



Financial Statements and Report of Independent Certified Public Accountants

City of Plano, Texas Retirement Security Plan

December 31, 2013 and 2012



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 (the Plan), which comprise of the statements of plan net position as of December 31, 2013 and 2012, the related statements of changes in plan net position for the years ended December 31, 2013 and 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Plano Texas Retirement Security Plan as of December 31, 2013 and 2012, and the respective changes in financial position for the years ended December 31, 2013 and 2012, in accordance with U.S. generally accepted accounting principles.



Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the supplemental schedule of funding progress and contributions and related notes on pages 3–10 and 22–24 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 consist 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.

KPMG LLP

Dallas, Texas
June 30, 2014

Retirement Security Plan

City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

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, 2013 and 2012. 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 2013, net position of the Plan increased by approximately \$20.4 million. This increase was caused by approximately \$17.8 million in fair value of the investments, approximately \$2.1 million in interest and dividend income, and approximately \$3.8 million in contributions. The increase was primarily offset by approximately \$3.1 million in employer benefit payments. This is compared to an increase in net assets of approximately \$8.7 million in 2012.
- Net investment return increased in 2013 by approximately \$12.1 million. In 2013, the management of the Plan's assets transferred to a new investment advisor. At the inception of the account, 74% of the account (approximately \$68.0 million) was invested in equities securities. During that time period, the various equity styles in the account returned between 17% and 37%, generating slightly more than \$17.0 million in realized and unrealized gains.
- The RSP paid approximately \$3.1 million in benefits during 2013, compared to approximately \$3.0 million in 2012. Benefit payments increased due to an increase in the number of retirees.
- The RSP received approximately \$3.8 million in employer contributions during 2013, compared to \$3.6 million in 2012. This increase was driven primarily by an increase in payroll.
- As of December 31, 2013, the date of the actuarial valuation, the RSP is actuarially funded at 100.3%; an increase of 3.1% from the December 31, 2011 actuarial valuation. The funded ratio increased primarily due to the increase in plan assets from 2011 to 2013 outpacing the increase in actuarial accrued liability.

Retirement Security Plan

City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

Overview of the Financial Statements

Basic Financial Statements

In this financial report, the basic financial statements consist of the Statements of Plan Net Position and the Statements of Changes in Plan Net Position 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, 2013, and comparative audited information as of and for the year ended December 31, 2012.

The Statements of Plan Net Position 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 position, 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, which presents an estimate of the actuarial accrued liability.

The Statements of Changes in Plan Net Position present the additions to and deductions from the Plan's net position during the year. The Plan receives contributions from the Plan members' 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 position during the year is added to or subtracted from the beginning balance of the Plan net position to obtain the balance of Plan net position 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

Retirement Security Plan

City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

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 ten years.

Retirement Security Plan

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SUMMARY AND ANALYSIS OF THE FINANCIAL INFORMATION

Defined Benefit Pension Plan

The following Condensed Statements of Plan Net Position and Changes in Plan Net Position present financial information for the RSP, comparing 2013, 2012, and 2011 audited information. This information comes from the Statements of Plan Net Position and Statements of Changes in Plan Net Position for those three years:

Condensed Statements of Plan Net Position -- Retirement Security Plan

	December 31			2013 - 2012 Change		2012 - 2011 Change	
	2013	2012	2011	Amount	Percentage	Amount	Percentage
Assets							
Cash and short-term investments	\$ 1,081,950	\$ 2,275,250	\$ 4,555,815	\$ (1,193,300)	-52.4%	\$ (2,280,565)	-50.1%
Investments, at fair value	109,529,781	87,737,678	76,770,597	21,792,103	24.8%	10,967,081	14.3%
Receivables	242,963	355,008	367,289	(112,045)	-31.6%	(12,281)	-3.3%
Total Assets	110,854,694	90,367,936	81,693,701	20,486,758	22.7%	8,674,235	10.6%
Liabilities							
Administrative fees	49,777	7,528	-	42,249	561.2%	7,528	100.0%
Total Liabilities	49,777	7,528	-	42,249	561.2%	7,528	100.0%
Net assets available for benefits	\$ 110,804,917	\$ 90,360,408	\$ 81,693,701	\$ 20,444,509	22.6%	\$ 8,666,707	10.6%

