Arturo Montemayor III
President & CEO

Pamela Hill
Shareholder

Montemayor Hill & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Stacy Britton
Shareholder

Sean Bender
Shareholder

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 plan net position as of December 31, 2013 and 2012, and the related statements of changes in plan 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.

2525 WALLINGWOOD DRIVE
BUILDING 1, SUITE 200
AUSTIN, TEXAS 78746
PHONE: 512.442.0380
FAX: 512.442.0817
www.montemayorhill.com

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, 2013 and 2012, 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 schedule on pages 18–23 and 43 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 + Company, P.C.

24 July 2014
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 2013 and 2012. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

Financial Highlights

- Plan net assets held in trust by the System increased by $56.2 million or positive 10.43% in 2013 and increased by $54.8 million or positive 11.32% in 2012. The asset increase in 2013 is 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. The asset increase in 2012 is result of US security market rally when Federal Reserve started quantitative (QE3) by purchasing $40 billion a month of government (MBS) bonds beginning September 13, 2012.
- Contributions increased by $3.3 million, or 7.0% in 2013 and increased by $3.6 million, or 8.83% in 2012 . The increase in 2013 is due to increases in the City of Austin's 3% general wage increase, and increase in number of participants. The increase in 2012 is due to increase in City of Austin's required contributions to 21.63% from 20.63% effective October 1, 2011, 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 $2.8 million, or 6.0% during 2013 and $5.1 million, or 14.76% during 2012 . The increase in 2013 is due to the increase in number of System retirees by 5.9% and increase in 2012 is due to the increase number of retirees by 8.1%.

- The System's rate of return on investments for the year ended December 31, 2013 was positive 9.79% gross of fees and positive 9.0% net of fees, on a market value basis, which was less than the return of 10.68% gross of fees and 9.9% net of fees for the year ended December 31, 2012.

- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2013, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 66.4% which is up from the 65.2% level at December 31, 2012. This is primarily due to unfavorable 5 year smoothing average rule (2008-2012) investment experience. The actuarial assumed rate of return is 8.00%, 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 Plan 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 Plan 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 position restricted for pension benefits as of the end of each year, and summarizes the changes in net position restricted for pension benefits for the year.

