



## Montemayor Hill Britton & Bender PC

CERTIFIED PUBLIC ACCOUNTANTS  
INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
City of Austin Police Retirement System

### Report on the Financial Statements

We have audited the accompanying financial statements of City of Austin Police Retirement System (System), which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Plan management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System'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 System'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2014 and 2013, and the changes in its financial status for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and supplemental schedules on pages 17-22 and 43-47 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, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Montemayor Hill Britton & Bender PC

9 September 2015  
Austin, Texas

## City of Austin Police Retirement System Management Discussion and Analysis

This section of the City of Austin Police Retirement System's (the System) financial report presents our discussion and analysis of the System's financial performance during calendar years 2014 and 2013. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

### Financial Highlights

- Fiduciary net assets held in trust by the System increased by \$42.9 million or positive 7.21% in 2014 and increased by \$56.2 million or positive 10.43% in 2013. The asset increase in 2014 is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The asset increase in 2013 is result of continuing U.S. Security market rally, when Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012.
- Contributions increased by \$3.4 million, or 6.79% in 2014 and increased by \$3.3 million, or 7.0% in 2013 . The increase in 2014 is due to increases in the City of Austin's 1.5% general wage increase, and increase in number of participants. The increase in 2013 is due to increases in City of Austin's 3% general wage increase, and increase in number of participants.
- The amount of benefits paid to retired members, beneficiaries and refunded to terminating employees increased approximately \$2.5 million, or 6.0% during 2014 and \$2.8 million, or 6.0% during 2013 . The increase in 2014 is due to the increase in number of System retirees by 6.4% and increase in 2013 due to the increase in number of retirees by 5.9%.
- The System's rate of return on investments for the year ended December 31, 2014 was positive 6% gross of fees and positive 5.75% net of fees, on a market value basis, which was less than the return of 9.79% gross of fees and 9.1% net of fees for the year ended December 31, 2013.
- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2014, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 67.5% which is up from the 66.4% level at December 31, 2013. This is primarily due to reducing some benefit structures, increasing cost on others and modifying actuarial assumptions, while benefiting from favorable 5 year smoothing average rule (2010-2014) investment experience. The actuarial assumed rate of return is 7.90%, net of fees and administrative expenses.

## City of Austin Police Retirement System Management Discussion and Analysis

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Systems' financial statements, which are comprised of the following:

- **Statement of Fiduciary Net Position** - presents the Systems' assets and liabilities and the resulting net position for pension benefits. This statement reflects a year-end snapshot of the Plan's investments at fair value, along with cash and short-term investments, receivables and other assets and liabilities.
- **Statement of Changes in Fiduciary Net Position** - provides a view of current year additions to and deductions from the plan. These two statements report the System's net position for pension benefits (net position) – the difference between assets and liabilities – is one way to measure the Systems' financial position. Over time, increases and decreases in net assets are one indicator of whether its financial health is improving or deteriorating.
- **Notes to the Financial Statements** - provide additional information that is essential to a full understanding of the data provided in the financial statements.

Collectively, this information presents the Fiduciary net position as of the end of each year, and summarizes the changes in Fiduciary net position for the year.

### Financial Analysis

#### Summary of Fiduciary Net Assets

| <u>Assets</u>                               | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          |
|---|----------------------|----------------------|----------------------|
| Cash, receivables and prepaids              | \$ 6,131,085         | \$ 5,122,091         | \$ 4,670,268         |
| Investments, at fair value                  | 633,938,051          | 591,901,006          | 534,149,354          |
| Fixed assets, net                           | 471,327              | 528,701              | 578,687              |
| Total assets                                | <u>640,540,463</u>   | <u>597,551,798</u>   | <u>539,398,310</u>   |
| <b><u>Liabilities</u></b>                   |                      |                      |                      |
| Total liabilities                           | <u>2,521,396</u>     | <u>2,441,396</u>     | <u>500,661</u>       |
| Fiduciary net position for pension benefits | <u>\$638,019,067</u> | <u>\$595,110,402</u> | <u>\$538,897,649</u> |

December 31, 2014, 2013, 2012

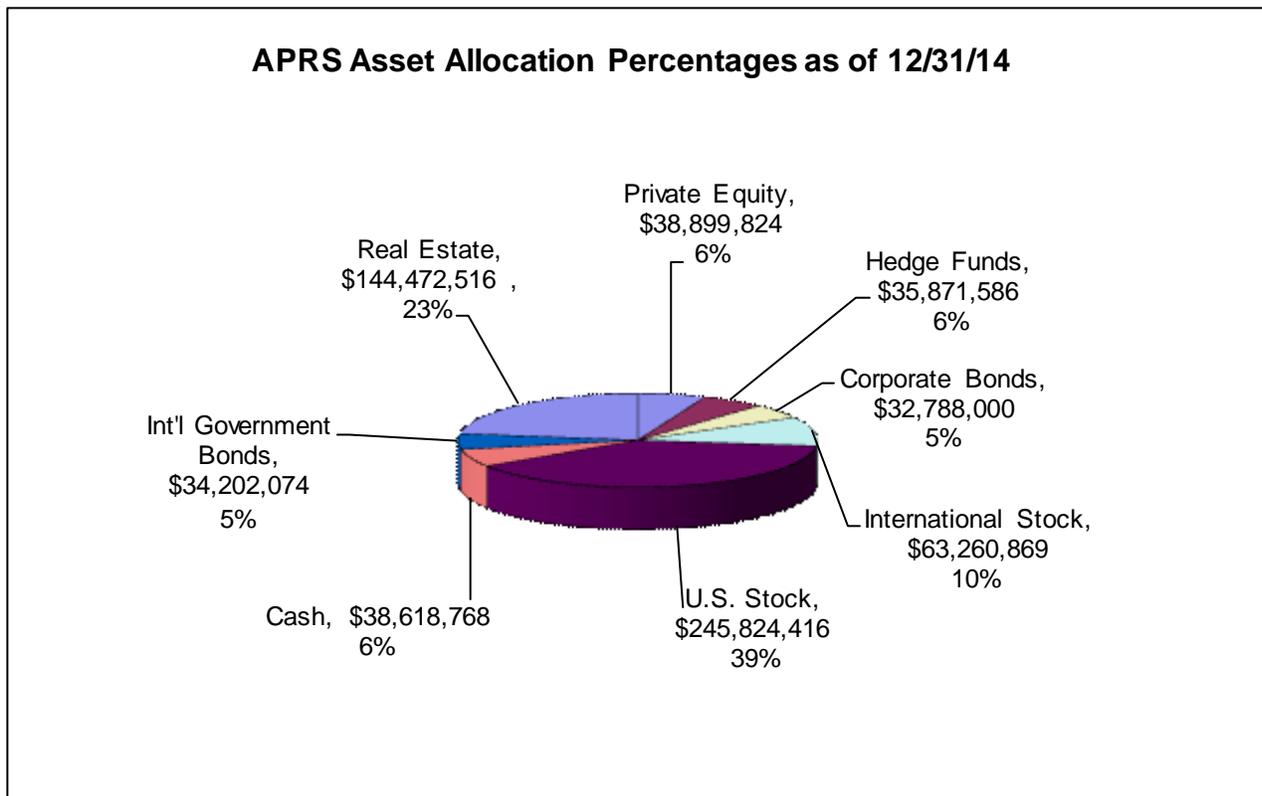
**Liabilities.** Liabilities increased by \$80 thousand in 2014 and increased by \$1.9 million in 2013 . The

## City of Austin Police Retirement System Management Discussion and Analysis

**Assets.** The Systems' Fiduciary net position increased by \$42 million in 2014, increased by \$56.2 million in 2013, and increased by \$54.8 million in 2012. The asset increase in 2014 is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The asset increase in 2013 is result of continuing U.S. Security market rally, when Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012.