Condensed Statements of Changes in Plan Net Position -- Retirement Security Plan

Additions							
Employer contributions	\$ 3,805,272	\$ 3,564,248	\$ 3,520,556	\$ 241,024	6.8%	\$ 43,692	1.2%
Net investment return	19,941,412	8,317,081	1,505,246	11,624,331	139.8%	6,811,835	452.5%
Total Additions	23,746,684	11,881,329	5,025,802	11,865,355	99.9%	6,855,527	136.4%
Deductions							
Benefit payments	3,055,808	2,928,920	2,509,374	126,888	4.3%	419,546	16.7%
Administrative expense	246,367	285,702	237,350	(39,335)	-13.8%	48,352	20.4%
Total Deductions	3,302,175	3,214,622	2,746,724	87,553	2.7%	467,898	17.0%
Net increase (decrease) in net assets	\$ 20,444,509	\$ 8,666,707	\$ 2,279,078	\$ 11,777,802	135.9%	\$ 6,387,629	280.3%

CY 2013 Compared to CY 2012

- The RSP's net position increased approximately \$20.4 million during 2013 versus an approximate \$8.7 million increase during 2012. The single largest reason for this increase was the approximate \$12.1

Retirement Security Plan

City of Plano, Texas

Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

million increase in investment return due to an average performance return of 34.0% for commons stocks in 2013. The Plan's overall portfolio gained 18.7% in 2013 reflecting the positive financial market backdrop. The overall total investment return in 2013 was approximately \$20.0 million. This is compared to a gain of approximately \$5.8 million with an overall total investment gain of approximately \$8.3 million in 2012.

- In 2013, the overall rate of return on the RSP's investment activity was 18.7%. In 2012, that rate of return was 10.0%. In 2013, the RSP investments, including short-term investments, by type, performed as follows:

Investment Type	Benchmark	Return		Balance at 12/31/13	Allocation
		Percentage	Amount		
Short-term investments	0.04%	0.01%	\$ 222	\$ 1,081,950	1.0%
U.S. government obligations	(0.69)%	(0.48)%	32,985	14,083,152	12.7%
Government agency obligations	(0.69)%	(0.48)%	(61,251)	2,152,220	2.0%
Corporate bonds	(0.69)%	(0.48)%	5,705,899	9,656,933	8.7%
Common stocks					
US Large Cap Stocks	28.19%	32.88%	4,473,805	36,217,116	32.7%
US Mid Cap Stocks	28.73%	31.98%	6,263,541	22,289,065	20.2%
US Small Cap Stocks	36.99%	37.10%	1,971,848	7,165,775	6.5%
Foreign equities	15.29%	16.91%	1,337,262	12,882,524	11.6%
Real estate investment trust	(1.39)%	(0.09)%	217,101	5,082,996	4.6%
Overall or Totals	14.70%	18.71%	\$ 19,941,412	\$ 110,611,731	100.0%

- At December 31, 2013, 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, 2013 and 2011, the dates of the most recent and revised actuarial valuations, the funded ratio was approximately 100.3% and 97.2%, respectively.
- The RSP paid approximately \$3.1 million in retirement and disability benefits to 602 members during 2013 compared to approximately \$3.0 million paid to 556 members in 2012. On average, this amounts to payments of \$5,076 per person in 2013 versus \$5,268 per person in 2012.

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Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

- The RSP received approximately \$3.8 million in employer contributions in 2013, compared to \$3.6 million in 2012. Employer contribution rates for a year are based on the year-end actuarial study. The employer percent contributed increased to 104.2% of required contributions in 2013 as compared to 99.6% in 2012.
- This year's benefit payments were approximately \$0.7 million lower than employer contributions.
- This year's cost of administering the Plan for the 2,635 members was \$246,367 which is an average cost of \$93 per person. This cost includes \$26,239 in trustee fees, \$185,204 in advisory fees, \$11,732 in actuary fees, \$21,000 in audit fees, and \$2,192 in miscellaneous expenses. The average cost in 2012 was \$111 per person. This decrease in costs is due to lower total cost in administrative expenses combined with a higher number of retirees and beneficiaries currently receiving benefits.