Financial Analysis

Summary of Plan Net Assets

December 31, 2013, 2012 and 2011

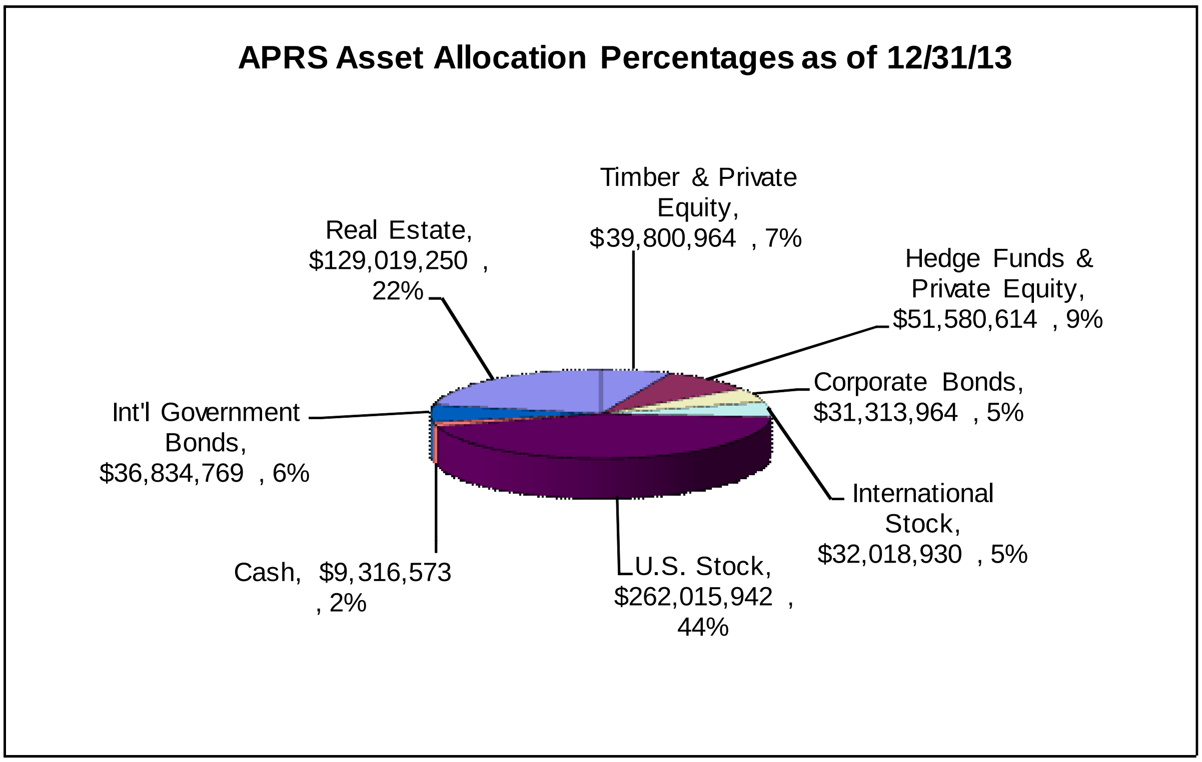
Assets	**2013**	**2012**	**2011**
Cash, receivables and prepaids	$ 5,122,091	$ 4,670,268	$ 6,240,318
Investments, at fair value	591,901,006	534,149,354	477,832,263
Fixed assets, net	528,701	578,687	656,545
Total assets	597,551,798	539,398,310	484,729,126
Liabilities			
Total liabilities	2,441,396	500,661	640,495
Net position restricted for pension benefits	$595,110,402	$538,897,649	$484,088,631

City of Austin Police Retirement System
Management Discussion and Analysis

Assets. The Systems' net position restricted for pension benefits increased by $56.2 million in 2013, increased by $54.8 million in 2012, and decreased by $8.5 million in 2011. The asset increase in 2013 is 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. The asset increase in 2012 is result of US security market rally when Federal Reserve started quantitative (QE3) by purchasing $40 billion a month of government (MBS) bonds beginning September 13, 2012. The asset decrease in 2011 is result of US security rating downgrade and Eurozone debt worries within the PIIGS (Portugal, Italy, Ireland, Greece and Spain) countries in 2011.

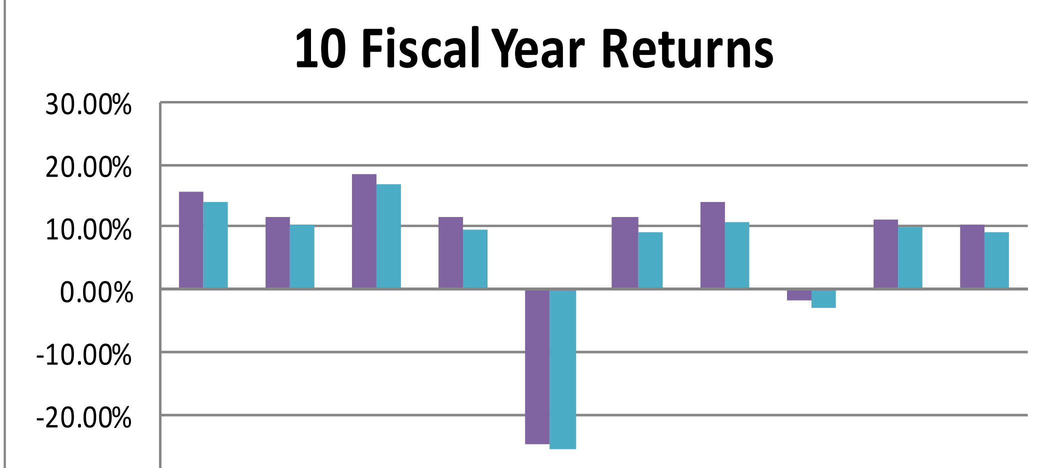
The increase in cash, receivables and prepays of approximately $500 thousand in 2013 is primarily due to more interest, dividends receivables and real property income investment. The increase in cash, receivables and prepays of approximately $1.6 million in 2012 is primarily due to more interest, dividends receivables and real property income investment.