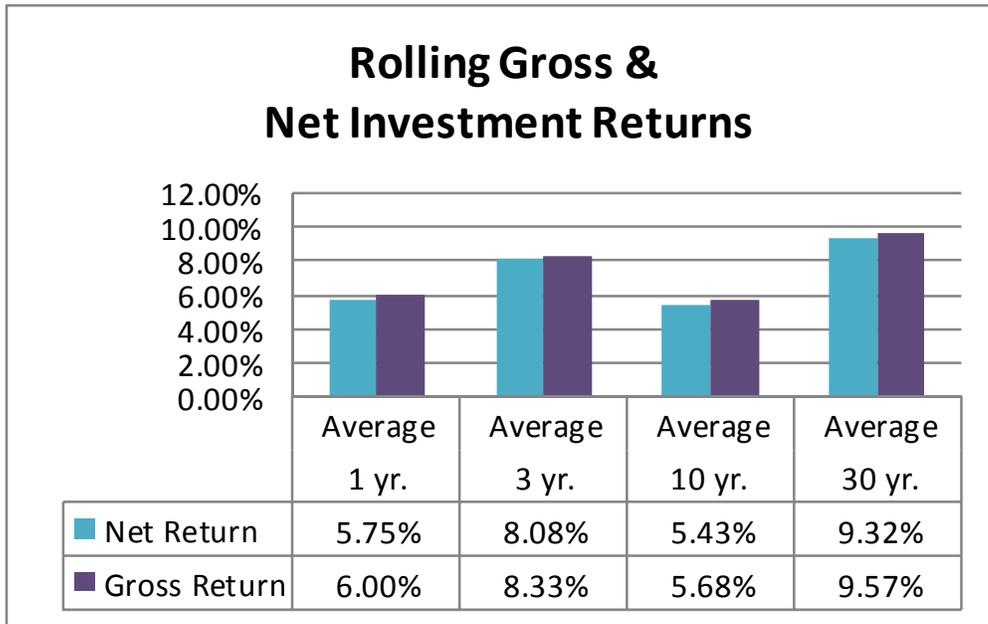
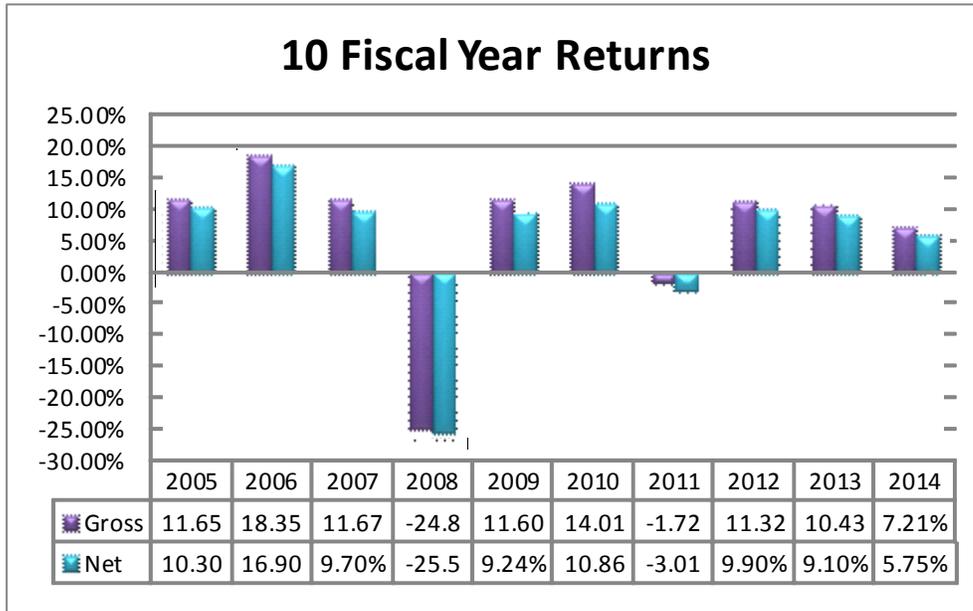
The increase in cash, receivables and prepays of approximately \$80 thousand in 2014 is primarily due to administrative fees. The increase in cash, receivables and prepays of approximately \$500 thousand in 2013 is primarily due to more interest, dividends receivables and real property income investment.

Total Fiduciary net position was \$638 million at the end of fiscal year 2014, \$595.1 million at the end of fiscal year 2013 and \$538.9 million at the end of fiscal year 2012, which is a increase of \$42.9 million, or positive 6.0% growth for fiscal year 2014. Below is a chart of the System's asset allocation for fiscal year ending December 31, 2014:



## City of Austin Police Retirement System Management Discussion and Analysis

**Investment Returns and Assumptions.** The Systems' assumed rate of return is 7.9% net of all expenses. The following charts as prescribed under section 802.108 of the Texas Government Code Title 8, Subtitle A:



City of Austin Police Retirement System  
Management Discussion and Analysis

**Summary of Changes in Fiduciary Net Position**  
**Years Ended December 31, 2014, 2013 and 2012**

**Additions.** Funds to pay benefits are accumulated through contributions and returns on invested funds.

|   | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          |
|---|----------------------|----------------------|----------------------|
| <b><u>Additions</u></b>                   |                      |                      |                      |
| Contributions                             | \$ 54,064,545        | \$ 50,628,724        | \$ 47,302,279        |
| Investment income                         | 36,986,448           | 51,728,148           | 50,441,943           |
| Investment expenses                       | (1,851,034)          | (2,476,699)          | (2,044,619)          |
| Net investment income                     | 35,135,413           | 49,251,449           | 48,397,324           |
| Other income                              | 106,674              | 121,865              | 77,768               |
| Total additions                           | 89,306,633           | 100,002,038          | 95,777,371           |
| <b><u>Deductions</u></b>                  |                      |                      |                      |
| Benefit payments & contributions refunded | 45,403,125           | 42,825,265           | 40,009,337           |
| General and administrative expenses       | 994,841              | 964,020              | 959,016              |
| Total deductions                          | 46,397,966           | 43,789,285           | 40,968,353           |
| Net increase/decrease                     | 42,908,667           | 56,212,753           | 54,809,018           |
| Fiduciary Net position beginning of year  | 595,110,402          | 538,897,649          | 484,088,631          |
| Fiduciary Net position end of year        | <u>\$638,019,069</u> | <u>\$595,110,402</u> | <u>\$538,897,649</u> |

Member and City of Austin contributions for 2014 and 2013 totaled \$54 million and \$50.6 million, respectively. The 2014 contributions represent an increase of \$3.4 million, or approximately 6.79% above the 2013 level and the 2013 contributions represent an increase of \$3.3 million, or approximately 7.0% above the 2012 level. The increase in 2014 is due to 1.5% general wage, member and service purchase increases and the increase in 2013 is due to City of Austin contributions 3.0% general wage and member increases

## City of Austin Police Retirement System Management Discussion and Analysis

The System market to market value on its investments increased 7.21% during 2014 and increased to 10.43% during 2013. The 2014 increase of \$42 million is result of continuing U.S. economic expansion followed by unemployment rate drops and consumer confidence. The 2013 increase of \$56.2 million was a result of continuing U.S. Security market rally, which Federal Reserve began tapering (QE3) by reducing the government (MBS) bond purchases that began in 2012. Interest, dividend income generated in 2014 of \$35 million was increase from the \$49.2 million in 2013. The total rate of return for the System's investment portfolio in 2014 was positive 5.50% (net of investment fees) as compared to 9.1% (net of investment fees) for 2013.