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 an 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 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:

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December 31, 2013 and 2012

Investment Type	<u>Benchmark</u>	<u>Return</u>		<u>Balance at 12/31/12</u>	Allocation
		<u>Percentage</u>	<u>Amount</u>		
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%	<u>\$ 8,317,081</u>	<u>\$ 90,012,928</u>	<u>100.0%</u>

Investment Type	<u>Benchmark</u>	<u>Return</u>		<u>Balance at 12/31/11</u>	Allocation
		<u>Percentage</u>	<u>Amount</u>		
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%	<u>\$ 1,505,246</u>	<u>\$ 81,326,412</u>	<u>100.0%</u>

- 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 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.

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Management's Discussion and Analysis (Unaudited)

December 31, 2013 and 2012

- 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 99.6% of the annual required contribution in 2012 as compared to 97.9% in 2011.
- Benefit payments in 2012 were approximately \$0.6 million lower than 2012 employer contributions.
- 2012'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.

**Retirement Security Plan
City of Plano, Texas
Statements of Plan Net Position
As of December 31, 2013 and 2012**

	2013	2012
Assets		
Cash and short-term investments	\$ 1,081,950	\$ 2,275,250
Investments, at fair value:		
U.S. Government obligations	14,083,152	-
Government agency obligations	2,152,220	2,241,555
Corporate bonds	9,656,933	20,281,345
Common stocks	65,671,956	54,524,369
Foreign equities	12,882,524	3,281,699
Mutual funds	-	7,408,710
Real estate investment trusts	5,082,996	-
Total investments	109,529,781	87,737,678
Receivables		
Accrued interest and dividends	242,963	355,008
Total Assets	110,854,694	90,367,936
 Liabilities		
Accrued Advisory fees	49,777	7,528
Total Liabilities	49,777	7,528
 Net position held in trust for pension benefits (A schedule of funding progress and contributions for the plan is presented on page 22.)	\$ 110,804,917	\$ 90,360,408

**Retirement Security Plan
City of Plano, Texas
Statements of Changes in Plan Net Position
As of December 31, 2013 and 2012**

	2013	2012
Additions		
Contributions, employer	\$ 3,805,272	\$ 3,564,248
Investment return		
Net increase in		
fair value of investments	17,829,627	5,758,734
Interest	677,170	961,324
Dividends	1,434,615	1,597,023
Total investment return	19,941,412	8,317,081
Net additions	23,746,684	11,881,329
Deductions		
Benefits	3,055,808	2,928,920
Administrative expenses	246,367	285,702
Total deductions	3,302,175	3,214,622
Net increase in net position	20,444,509	8,666,707
Net position held in trust for pension benefits		
Beginning of year	90,360,408	81,693,701
End of year	\$ 110,804,917	\$ 90,360,408

Retirement Security Plan
City of Plano, Texas
Notes to the Financial Statements
December 31, 2013 and 2012

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, 2013, there were 2,635 members consisting of 1,987 active members of whom 1,459 were vested and 528 were non-vested, 46 terminated members entitled to benefits, but not yet receiving them and 602 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, 2013:

Active members	
Vested	1,459
Non-vested	528
Total active members	<u>1,987</u>
Terminated members entitled to benefits, but not yet receiving them	46
Retirees and beneficiaries currently receiving benefits	602
 Total	 <u>2,635</u>

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

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

**Retirement Security Plan
City of Plano, Texas
Notes to the Financial Statements
December 31, 2013 and 2012**

(1) Plan Description (Continued)

(b) Benefit Provisions

Retirement benefits become vested after five years of service. Members who terminate employment prior to completing five 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 five 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:

- $.007 \times$ 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:

- $.007 \times$ 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.

Retirement Security Plan
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(1) Plan Description (Continued)

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.

