qualitative and quantitative criteria and specific benchmarks for performance.

(b) *Custody of Assets*

The RSP Committee has a contract with a Trustee to hold the RSP's trust funds for the Plan. The contract is automatically renewable each year and can be terminated by either party with a 60 day notice.

(c) *Cash and Short-Term Investments*

The carrying amount of the RSP's cash and short-term investments at December 31, 2012, in the Statement of Plan Net Assets is approximately \$2.3 million and \$4.6 million at December 31, 2011. The full \$2.3 and \$4.6 million of short-term investments as of December 31, 2012 and December 31, 2011, respectively, consists of money market mutual funds.

(d) *Deposit and Investment Risk*

Custodial Risk. The assets are held in custody at a Trustee in the name of the RSP. The RSP does not have any investments that are not insured, not registered, or not represented by securities that are held by the RSP or by its agent in the RSP name. There are no deposits.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to Financial Statements

December 31, 2012 and 2011

(3) Investments (Continued)

Overall Credit Risk. The RSP investment policy specifies the type of credit rating of all authorized investments. The Plan's investments are rated by Standard and Poor's as follows:

<u>Rating</u>	<u>RSP distribution by S&P rating</u>	
	<u>Number</u>	<u>Market value</u>
AAA	1	\$ 864,608
AA+	6	3,556,975
AA	3	1,999,380
AA-	2	1,140,865
A+	6	3,689,420
A	11	6,953,985
A-	4	2,927,488
BBB+	2	1,390,180
Total		\$ <u>22,522,901</u>

Concentration of Credit Risk. The RSP investment policy limits the amount that may be invested in securities and international equities and requires reasonable diversification in bond and equity portfolios. As of December 31, 2011, there are no individual investments (other than those issued or guaranteed by the U.S. government or in mutual funds) that represent five or more percent of the Plan's total investment portfolio value.

Foreign Currency Risk. The RSP investment policy limits the amount that may be invested in international equities to 15% of total assets. There is no direct foreign currency risk in the Plan's portfolio.

Interest Rate Risk. The RSP investment policy does not specifically address interest rate risk as it relates to the length of investment period or maturity structure for the fixed income portfolio.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to Financial Statements

December 31, 2012 and 2011

(3) Investments (Continued)

The following tables categorize the Plan's investments at December 31, 2012 and 2011, by type of investment to give an indication of the level of interest rate risk:

	Fair value December 31, 2012	Weighted average maturity (years)
Investment type:		
Government agency obligations	\$ 2,241,555	2.8
Corporate bonds	<u>20,281,345</u>	5.2
Total fixed income investments	22,522,900	4.9
Common stocks	54,524,369	n/a
Foreign equities	3,281,699	n/a
Money market mutual funds ⁽¹⁾	2,275,250	n/a
Mutual funds	<u>7,408,710</u>	n/a
Total investments	<u>\$ 90,012,928</u>	

⁽¹⁾ This \$2.3 million investment is reported with cash and short-term investments in the Statement of Plan Net Assets.

	Fair value December 31, 2011	Weighted average maturity (years)
Investment type:		
Government agency obligations	\$ 2,807,955	3.1
Corporate bonds	<u>18,991,105</u>	5.5
Total fixed income investments	21,799,060	5.2
Common stocks	48,395,780	n/a
Foreign equities	1,939,500	n/a
Money market mutual funds ⁽¹⁾	4,555,815	n/a
Mutual funds	<u>4,636,257</u>	n/a
Total investments	<u>\$ 81,326,412</u>	

⁽¹⁾ This \$4.6 million investment is reported with cash and short-term investments in the Statement of Plan Net Assets.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to Financial Statements

December 31, 2012 and 2011

(3) Investments (Continued)

(e) Equity and Long-Term Fixed Income Securities

The RSP invests in equity and long-term fixed income securities in both the domestic and international markets based on the Committee's asset allocation strategy. The following tables present the types of those investments, the fair value of each type for the years ended December 31, 2012 and 2011, and the income for each type for the years then ended.