**Deductions.** The expenses paid by the System include benefit payments, refunds of member contributions, and administrative expenses. Benefits paid to retirees, beneficiaries and alternate payees in 2014 were \$45.4 million, an increase of \$2.5 million over the \$42.8 million paid in 2013. This is consistent with the increase in the number of retirees, beneficiaries and alternate payees to 727 in 2014 from 663 in 2013. Refunds to terminating employees in 2014 were \$622 thousand, and decreased by \$249 thousand from 2013 refunds paid. Administrative expenses in 2014 were \$994 thousand, approximately \$31 thousand more than those incurred in 2013.

Investment expenses paid by the System annually decreased by \$625 thousand in 2014 and increased by \$432 thousand in 2013. The decrease in 2014 is due to investment indexing that reduces manager fees, and the increase in 2013 is due to larger investment balances calculated on manager fees.

**Overall Analysis.** As of December 31, 2014, fiduciary net position increased by \$42.9 million or 7.21% from prior year and over the five-year period ending December 31, 2014 the fiduciary net position was 8.25%. The past five-year period growth was impacted by the 2011 sovereign debt crisis in U.S. and European countries.

**Request for Information.** This financial report is designed to provide a general overview of the finances of the City of Austin Police Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to CEO, City of Austin Police Retirement System, P.O. Box 41089, Austin, Texas 78704-0019.

Statement of Fiduciary Net Position  
December 31, 2014 and 2013

## ASSETS

|   | <u>2014</u>          | <u>2013</u>          |
|---|----------------------|----------------------|
| Investments, at fair value                                |                      |                      |
| Real estate interests                                     | \$144,472,516        | \$129,019,250        |
| Corporate stocks  | 245,824,416          | 262,015,942          |
| International government securities                       | 34,202,074           | 36,834,769           |
| International stocks                                      | 63,260,869           | 32,018,930           |
| Short-term investment funds                               | 37,830,338           | 8,627,567            |
| Partnership interests                                     | 38,899,824           | 39,800,964           |
| Corporate bonds   | 32,788,000           | 31,313,964           |
| Alternatives  | 35,871,586           | 51,580,614           |
| Retiree death benefit fund                                | <u>788,430</u>       | <u>689,006</u>       |
| Total investments   | 633,938,053          | 591,901,006          |
| Cash  | 153,947              | 119,554              |
| Interest and dividends receivable                         | 3,632,401            | 2,638,960            |
| City of Austin retirement contributions receivable        | 1,408,596            | 1,415,611            |
| City of Austin death benefit contributions receivable     | 8,170                | 8,212                |
| Participant contributions receivable                      | 876,849              | 891,572              |
| Proportionate retirement program contributions receivable | 42,176               | 42,715               |
| Fixed assets, net   | 471,327              | 528,701              |
| Other   | <u>8,946</u>         | <u>5,467</u>         |
|   | <u>640,540,465</u>   | <u>597,551,798</u>   |
| <b>LIABILITIES</b>  |                      |                      |
| Accounts payable and accrued liabilities                  | 2,397,882            | 2,315,336            |
| Refunds payable   | <u>123,514</u>       | <u>126,060</u>       |
|   | <u>2,521,396</u>     | <u>2,441,396</u>     |
| <b>FIDUCIARY NET POSITION</b>                             | <u>\$638,019,069</u> | <u>\$595,110,402</u> |

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

Statement of Changes in Fiduciary Net Position  
December 31, 2014 and 2013

| ADDITIONS TO PLAN NET POSITION:                          | <u>2014</u>          | <u>2013</u>          |
|--|----------------------|----------------------|
| Contributions:   |                      |                      |
| City of Austin retirement contributions                  | \$31,202,173         | \$30,935,427         |
| City of Austin death benefit contributions               | 179,308              | 153,389              |
| Participant contributions                                | <u>22,683,064</u>    | <u>19,539,908</u>    |
|  | <u>54,064,545</u>    | <u>50,628,724</u>    |
| Investment income:                                       |                      |                      |
| Net increase (decrease) in the fair value of investments | 21,348,185           | 40,557,365           |
| Interest and dividends                                   | 15,638,263           | 11,150,783           |
| Securities lending                                       | 0                    | 0                    |
| Rental and other income                                  | <u>106,674</u>       | <u>121,865</u>       |
| Total investment gain (loss) before expenses             | 37,093,122           | 51,850,013           |
| Investment expenses                                      | <u>(1,851,034)</u>   | <u>(2,476,699)</u>   |
| Net gain (loss) from investments                         | <u>35,242,088</u>    | <u>49,373,314</u>    |
|  |                      |                      |
| Total additions (deletions) to fiduciary net position    | <u>89,306,633</u>    | <u>100,002,038</u>   |
| <br>   |                      |                      |
| DEDUCTIONS FROM FIDUCIARY NET POSITION:                  |                      |                      |
| Retirement benefit payments                              | 44,824,406           | 41,806,953           |
| Death benefit payments                                   | 80,000               | 64,565               |
| Contributions refunded to terminating employees          | 498,719              | 953,747              |
| General and administrative expenses                      | <u>994,841</u>       | <u>964,020</u>       |
| Total deductions from fiduciary net position             | <u>46,397,966</u>    | <u>43,789,285</u>    |
| <br>   |                      |                      |
| NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION        | 42,908,667           | 56,212,753           |
| <br>   |                      |                      |
| Beginning fiduciary net position                         | <u>595,110,402</u>   | <u>538,897,649</u>   |
| <br>   |                      |                      |
| ENDING FIDUCIARY NET POSITION                            | <u>\$638,019,069</u> | <u>\$595,110,402</u> |

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

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## Notes to Financial Statements

### **Note 1: Organization and System Description**

The Board of Trustees (Board) of the City of Austin Police Retirement System (System) is the administrator of a single-employer defined benefit pension plan. The System is considered part of the City of Austin's (City) financial reporting entity and is included in the City's financial reports as a pension trust fund.

The System was originally established in 1979 by a City Council ordinance. Effective August 1991, the System is governed by state law with plan amendments made by the Legislature of the State of Texas. The System provides retirement, death, disability and withdrawal benefits to plan members and their beneficiaries. Benefits vest after 10 years of credited service. Participants may retire at (a) 23 years of service excluding any military service credit regardless of age, or (b) age 55 with 20 years of service excluding any military service or (c) age 62. The monthly benefit at retirement is payable as a life annuity (modified cash refund).

As of the actuarial valuation date of December 31, 2014, the monthly benefit is equal to 3.2% of the highest 36-month average salary multiplied by years and months of service.

The Retroactive Deferred Retirement Option Plan (RETRO DROP) provisions require that a participant must have 23 years of creditable service with the retirement system excluding any military service credit on the date the participant elects for the RETRO DROP benefit computation date. Effective April 1, 2007, the RETRO DROP was amended to include FORWARD DROP participation. Further, the RETRO DROP provisions may be changed in the future by Board rule with approval by the System's actuary, except, the age 62 minimum eligibility regardless of services may not be changed.