Joint and survivor options are available. Total and permanent disability retirement benefits are provided. Each April 1, retirement benefits which 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, 2013 actuarial report required contribution rate is 3.12%. No employee contributions are required by the Plan.

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(1) Plan Description (Continued)

(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 State 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, 2013, 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 2012.

(e) Other Information

The RSP finances its administrative costs through investment earnings. It is exempt from federal income taxes under the Internal Revenue Code. 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 the Financial Statements
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(2) Summary of Significant Accounting Policies

(a) Reporting Entity

The RSP is one of the City'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 RSP 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, 2013 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 shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility, and the requirements of applicable law. The Investment Manager shall observe the safeguards that would guide a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. All transactions

Retirement Security Plan
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(3) Investments (Continued)

undertaken on behalf of the RSP shall be for the exclusive benefit of the participants and their beneficiaries. The RSP Investment policy shall be reviewed annually to ensure that it remains relevant and effective within prevailing economic conditions and other conditions affecting the RSP asking 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:

- Permissible investments include: cash equivalents, including certificates of deposit at U.S. banks, money market and similar bank accounts and money market mutual funds; corporate bonds, including convertibles; commercial paper; U.S. government and agency securities; common and preferred stocks; and mutual funds. All other investments are prohibited unless approved in advance by the Committee.
- The Investment Manager shall maintain investments within the acceptable allocation ranges (as a percentage of total assets of the RSP): Cash Equivalents (0-5%); Fixed Income (25-40%); Domestic Equity (45-70%); International Equity (5-15%); and Real Estate (0-5%);
- Equity investments shall be further maintained within the following market capitalization guidelines: Total Large Cap (40-60%); Total Medium Cap (25-40%); and Total Small Cap (3-20%).
- The amount of assets invested in cash equivalents shall not be less than the amount required to cover current liabilities.

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, Texas 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.

**Retirement Security Plan
City of Plano, Texas
Notes to the Financial Statements
December 31, 2013 and 2012**

(3) Investments (Continued)

(c) Cash, Cash Equivalent and Short-Term Investments

The carrying amount of the RSP's cash, cash equivalents and short-term investments at December 31, 2013, in the Statement of Plan Net Position is approximately \$1.1 million and \$2.3 million at December 31, 2012. The full \$1.1 and \$2.3 million of short-term investments as of December 31, 2013 and December 31, 2012, respectively, consists of money market mutual funds.

(d) Deposit and Investment Risk

Custodial Risk. 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.

Overall Credit Risk. The RSP investment policy does not specify the type of credit rating of authorized investments. The Plan's debt securities are rated by Standard and Poor's as follows:

Rating	RSP distribution by S&P Rating	
	Number	Market Value
AAA	1	\$ 826,673
AA+	5	2,975,218
AA	2	1,389,732
AA-	1	574,150
A+	1	577,785
A	4	2,747,135
A-	4	2,718,460
NA	5	14,083,152
Total		\$ 25,892,305

Concentration of Credit Risk. The RSP investment policy limits the amount that may be invested in various investment categories and requires reasonable diversification in equity portfolios. As of December 31, 2013, 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.

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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.

(3) Investments (Continued)

The following tables categorize the Plan's investments at December 31, 2013 and 2012, by type of investment to give an indication of the level of interest rate risk:

Investment type	Fair Value 12/31/2013	Weighted Average Maturity (Years)
U.S. government obligations	14,083,152	2.35
Government agency obligations	2,152,220	1.75
Corporate bonds	9,656,933	5.16
Total fixed income investments	<u>\$ 25,892,305</u>	3.46
Common stocks	65,671,956	n/a
Foreign equities	12,882,524	n/a
Money market mutual funds ⁽¹⁾	1,081,950	0.25
Real estate investment trusts	5,082,996	n/a
Total investments	<u>\$ 110,611,731</u>	

⁽¹⁾ This \$1.1 million investment is reported with cash and short-term investments in the Statement of Plan Net Position.

Investment type	Fair Value 12/31/2012	Weighted Average Maturity (Years)
Government agency obligations	2,241,555	2.8
Corporate bonds	20,281,345	5.2
Total fixed income investments	<u>\$ 22,522,900</u>	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	7,408,710	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 Position.