Total net position was $595.1 million at the end of fiscal year 2013, $538.9 million at the end of fiscal year 2012 and $484.0 million at the end of fiscal year 2011, which is a increase of $56.2 million, or positive 10.43% growth for fiscal year 2013. Below is a chart of the System's asset allocation for fiscal year ending December 31, 2013:

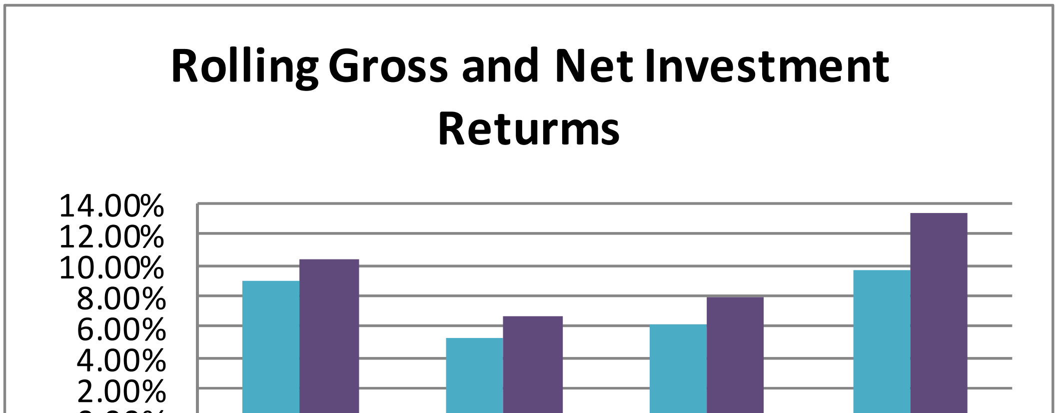


City of Austin Police Retirement System
Management Discussion and Analysis

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



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross	15.79	11.65	18.35	11.67	-24.8	11.60	14.01	-1.72	11.32	10.43
Net	14.00	10.30	16.90	9.70%	-25.5	9.24%	10.86	-3.01	9.90%	9.33%



	Average 1 yr.	Average 3 yr.	Average 10 yr.	Average 30 yr.
Net	9.00%	5.30%	6.14%	9.60%
Gross	10.43%	6.68%	7.83%	13.33%

City of Austin Police Retirement System
Management Discussion and Analysis

Liabilities. Liabilities increased by $1.9 million in 2013 and decreased by $140 thousand in 2012 . The increase in 2013 is primarily due to more payables in management and legal fees at year end.

Summary of Changes in Plan Net Position

Years Ended December 31, 2013, 2012 and 2011

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

	2013	2012	2011
Additions			
Contributions	$ 50,628,724	$ 47,302,279	$ 43,641,189
Investment income	51,728,148	50,441,943	(14,200,799)
Investment expenses	(2,476,699)	(2,044,619)	(2,179,850)
Net investment income	49,251,449	48,397,324	(16,380,649)
Other income	121,865	77,768	103,329
Total additions	100,002,038	95,777,371	27,363,869
Deductions			
Benefit payments & contributions refunded	42,825,265	40,009,337	34,862,987
General and administrative expenses	964,020	959,016	957,470
Total deductions	43,789,285	40,968,353	35,820,457
Net increase/decrease	56,212,753	54,809,018	(8,456,588)
Net position restricted for pension benefits beginning of year	538,897,649	484,088,631	492,545,219
Net position restricted for pension benefits end of year	$595,110,402	$538,897,649	$484,088,631