The Post Retirement Option Plan (PROP) is an option allowing retiring officers to leave their RETRO DROP lump sum in the System for a period of time. The participant can elect to receive partial payments from the RETRO DROP lump sum account and can also elect to delay payment of the entire RETRO DROP lump sum. Effective April 1, 2006, this option was amended whereby retirees have the ability to defer their monthly annuity payments to an interest bearing PROP account. Effective October 1, 2007 this option was amended to include a partial deferral of a retiree's monthly annuity payment into an interest bearing PROP account. Interest credits will be paid on the participant's PROP account following the participant's retirement until the entire lump sum is paid. The interest credits will be granted based on an annual rate determined from time to time by Board Rule.

## Notes to Financial Statements

### Note 1: Organization and System Description

Permissive Service Delayed Retirement is an option allowing a member, with at least 20 years of credited pension service at termination of employment with the APD, the option to a Delayed Retirement benefit. The Delayed benefit is payable upon completion of purchase of service credit for each year of credited pension service. The maximum service credit purchase is 5 years.

A \$10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund (account) administered by the System. As of December 31, 2014 and 2013, the assets of the Retiree Death Benefit Fund were \$788,430 and \$689,006, respectively, which are included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of \$638,019,069 and \$595,110,402, respectively.

Distributions to members or their beneficiaries are also available in the event of total and permanent disability, provided the member has completed 10 years of service or the injury was sustained during the performance of employment duties, or upon death. The terms of benefit payments are determined by certain elections made by the member, their level of earnings and length of service. Payments to members or their beneficiaries may be increased annually on an ad hoc basis, limited to 6% per year, and subject to the approval of the Retirement Board and the actuary.

Beginning in 2009, the System and the city began participating in the Texas Statewide Proportionate Retirement Program (PRP). Service in other participating public employment retirement systems can be combined with service in the System to satisfy the System's requirements for service retirement eligibility and for eligibility for vested benefits for a terminated member. The participating systems, in addition to the System, are the six Texas statewide systems, the City of Austin Employees' Retirement System, and the systems for the City of El Paso employees.

Participating members in the System include full-time police officers and cadets employed by the police department of the City and employees of the System. The following membership status of the System was reflected in the actuarial valuation as of December 31, 2014 and 2013:

|   |                               |
|---|-------------------------------|
| Retirees and beneficiaries currently receiving benefits (727)<br>and terminated employees entitled to future monthly<br>benefits (27) | <b><u>2014</u></b><br><br>754 |
| Current participating members   | <u>1,777</u>                  |
| 2014 Total  | <u>2,531</u>                  |

## Notes to Financial Statements

### Note 1: Organization and System Description

|   |                        |
|---|------------------------|
| Retirees and beneficiaries currently receiving benefits (683)<br>and terminated employees entitled to future monthly<br>benefits (26) | <u>2013</u><br><br>709 |
| Current participating members   | <u>1,732</u>           |
| 2013 Total  | <u>2,441</u>           |

### Note 2: Summary of Significant Accounting Policies

#### BASIS OF ACCOUNTING

The System's financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Contributions are recognized as revenues in the period in which the related employees' payroll is earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

#### CONTRIBUTIONS RECEIVABLE

The final biweekly payroll contributions of employees for the years ended December 31, 2014 and 2013, and the City's related contributions were not deposited in the System by year end and are shown as contributions receivable in both years.

#### ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net position held in trust available for pensions benefit during the reporting period. Actual results could differ from those estimates.

#### METHOD USED TO VALUE INVESTMENTS

The System's investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value. The System's real estate investments are appraised periodically and the System receives audited financial statements from the real estate investment managers, which are used to estimate fair value. Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a trade-date basis.

## Notes to Financial Statements

### Note 2: Summary of Significant Accounting Policies

#### SYSTEM EXPENSES

All System administrative costs are the responsibility of the System and are financed through investment earnings.

#### SUBSEQUENT EVENTS

Management has evaluated subsequent events as of July 15, 2015 the date the financial statements were available to be issued.

### Note 3: Fixed Assets

Fixed assets are recorded at cost. Depreciation is computed using the straight-line method over the asset's estimated useful life of 30 years for the building and 5 to 7 years for furniture and equipment. Fixed asset activity for the year ended December 31, 2014 consisted of:

|                              | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Deletions</u> | <u>Ending<br/>Balance</u> |
|------------------------------|------------------------------|-------------------|------------------|---------------------------|
| Assets not being depreciated |                              |                   |                  |                           |
| Land                         | \$150,000                    | \$                | \$               | \$150,000                 |
| Assets being depreciated     |                              |                   |                  |                           |
| Buildings and improvements   | 870,216                      |                   |                  | 870,216                   |
| Furniture and equipment      | 482,408                      | 2,299             | (0)              | 484,707                   |
| Leasehold improvements       | 56,986                       |                   |                  | 56,986                    |
| Accumulated depreciation     | <u>(1,030,909)</u>           | <u>(59,673)</u>   |                  | <u>(1,090,582)</u>        |
| Net Fixed Assets             | <u>\$528,701</u>             | <u>(\$57,374)</u> | <u>(\$0)</u>     | <u>\$471,327</u>          |

## Notes to Financial Statements

### Note 4: Federal Income Taxes

The System is a Public Employee Retirement System and is exempt from Federal income taxes. Favorable determination letters from the Internal Revenue Service were issued in September 1996, April 2007, July 2009, and August 2014.

### Note 5: Deposit and Investment Risk

The System is authorized as an independent, defined benefit plan as described in Article 6243n-1, Vernon's Annotated Texas Civil Statutes, that was signed into law on June 11, 1991. The Board is the trustee of System funds and has the power to invest and reinvest such funds in instruments or investments the Board considers prudent in accordance with the System's investment policy.

The Board has adopted an Investment Policy Statement (IPS) to set forth the factors involved in the management of investment assets for the System and the IPS is included with every investment manager's agreement. The fair values of the System's investments at December 31, 2014 and 2013 are presented, by type, as follows:

| Investment Type                     | 2014                 | 2013                 |
|-------------------------------------|----------------------|----------------------|
| Real Estate Interests               | \$144,472,516        | \$129,019,250        |
| Corporate Stocks                    | 245,824,416          | 262,015,942          |
| International Government Securities | 34,202,074           | 36,834,769           |
| International Stocks                | 63,260,869           | 32,018,930           |
| Partnership Interests               | 38,899,824           | 39,800,964           |
| Corporate Bonds                     | 32,788,000           | 31,313,964           |
| Alternatives                        | 35,871,586           | 51,580,614           |
| Short-term Investment Funds         | 38,618,768           | 9,316,573            |
| Total Investments                   | <u>\$633,938,053</u> | <u>\$591,901,006</u> |

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

#### CUSTODIAL CREDIT RISK

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. While the System has no formal policy regarding custodial credit risk, operating bank account deposits in excess of the \$250,000 coverage by FDIC are covered by pledged securities held as collateral. As of December 31, 2014 and 2013, the System's operating bank balance of \$153,947 and \$119,554, respectively, was not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. As of December 31, 2014 and 2013, the System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name.

#### CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. As of December 31, 2014, there is no security issued by a single issuer that holds more than 5% of the System's fund. As of December 31, 2013, there is no security issued by a single issuer that holds more than 5% of the System's fund.