Retirement Security Plan
City of Plano, Texas
Notes to the Financial Statements
December 31, 2013 and 2012

(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, 2013 and 2012, and the income for each type for the years then ended.

	<i>Fair Value</i> ⁽¹⁾ <i>12/31/2013</i>	<i>Appreciation</i> <i>(Depreciation)</i>	<i>Dividend</i> <i>or Interest</i> <i>Income</i> ⁽¹⁾	<i>Total</i> <i>Return</i>
Equity				
Domestic	\$ 70,754,952	\$ 11,731,490	\$ 1,194,805	\$ 12,926,295
International	12,882,524	1,097,452	239,810	1,337,262
Total equity	<u>83,637,476</u>	<u>12,828,942</u>	<u>1,434,615</u>	<u>14,263,557</u>
Fixed income				
U.S. government	16,235,372	(165,999)	137,733	(28,266)
Domestic	9,656,933	5,166,684	539,215	5,705,899
Total fixed income	<u>25,892,305</u>	<u>5,000,685</u>	<u>676,948</u>	<u>5,677,633</u>
Total	<u>\$ 109,529,781</u>	<u>\$ 17,829,627</u>	<u>\$ 2,111,563</u>	<u>\$ 19,941,190</u>

⁽¹⁾ Short-term investment fair value of \$1,081,950 and interest income of \$222 is not included in this investment schedule.

	<i>Fair Value</i> ⁽¹⁾ <i>12/31/12</i>	<i>Appreciation</i> <i>(Depreciation)</i>	<i>Dividend</i> <i>or Interest</i> <i>Income</i> ⁽¹⁾	<i>Total</i> <i>Return</i>
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
REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013 and 2012**

**REQUIRED SUPPLEMENTARY INFORMATION
Retirement Security Plan
Schedule of Funding Progress and Contributions (unaudited)**

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)
2004	12/31/03	48,894,642	44,115,875	4,778,767	110.83%	89,847,588	5.32%	2,953,619	2,570,626	87.03%
2005	12/31/05	56,579,886	55,987,030	592,856	101.06%	97,020,196	0.61%	3,038,067	2,788,179	91.77%
2006	12/31/05	56,579,886	55,987,030	592,856	101.06%	97,020,196	0.61%	3,038,067	2,796,062	92.03%
2007	12/31/07	69,211,789	68,647,366	564,423	100.82%	109,334,429	0.52%	3,415,683	3,499,976	102.47%
2008	12/31/07	69,211,789	68,647,366	564,423	100.82%	109,334,429	0.52%	3,415,683	3,450,535	101.02%
2009	12/31/09*	75,217,522	76,550,304	(1,332,782)	98.26%	110,025,108	(1.21)%	3,553,811	3,455,242	97.23%
2010	12/31/09*	75,217,522	76,550,304	(1,332,782)	98.26%	110,025,108	(1.21)%	3,553,811	3,499,659	98.48%
2011	12/31/11	84,500,525	86,978,777	(2,478,252)	97.15%	108,860,210	(2.28)%	3,570,615	3,495,377	97.89%
2012	12/31/11	84,500,525	86,978,777	(2,478,252)	97.15%	108,860,210	(2.28)%	3,570,615	3,555,733	99.58%
2013	12/31/13	100,876,901	100,604,971	271,930	100.27%	117,023,684	0.23%	3,651,139	3,805,272	104.22%

* 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 notes to required supplementary information (unaudited)

Retirement Security Plan
City of Plano, Texas
Notes to the Required Supplementary Information (Unaudited)
December 31, 2013 and 2012

(1) Description

The ten 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 schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/11	12/31/13
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent of pay, 23 years	Level percent of pay, 21 years
Payroll growth rate for amortization	3.50%	3.50%
Remaining amortization period	23 years – Closed	21 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.

2013

- The employer contribution rate was changed to 3.12% from 3.28%

2012

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

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December 31, 2013 and 2012

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%.