Member and City of Austin contributions for 2013 and 2012 totaled $50.6 million and $47.3 million, respectively. The 2013 contributions represent an increase of $3.3 million, or approximately 7.0% above the 2012 level and the 2012 contributions represent an increase of $3.7 million, or approximately 8.84% above the 2011 level. The increase in 2013 is due to 1.5% general wage increase and increase in membership and the increase in 2012 is due to City of Austin contributions increasing to 21.63% effective October 1, 2012 from 20.63% and a 3% general wage increase and increase in members.

City of Austin Police Retirement System
Management Discussion and Analysis

The System market to market value on its investments increased 10.43% during 2013 and increased 11.32% during 2012 . 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. The 2012 increase of $54.8 million was the result of US security market rally when Federal Reserve started quantitative (QE3) by purchasing $40 billion a month of government (MBS) bonds beginning September 13, 2012 and announced it would maintain the federal fund rate near zero through 2015. Interest, dividend income generated in 2013 of $49.2 million was increase from the $48.4 million in 2012. The total rate of return for the System's investment portfolio in 2013 was positive 9.0% (net of investment fees) as compared to 9.9% (net of investment fees) for 2012.

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 2013 were $42.8 million, an increase of $2.8 million over the $40 million paid in 2012. This is consistent with the increase in the number of retirees, beneficiaries and alternate payees to 663 in 2013 from 626 in 2012. Refunds to terminating employees in 2013 were $871 thousand, and decreased by $54 thousand from 2012 refunds paid. Administrative expenses in 2013 were $964 thousand, approximately $5,000 more than those incurred in 2012.

Investment expenses paid by the System annually increased by $432 thousand in 2013 and decreased by $135.2 thousand in 2012 . The increase in 2013 is due to larger investment balances calculated on manager fees, and the decrease in 2012 is due to fewer investment managers.

Overall Analysis. As of December 31, 2013, net position increased by $56.2 million or 10.43% from prior year and over the five-year period ending December 31, 2013 the net position was 9.13%. 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 Plan Net Position
December 31, 2013 and 2012

ASSETS

	2013	2012
Investments, at fair value		
Real estate interests	$129,019,250	$144,152,958
Corporate stocks	262,015,942	177,933,689
International government securities	36,834,769	39,489,181
International stocks	32,018,930	29,935,866
Short-term investment funds	8,627,567	13,177,323
Partnership interests	39,800,964	53,051,133
Corporate bonds	31,313,964	25,603,358
Alternatives	51,580,614	50,204,082
Retiree death benefit fund	689,006	601,764
Total investments	591,901,006	534,149,354
Cash	119,554	70,521
Interest and dividends receivable	2,638,960	2,460,300
City of Austin retirement contributions receivable	1,415,611	1,286,732
City of Austin death benefit contributions receivable	8,212	6,527
Participant contributions receivable	891,572	800,588
Proportionate retirement program contributions receivable	42,715	38,798
Fixed assets, net	528,701	578,687
Other	5,467	6,803
	597,551,798	539,398,310
LIABILITIES		
Accounts payable and accrued liabilities	2,315,336	457,190
Refunds payable	126,060	43,471
	2,441,396	500,661
NET POSITION RESTRICTED FOR PENSION BENEFITS	$595,110,402	$538,897,649