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

The Board and Investment Policy Statement (IPS) adopts the philosophy that the most effective risk control procedure is to adequately diversify the investments of the Fund among different asset classes with differing risk profiles. Diversification is achieved through providing a wide variety of investment classes in which to invest the Systems funds. The IPS sets the following allowable ranges and target asset allocations for the Systems' funds:

| <b>Class</b>          | <b>Allowable Range</b> | <b>Target Asset Allocation</b> |
|-----------------------|------------------------|--------------------------------|
| Domestic Equity       | 20%-40%                | 30.00%                         |
| International Equity  | 5% - 25%               | 15.00%                         |
| Core Fixed Income     | 0% - 20%               | 5.00%                          |
| Non Core Fixed Income | 0% - 15%               | 5.00%                          |
| Real Estate           | 0% - 30%               | 15.00%                         |
| Timber                | 0% - 10%               | 5.00%                          |
| Hedge Funds           | 0% - 15%               | 10.00%                         |
| Private Equity        | 0% - 17.5%             | 12.5%                          |
| Cash                  | 0% - 5%                | 2.50%                          |

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

The allowable range means the minimum and maximum percentage of each asset class allowed. The target asset allocation is the average allocation desired over time. The Board has the ability to make the decision to deviate from these ranges when it deems necessary based on the market conditions.

Along with diversification, the Board and IPS set investment goals and guidelines as follows:

#### Return Objective

- To exceed the actuarial target rate of return
- To manage the asset mix and outside professional money managers in a manner that provides the maximum likelihood of achieving this objective each year within an acceptable level of market risk

#### Manager risk guidelines

- No manager will be allocated more than 15% of the Fund's assets, to avoid undue manager concentration, unless that manager is assigned an investment grade core bond mandate or U.S. equity index fund, whereby it may be permitted to manage up to 25% of the fund's assets
- APRS's allocation to any manager will not represent more than 20% of the assets that the manager is managing in the same strategy

#### Security concentration guidelines

- No single stock position or corporate debt instrument should represent more than 10% of a manager's portfolio at market
- No industry (as defined by each investment managers appropriate benchmark) should represent more than 2 times its weighting in the corresponding market index or 20%, whichever is greater

#### Volatility guidelines

- The primary concern for the Board is return but the Board does not want to assume excessive risk in its search for return
- One form of measurement of the risk inherent in the portfolio is the volatility or annualized standard deviation of the portfolio's returns as measured on a quarterly basis
- The Board will seek to achieve its return objective with no more than 75% of the volatility exhibited by the S&P 500 index

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

In conjunction with these goals and guidelines are responsibilities of the investment committee, third party consultants, custodians and money managers. The IPS also outlines the review and control procedures that the Board will monitor for compliance.

#### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

As of December 31, 2014, the System had the following investments and maturities:

| <b>Investment Type</b> | <b>Fair Value</b>   | <b>Less than 1 year</b> | <b>1 to 6 years</b> | <b>6 to 10 years</b> | <b>Over 10 years</b> |
|------------------------|---------------------|-------------------------|---------------------|----------------------|----------------------|
| Bonds                  | \$32,713,110        | \$1,004,429             | \$10,460,426        | \$5,999,193          | \$15,309,062         |
| Totals                 | <u>\$32,713,110</u> | <u>\$1,004,429</u>      | <u>\$10,460,426</u> | <u>\$5,999,193</u>   | <u>\$15,309,062</u>  |

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

As of December 31, 2013, the System had the following investments and maturities:

| <b>Investment Type</b> | <b>Fair Value</b>   | <b>Less than 1 year</b> | <b>1 to 6 years</b> | <b>6 to 10 years</b> | <b>Over 10 years</b> |
|------------------------|---------------------|-------------------------|---------------------|----------------------|----------------------|
| Bonds                  | \$29,217,418        | \$1,546,660             | \$14,533,717        | \$7,023,199          | \$6,113,842          |
| Totals                 | <u>\$29,217,418</u> | <u>\$1,546,660</u>      | <u>\$14,533,717</u> | <u>\$7,023,199</u>   | <u>\$6,113,842</u>   |

### CREDIT RISK

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. While the System has no formal investment policy regarding credit quality rating guidelines, the IPS allows investment managers full discretion in adopting investment strategies to deal with these risks and the portfolios are monitored quarterly by the investment committee.

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2014, are as follows:

| Quality Rating                                 | Total Fair Value    | Int'l Securities    | Corporate Bonds     | Government Bonds    |
|--|---------------------|---------------------|---------------------|---------------------|
| A1/A+  |                     |                     |                     |                     |
| A2/A   | \$8,772,751         |                     | \$8,772,751         |                     |
| A3/A-  |                     |                     |                     |                     |
| Aa2/AA   | 2,684,106           |                     | 2,684,106           |                     |
| Aaa  |                     |                     |                     |                     |
| B1/B+  |                     |                     |                     |                     |
| B2/B   |                     |                     |                     |                     |
| B3/B-  |                     |                     |                     |                     |
| Ba1/BB+  |                     |                     |                     |                     |
| Ba2/BB   |                     |                     |                     |                     |
| Ba3/BB-  |                     |                     |                     |                     |
| Baa1/BBB+<br>Baa2/BBB                          | 10,909,269          |                     | 10,909,269          |                     |
| Baa3/BBB-<br>B2//B and<br>below                |                     |                     |                     |                     |
| Caa1/CCC+                                      |                     |                     |                     |                     |
| Caa2/CCC                                       |                     |                     |                     |                     |
| Not Rated                                      | 34,202,074          | 34,202,074          |                     |                     |
| US Gov't<br>Guaranteed<br>Cash &<br>Equivalent | 10,406,984          |                     |                     | 10,406,984          |
| Total  | <u>\$66,975,184</u> | <u>\$34,202,074</u> | <u>\$22,366,126</u> | <u>\$10,406,984</u> |

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2013, are as follows:

| Quality Rating                                 | Total Fair Value    | Int'l Securities    | Corporate Bonds     | Government Bonds   |
|--|---------------------|---------------------|---------------------|--------------------|
| A1/A+  |                     |                     |                     |                    |
| A2/A   | \$16,116,905        | \$4,372,287         | \$11,744,618        |                    |
| A3/A-  |                     |                     |                     |                    |
| Aa2/AA   | 2,336,254           | 221,009             | 2,115,245           |                    |
| Aaa  | 2,994,024           |                     |                     | 2,994,024          |
| B1/B+  |                     |                     |                     |                    |
| B2/B   |                     |                     |                     |                    |
| B3/B-  |                     |                     |                     |                    |
| Ba1/BB+  |                     |                     |                     |                    |
| Ba2/BB   | 5,654,137           | 5,654,137           |                     |                    |
| Ba3/BB-  |                     |                     |                     |                    |
| Baa1/BBB+                                      | 8,308,686           |                     | 8,308,686           |                    |
| Baa2/BBB                                       | 9,915,920           | 9,915,920           |                     |                    |
| Baa3/BBB-<br>B2//B and<br>below                | 7,396,421           | 7,396,421           |                     |                    |
| Caa1/CCC+                                      |                     |                     |                     |                    |
| Caa2/CCC                                       | 360,981             | 360,981             |                     |                    |
| Not Rated                                      | 2,121,683           | 2,121,683           |                     |                    |
| US Gov't<br>Guaranteed<br>Cash &<br>Equivalent | 4,054,845           |                     |                     | <u>4,054,845</u>   |
|  | <u>6,792,331</u>    | <u>6,792,331</u>    | _____               | _____              |
| Total  | <u>\$66,052,187</u> | <u>\$36,834,769</u> | <u>\$22,168,549</u> | <u>\$7,048,869</u> |

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

#### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the System does not have a formal investment policy governing foreign currency risk, the System does manage its exposure to fair value loss by requiring their international investment managers to maintain diversified portfolios to limit foreign currency risk.