	Fair value ⁽¹⁾ December 31, 2012	Appreciation or depreciation)	Dividend or Interest Income ⁽¹⁾	Total return
Equity:				
Domestic	\$ 54,524,369	4,580,532	1,376,040	5,956,572
International	10,690,409	864,415	220,983	1,085,398
Total equity	<u>65,214,778</u>	<u>5,444,947</u>	<u>1,597,023</u>	<u>7,041,970</u>
Fixed income:				
U.S. government	2,241,555	(66,401)	112,560	46,159
Domestic	20,281,345	380,188	848,377	1,228,565
Total fixed income	<u>22,522,900</u>	<u>313,787</u>	<u>960,937</u>	<u>1,274,724</u>
Total	<u>\$ 87,737,678</u>	<u>5,758,734</u>	<u>2,557,960</u>	<u>8,316,694</u>

⁽¹⁾ Short-term investment fair value of \$2,275,250 and interest income of \$387 is not included in this investment schedule.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to Financial Statements

December 31, 2012 and 2011

	Fair value ⁽¹⁾ December 31, 2011	Appreciation depreciation)	Dividend or Interest Income ⁽¹⁾	Total return
Equity:				
Domestic	\$ 48,395,780	227,243	1,058,565	1,285,808
International	<u>6,575,757</u>	<u>(1,368,746)</u>	<u>178,545</u>	<u>(1,190,201)</u>
Total equity	<u>54,971,537</u>	<u>(1,141,503)</u>	<u>1,237,110</u>	<u>95,607</u>
Fixed income:				
Government agency obligations	2,807,955	(7,524)	162,395	154,871
Domestic	<u>18,991,105</u>	<u>462,487</u>	<u>791,540</u>	<u>1,254,027</u>
Total fixed income	<u>21,799,060</u>	<u>454,963</u>	<u>953,935</u>	<u>1,408,898</u>
Total	<u>\$ 76,770,597</u>	<u>(686,540)</u>	<u>2,191,045</u>	<u>1,504,505</u>

⁽¹⁾ Short-term investment fair value of \$4,555,815 and interest income of \$741 is not included in this investment schedule.

RETIREMENT SECURITY PLAN

City of Plano, Texas

Notes to the Required Supplementary Information (Unaudited)

December 31, 2012 and 2011

(1) Description

The seven year historical trend information for the RSP is presented as required supplementary information. This information is intended to help users assess the funding status on an ongoing basis and to assess progress made in accumulating assets to pay benefits when due.

(2) Actuarial Assumptions and Methods

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

Valuation date	12/31/09 Revised (11/30/10)	12/31/11
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of pay, 25 years	Level percent of pay, 25 years
Payroll growth rate for amortization	3.50%	3.50%
Remaining amortization period	25 years – Closed	25 years – Closed
Asset valuation method	5-year smoothed market	5-year smoothed market
Actuarial assumptions:		
Investment rate of return*	7.75%	7.75%
Projected salary increases*	3.50% to 8.10%	3.50% to 8.10%
*Includes inflation at	3.00%	3.00%
Cost of living adjustments	2.80%	2.80%

Employer's annual required contributions in a single year are based on the prior year-end actuarial study.

(3) Significant Factors Affecting Trends in Actuarial Information

The following shows changes in plan provisions and actuarial assumptions from the prior years that significantly affect the identification of trends in the amounts reported in the required schedules.

2011

- The employer contribution rate was changed to 3.28% from 3.23%.

2010

- The employer contribution rate was changed to 3.23% from 3.64%.

2009

- The employer contribution rate was changed to 3.64% from 3.12%.

2007

- The employer contribution rate was changed to 3.12% from 3.13%.

RETIREMENT SECURITY PLAN
City of Plano, Texas
Required Supplementary Information
Schedule of Funding Progress and Contributions (Unaudited)
December 31, 2012 and 2011

Calendar year	Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (a – b)	Funded percent (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b – a)/c)	Annual required contributions (d)	Actual contributions (e)	Percent contributed (e/d)
2006	12/31/05	\$ 56,579,886	55,987,030	592,856	101.06%	\$ 97,020,196	0.61%	\$ 2,953,619	2,796,062	94.67%
2007	12/31/07	69,211,789	68,647,366	564,423	100.82	109,334,429	0.52	3,447,764	3,499,976	101.51
2008	12/31/07	69,211,789	68,647,366	564,423	100.82	109,334,429	0.52	3,447,764	3,450,535	100.08
2009	12/31/09*	75,217,522	76,550,304	(1,332,782)	98.26	110,025,108	(1.21)	3,341,915	3,455,242	103.39
2010	12/31/09*	75,217,522	76,550,304	(1,332,782)	98.26	110,025,108	(1.21)	3,341,915	3,499,659	104.72
2011	12/31/11	84,500,525	86,978,777	(2,478,252)	97.15	108,860,210	(2.28)	3,272,118	3,495,377	106.82
2012	12/31/11	84,500,525	86,978,777	(2,478,252)	97.15	108,860,210	(2.28)	3,272,118	3,555,733	108.67

* The RSP actuarial valuation as of December 31, 2009 was revised on November 30, 2010 to reflect the assumptions from the 2010 Experience Study as adopted by the Retirement Committee in October 2010.

See accompanying independent auditors' report.