The System holds investments in ADRs (American Depository Receipts) which are not included in the schedule below since they are denominated in US dollars and accounted for at fair market value.

The System's exposure to foreign currency risk as of December 31, 2014, is as follows:

| <b>Currency</b>       | <b>Int'l Gov't Securities</b> | <b>-Int'l Stocks</b> | <b>Corp Stocks (1)</b> | <b>Other (2)</b> |
|-----------------------|-------------------------------|----------------------|------------------------|------------------|
| Euro                  |                               | \$3,013,793          |                        | \$36,230         |
| Mexican Peso          | 713,397                       | 105,747              |                        |                  |
| Japanese Yen          |                               | 2,199,540            |                        | 1,235            |
| Indonesia Rupiahs     | 486,407                       |                      |                        |                  |
| Hong Kong Dollar      |                               |                      |                        |                  |
| South Korean Won      |                               | 179,770              |                        |                  |
| Turkish New Lira      | 551,261                       |                      |                        |                  |
| Norwegian Krone       |                               | 528,736              |                        |                  |
| British Pound         |                               | 1,300,690            |                        |                  |
| Philippines Pesos     |                               | 253,793              |                        |                  |
| Brazilian Real        | 616,116                       |                      |                        |                  |
| Danish Krone          |                               |                      |                        |                  |
| Swiss Franc           |                               | 613,333              |                        | 34,626           |
| Australian Dollar     |                               | 116,322              |                        | 256,466          |
| Swedish Krona         |                               | 274,943              |                        |                  |
| South African Rand    | 470,194                       | 84,598               |                        |                  |
| Russian Ruble         |                               |                      |                        |                  |
| Canadian Dollar       |                               | 1,395,862            |                        |                  |
| Singapore Dollar      |                               |                      |                        |                  |
| India Rupees          |                               |                      |                        |                  |
| Cayman Islands Dollar |                               |                      |                        |                  |
| Polish Zlotych        | 551,261                       |                      |                        |                  |
| China Yuan Renminbi   | 453,980                       | 370,115              |                        |                  |
| Thailand, Thai Baht   | 486,407                       |                      |                        |                  |
| Malaysian Ringgit     | 583,688                       |                      |                        |                  |
| Other                 | 1,686,211                     | 137,471              |                        |                  |
| <b>Totals</b>         | <b>\$6,598,922</b>            | <b>\$10,574,713</b>  | <b>\$</b>              | <b>\$328,557</b> |

(1) Represents a commingled pool in global equity investments

(2) Represents a commingled timberfund and a real estate partnership interest.

City of Austin Police Retirement System

## Notes to Financial Statements

### Note 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 31, 2013, is as follows:

| Currency              | Int'l Gov't<br>Securities | -Int'l Stocks       | Corp Stocks (1) | Other (2)          |
|-----------------------|---------------------------|---------------------|-----------------|--------------------|
| Euro                  |                           | \$813,486           |                 |                    |
| Mexican Peso          | 3,119,905                 |                     |                 |                    |
| Columbian Peso        |                           | 30,878              |                 |                    |
| Indonesia Rupiahs     |                           |                     |                 |                    |
| Hong Kong Dollar      |                           | 1,344,429           |                 |                    |
| South Korean Won      |                           | 2,966,811           |                 |                    |
| Turkish New Lira      |                           |                     |                 |                    |
| Norwegian Krone       |                           |                     |                 |                    |
| British Pound         |                           | 185,270             |                 |                    |
| Philippines Pesos     |                           |                     |                 |                    |
| Brazilian Real        | 1,731,234                 | 1,321,727           |                 |                    |
| Danish Krone          |                           |                     |                 |                    |
| Swiss Franc           |                           | 1,437,230           |                 |                    |
| Australian Dollar     |                           | 544,488             |                 | 255,993            |
| Swedish Krona         |                           |                     |                 |                    |
| South African Rand    | 1,421,822                 |                     |                 |                    |
| Russian Ruble         | 2,217,453                 | 46,318              |                 |                    |
| Canadian Dollar       |                           | 3,498,958           |                 |                    |
| Singapore Dollar      | 994,537                   | 808,702             |                 |                    |
| India Rupees          |                           |                     |                 | 3,276,964          |
| Cayman Islands Dollar |                           |                     |                 |                    |
| Polish Zlotych        | 1,701,766                 |                     |                 |                    |
| China Yuan Renminbi   | 1,186,089                 |                     |                 |                    |
| Thailand, Thai Baht   | 1,458,657                 |                     |                 |                    |
| Malaysian Ringgit     | 1,683,349                 |                     |                 |                    |
| Other                 | 6,482,912                 |                     |                 |                    |
| Totals                | <u>\$21,997,724</u>       | <u>\$12,998,297</u> | <u>\$</u>       | <u>\$3,532,957</u> |

(1) Represents a commingled pool in global equity investments

(2) Represents a commingled timberfund and a real estate partnership interest.

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## Notes to Financial Statements

### Note 6: Schedule of Investment Returns

For the year ended December 31, 2014, the annual money weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 5.71 percent.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### Note 7: Contributions

The System is funded by biweekly contributions from the basic compensation, consisting of base pay and longevity pay, of police officers and by contributions from the City. Under the provisions that were in effect on December 31, 2014, participants were required to contribute 13% of their basic compensation to the System, effective October 1, 2007.

The City's required contributions were equal to 18.25% of basic compensation effective January 1, 2009, increased to 18.63% effective October 1, 2009 and to 19.63% effective October 1, 2010. The City's contribution rate increased to 20.63% on October 1, 2011 and to 21.63% effective October 1, 2012 and thereafter.

Since September 1, 2003, a portion of the City's total contribution has been allocated to the Retiree Death Benefit Fund. This portion, redetermined annually, was 0.091% for 2009 based on the December 31, 2007 actuarial valuation; was 0.092% for 2010 based on the December 31, 2008 actuarial valuation; was 0.098% for 2011 based on the December 31, 2009 actuarial valuation; was 0.102% for 2012 based on the December 31, 2010 actuarial valuation; was 0.103% for 2013 based on the December 31, 2011 actuarial valuation; and is 0.118% for 2014 based on December 31, 2012 actuarial valuation. This portion was redetermined based on the December 31, 2013 valuation to be 0.141% for 2015.

The City contribution rate is required by the state law governing the System and may be changed by amendment made by the Legislature of the State of Texas. The participant contribution rate must be at 13% in accordance with the state law governing the System, and codified in to law in September 2011. The participant contribution rate may be changed by amendment made by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with the state law governing the System.

While contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the police officers and the City provides an adequate financing arrangement at the time any change is made. Using the entry age actuarial cost method, the System's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the System's unfunded actuarial accrued liability, and the number of years needed to amortize the System's unfunded actuarial accrued liability is determined using an open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2014 and the plan provisions recognized in that valuation, the normal cost was 21.605% of pay and the amortization period was 28.6 years.

## Notes to Financial Statements

### **Note 8: Commitments and Contingencies**

The System's investments in real estate and partnership interests are included in the table appearing in Note 5. In connection with those investments, the System has remaining commitments as of December 31, 2014 and 2013 of approximately \$19,435,176 million and \$33,184,050 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2014 and 2013, the total accumulated lump sum benefit due to forward DROP participants was \$3,075,334 and \$2,188,484, respectively.

At December 31, 2014 and 2013, the total accumulated lump sum benefit due to PROP participants was \$24,811,845 and \$22,161,032, respectively.

### **Note 9: Subsequent Events**

As of July 3, 2013, the System was made aware in the HR Huff Energy Fund LP and subsidiaries audit as of December 31, 2012, the judgment in Zavala County, TX in the amount of \$95.5 million against Riley-Huff Energy Group (aka 1776 Energy Partner) was on appeal, after posting a \$25 million SUPERSEDAS bond. The System's share of the award ranges from \$1 million to \$2 million and the System's total investment in the HR Huff Energy Fund is now \$11,311,601.

On March 12, 2015 APRS filed a claim against the manager of one of its investments. On May 15, 2015, the management in turn, filed a declinatory and dilatory counter claim against APRS to have the lawsuit dismiss and seeking APRS pay costs of litigation. In APRS' council's opinion, neither a favorable nor an unfavorable outcome in this matter for APRS is either probably or remote. APRS plans to continue to pursue the claims in the suit and defend the alleged counterclaims

## Notes to Financial Statements

### Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2014 were as follows:

|  |                        |
|--|------------------------|
| Total Pension Liability  | \$ 971,622,936         |
| Plan Fiduciary Net Position  | <u>\$(638,019,067)</u> |
| Sponsor's Net Pension Liability  | <u>\$ 333,603,869</u>  |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 65.67%                 |

#### Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2013 updated to December 31, 2014 using the following actuarial assumptions:

|                           |                |
|---------------------------|----------------|
| Inflation                 | 3.25%          |
| Salary Increases          | Services Based |
| Discount Rate             | 7.90%          |
| Investment Rate of Return | 7.90%          |

Mortality rates (all lives) were based on the RP-2000 Combined Healthy without projection - Sex Distinct. Based on a study of over 650 public safety funds, this table reflects a 10% margin for future mortality improvements.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period 2012-2013.

The Long-Term Expected Rate of Return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Pension Plan investment expenses and inflation) are developed for each major asset class.

These ranges are combined to produce the Long-Term Expected Rate of Return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

## Notes to Financial Statements

### Note 10: Net Pension Liability of the Sponsor

Best estimates of arithmetic real rates of return for each major asset class included in the Pension Plan's target asset allocation as of December 31, 2014 are summarized in the following table:

| <u>Asset Class</u>   | <u>Long Term<br/>Expected Real<br/>Rate of Return</u> |
|----------------------|---|
| Domestic Equity      | 7.50%   |
| International Equity | 8.50%   |
| Domestic Bonds       | 2.50%   |
| International Bonds  | 3.50%   |
| Real Estate          | 4.50%   |

#### Discount Rate:

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate of 13.00% of compensation and that plans sponsor will be made at the current contribution rate of 21.63% of total payroll. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

|                                 | <u>1% Decrease<br/>6.90%</u> | <u>Current<br/>Discount Rate<br/>7.90%</u> | <u>1% Increase<br/>8.90%</u> |
|---------------------------------|------------------------------|--|------------------------------|
| Sponsor's Net Pension Liability | \$ 446,103,498               | \$ 333,603,869                             | \$ 238,081,968               |

Disclosures in Accordance with GASB Statement No. 67  
Required Supplementary Information

**Schedule of Changes in Net Pension Liability And Related Ratios  
Last 10 Fiscal Years**

|  | <u>12/31/2014</u>    | <u>12/31/2013</u>    |
|--|----------------------|----------------------|
| Total Pension Liability  |                      |                      |
| Service Cost   | 30,253,628           | 28,769,060           |
| Interest   | 72,442,934           | 68,919,471           |
| Change of benefit terms  | (11,015,618)         | -                    |
| Differences between Expected and Actual Experience                             | -                    | -                    |
| Changes of assumptions   | 14,137,496           | -                    |
| Contributions - Buy Back   | 2,207,398            | -                    |
| Benefit Payments, including Refunds of Employee Contributions                  | <u>(45,403,126)</u>  | <u>(42,825,265)</u>  |
| Net Change in Total Pension Liability  | 62,622,712           | 54,863,266           |
| Total Pension Liability-Beginning  | <u>909,000,224</u>   | <u>854,136,958</u>   |
| Total Pension Liability-Ending (a)   | <u>\$971,622,936</u> | <u>\$909,000,224</u> |
| <br>Plan Fiduciary Net Position  |                      |                      |
| Contributions –Employer  | 32,399,740           | 31,160,764           |
| Contributions– Employee  | 19,457,407           | 19,467,960           |
| Contributions-Buy Back   | 2,207,398            | -                    |
| Net Investment Income  | 35,574,317           | 49,524,150           |
| Benefit Payments, including Refunds of Employee Contributions                  | (45,403,126)         | (42,825,265)         |
| Administrative Expense   | (1,327,071)          | (1,114,856)          |
| Other  | -                    | -                    |
| Net Change in Plan Fiduciary Net Position                                      | <u>42,908,665</u>    | <u>56,212,753</u>    |
| Plan Fiduciary Net Position - Beginning  | <u>595,110,402</u>   | <u>538,897,649</u>   |
| Plan Fiduciary Net Position –Ending (b)  | <u>\$638,019,067</u> | <u>\$595,110,402</u> |
| <br>Net Pension Liability –Ending (a)-(b)                                      | <u>\$333,603,869</u> | <u>\$313,889,822</u> |
| <br>Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 65.67%               | 65.47%               |
| <br>Covered Employee Payroll   | \$149,790,754        | \$144,089,468        |
| Net Pension Liability as a percentage of Covered Employee Payroll              | 222.71%              | 217.84%              |

1.

Disclosures in Accordance with GASB Statement No. 67  
Required Supplementary Information

**Schedule of Contributions  
Last 10 Fiscal Years**

|   | <u>12/31/2014</u> | <u>12/31/2013</u> |
|---|-------------------|-------------------|
| Actuarially Determined Contribution                                   | N/A               | N/A               |
| Contributions in relation to the Actuarially Determined Contributions | <u>N/A</u>        | <u>N/A</u>        |
| Contribution Deficiency (Excess)                                      | <u>\$ -</u>       | <u>\$ -</u>       |
| <br>  |                   |                   |
| Covered Employee Payroll  | \$149,790,754     | \$144,089,468     |
| Contributions as a percentage of Covered Employee Payroll             | 21.63%            | \$21.63%          |

Notes to Schedule

Valuation Date: 12/31/2012

Methods and assumptions used to determine liabilities:

|                                |  |
|--------------------------------|--|
| Actuarial Cost Method:         | Entry Age Normal Actuarial Cost Method   |
| Amortization Method:           | Level Percentage of Pay, Closed.   |
| Remaining Amortization Period: | 30 Years.  |
| Actuarial Asset Method:        | All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets. |
| Payroll Growth:                | 3.50% (previously 4.00%) per year for amortization of the Unfunded Actuarial Accrued Liability.  |
| Interest Rate:                 | 7.90% per year, compounded annually, net of investment related expenses  |
| Retirement Rates:              | See table on next page.  |
| Termination Rates:             | See table on next page.  |
| Disability Rates:              | See table on next page. 55% of disablement are assumed to be service related.  |
| Salary Increases:              | See table on next page.  |
| Mortality Rates-All lives:     | RP-2000 Combined Healthy without projection-Sex Distinct.  |
| PROP Investment Accounts:      | 75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 4.0%.  |
| Marital Status:                | 85% of actives are assumed to be married at time of benefit commencement Females are assumed to be 3 years younger than Males  |

Disclosures in Accordance with GASB Statement No. 67  
 Required Supplementary Information  
**Retirement Rates**

**Retirement Rates Table:**

| APRS Service | For Entry Ages Under 32 (1) |                   |                   | For Entry Ages 33 and Above (3) |       |       |           |
|--------------|-----------------------------|-------------------|-------------------|---------------------------------|-------|-------|-----------|
|              | 22 & Under                  | 23-27             | 28-32             | Age                             | 33-37 | 38-42 | 43 & Over |
| 0-22         | 0.05                        | 0.05              | 0.05              | 33-37                           | 0.10  |       |           |
| 23           | 0.15                        | 0.15              | 0.225             | 38-42                           | 0.10  | 0.10  | 0.10      |
| 24           | 0.10                        | 0.10              | 0.15              | 43-47                           | 0.10  | 0.10  | 0.10      |
| 25           | 0.10                        | 0.10              | 0.15              | 48                              | 0.10  | 0.10  | 0.10      |
| 26           | 0.15                        | 0.15              | 0.25              | 49                              | 0.10  | 0.10  | 0.10      |
| 27           | 0.15                        | 0.15              | 0.25              | 50                              | 0.10  | 0.10  | 0.10      |
| 28           | 0.25                        | 0.25              | 0.25              | 51                              | 0.10  | 0.10  | 0.10      |
| 29           | 0.25                        | 0.25              | 0.30              | 52                              | 0.10  | 0.10  | 0.10      |
| 30           | 0.30                        | 0.30              | 0.40              | 53                              | 0.10  | 0.10  | 0.10      |
| 31           | 0.30                        | 0.30              | 0.50              | 54                              | 0.10  | 0.10  | 0.10      |
| 32           | 0.30                        | 0.30              | 1.00 <sup>2</sup> | 55                              | 0.20  | 0.10  | 0.10      |
| 33           | 0.30                        | 0.30              |                   | 56                              | 0.25  | 0.10  | 0.10      |
| 34           | 0.40                        | 0.40              |                   | 57                              | 0.30  | 0.10  | 0.10      |
| 35           | 0.40                        | 0.50              |                   | 58                              | 0.35  | 0.10  | 0.10      |
| 36           | 0.40                        | 0.50              |                   | 59                              | 0.50  | 0.10  | 0.10      |
| 37           | 0.50                        | 1.00 <sup>2</sup> |                   | 60                              | 1.00  | 0.50  | 0.10      |
| 38           | 0.50                        |                   |                   | 61                              |       | 0.35  | 0.10      |
| 39           | 0.50                        |                   |                   | 62                              |       | 0.35  | 0.80      |
| 40           | 0.50                        |                   |                   | 63                              |       | 0.35  | 0.40      |
| 41           | 0.50                        |                   |                   | 64                              |       | 0.35  | 0.40      |
| 42           | 1.00 <sup>2</sup>           |                   |                   | 65                              |       | 1.00  | 1.00      |

## Disclosures in Accordance with GASB Statement No. 67 Required Supplementary Information

1) Rates are based on APRS service only and apply after a Member is eligible for retirement with combined with combined APRS and Proportionate Retirement Program (PRP) service.

2) 100% retirement rate will be effective at age 60, if earlier.

3) Rates are based on age and apply after a Member is eligible for retirement with combined APRS and PRP service,. Entry ages are determined based on APRS service only.

| Termination Rates Table: <u>Combined Years of Service</u> † | <u>Probability of Termination During Year</u> |
|---|---|
| 0   | 0.05  |
| 1   | 0.02  |
| 2   | 0.02  |
| 3   | 0.02  |
| 4   | 0.02  |
| 5   | 0.02  |
| 6   | 0.02  |
| 7   | 0.02  |
| 8   | 0.02  |
| 9   | 0.02  |
| 10  | 0.01  |
| 11  | 0.01  |
| 12  | 0.05  |
| 13  | 0.05  |
| 14  | 0.05  |
| 15 & Above  | 0.00  |

† APRS service combined with Proportionate Retirement Program service

| Disability Rates Table: | <u>Age</u> | <u>Probability of Disability During Year</u> |
|-------------------------|------------|--|
|                         | 20         | 0.00014                                      |
|                         | 22         | 0.00016                                      |
|                         | 24         | 0.00018                                      |
|                         | 26         | 0.00021                                      |
|                         | 28         | 0.00025                                      |
|                         | 30         | 0.00031                                      |
|                         | 32         | 0.00040                                      |
|                         | 34         | 0.00049                                      |
|                         | 36         | 0.00054                                      |
|                         | 38         | 0.00062                                      |
|                         | 40         | 0.00092                                      |
|                         | 42         | 0.00132                                      |
|                         | 44         | 0.00173                                      |
|                         | 46         | 0.00255                                      |
|                         | 48         | 0.00334                                      |
|                         | 50         | 0.00379                                      |
|                         | 52         | 0.00404                                      |
|                         | 54         | 0.00456                                      |
|                         | 56         | 0.00532                                      |
|                         | 58         | 0.00660                                      |
|                         | 60         | 0.00911                                      |
|                         | 62 & Above | 0.00000                                      |

Disclosures in Accordance with GASB Statement No. 67  
Required Supplementary Information

| Salary Increase Table: | <u>Years of Service</u> | <u>Probability of Disability During Year</u> |
|------------------------|-------------------------|--|
|                        | 0                       | 18.0%  |
|                        | 1                       | 11.2%  |
|                        | 2                       | 5.8%   |
|                        | 3                       | 0.9%   |
|                        | 4                       | 0.9%   |
|                        | 5                       | 7.1%   |
|                        | 6                       | 0.5%   |
|                        | 7                       | 0.5%   |
|                        | 8                       | 0.5%   |
|                        | 9                       | 7.1%   |
|                        | 10                      | 0.3%   |
|                        | 11                      | 0.3%   |
|                        | 12                      | 0.3%   |
|                        | 13                      | 7.1%   |
|                        | 14                      | 0.2%   |
|                        | 15                      | 7.2%   |
|                        | 16                      | 0.2%   |
|                        | 17                      | 0.1%   |
|                        | 18                      | 0.1%   |
|                        | 19                      | 0.1%   |
|                        | 20                      | 0.1%   |
|                        | 21                      | 0.1%   |
|                        | 22                      | 0.1%   |
|                        | 23                      | 0.1%   |
|                        | 24                      | 0.1%   |
|                        | 25 & Above              | 0.0%   |

1) Expected increases in salary as shown above are in addition to 4.0% increase per year due to general wage increases.

**SCHEDULE OF INVESTMENT RETURNS**  
Last 10 Fiscal Years

|   | <u>12/31/2014</u> | <u>12/31/2013</u> |
|---|-------------------|-------------------|
| Annual Money-Weighted Rate of Return<br>Net of Investment Expense | 5.71%             | 8.90%             |