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

Statement of Changes in Plan Net Position
December 31, 2013 and 2012

ADDITIONS TO PLAN NET POSITION:	2013	2012
Contributions:		
City of Austin retirement contributions	$30,935,427	$28,621,995
City of Austin death benefit contributions	153,389	145,416
Participant contributions	19,539,908	18,534,868
	50,628,724	47,302,279
Investment income:		
Net increase (decrease) in the fair value of investments	40,557,365	42,834,376
Interest and dividends	11,150,783	7,607,567
Securities lending	0	0
Rental and other income	121,865	77,768
Total investment gain (loss) before expenses	51,850,013	50,519,711
Investment expenses	(2,476,699)	(2,044,619)
Net gain (loss) from investments	49,373,314	48,475,092
Total additions (deletions) to net position restricted for benefits	100,002,038	95,777,371
DEDUCTIONS FROM NET POSITION RESTRICTED FOR BENEFITS:		
Retirement benefit payments	41,806,953	39,147,910
Death benefit payments	64,565	30,000
Contributions refunded to terminating employees	953,747	831,427
General and administrative expenses	964,020	959,016
Total deductions from net position restricted for benefits	43,789,285	40,968,353
NET INCREASE (DECREASE) IN NET POSITION RESTRICTED FOR BENEFITS	56,212,753	54,809,018
Beginning net position restricted for benefits	538,897,649	484,088,631
ENDING NET ASSETS AVAILABLE FOR POSITION RESTRICTED	$595,110,402	$538,897,649

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

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, 2013, 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, 2013 and 2012, the assets of the Retiree Death Benefit Fund were $689,006 and $601,764 , respectively, which are included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of $595,110,402 and $538,897,649, 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, 2013 and 2012:

	2013
Retirees and beneficiaries currently receiving benefits (683) and terminated employees entitled to future monthly benefits (26)	709
Current participating members	1,732
2013 Total	2,441

Notes to Financial Statements

Note 1: Organization and System Description

	2012
Retirees and beneficiaries currently receiving benefits (648) and terminated employees entitled to future monthly benefits (23)	671
Current participating members	1,709
2012 Total	2,380

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, 2013 and 2012, 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 24, 2014 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, 2013 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Assets not being depreciated				
Land	$150,000	$	$	$150,000
Assets being depreciated				
Buildings and improvements	870,216			870,216
Furniture and equipment	476,429	15,153	(9,174)	482,408
Leasehold improvements	56,986			56,986
Accumulated depreciation	(974,944)	(55,965)		(1,030,909)
Net Fixed Assets	$578,687	($40,812)	($9,174)	$528,701

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 and July 2009.

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, 2013 and 2012 are presented, by type, as follows:

Investment Type	2013	2012
Real Estate Interests	$129,019,250	$144,152,958
Corporate Stocks	262,015,942	177,933,689
International Government Securities	36,834,769	39,489,181
International Stocks	32,018,930	29,935,866
Partnership Interests	39.800,964	53,051,133
Corporate Bonds	31,313,964	25,603,358
Alternatives	51,580,614	50,204,082
Short-term Investment Funds	9,316,573	13,779,087
Total Investments	$591,901,006	$534,149,354

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, 2013 and 2012, the System's operating bank balance of $119,554 and $70,521, 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, 2013 and 2012, 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, 2013, there is no security issued by a single issuer that holds more than 5% of the System's fund. However, as of December 31, 2012 there is one organization – Rockspring Capital Land– that holds more than 5% of the System's total fund. As of December 31, 2012, Rockspring Capital Land held approximately 5.1% .

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:

Class	Allowable Range	Target Asset Allocation
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, 2013, the System had the following investments and maturities:

Investment Type	Fair Value	Less than 1 year	1 to 6 years	6 to 10 years	Over 10 years
Bonds	$29,217,418	$1,546,660	$14,533,717	$7,023,199	$6,113,842
Totals	$29,217,418	$1,546,660	$14,533,717	$7,023,199	$6,113,842

Notes to Financial Statements

Note 5: Deposit and Investment Risk

As of December 31, 2012, the System had the following investments and maturities:

Investment Type	Fair Value	Less than 1 year	1 to 6 years	6 to 10 years	Over 10 years
Bonds	$22,208,865	$5,000,000	$11,387,886	$5,820,979	$0
Totals	$22,208,865	$5,000,000	$11,387,886	$5,820,979	$0

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, 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-				
B2//B and 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 Guaranteed	4,054,845			4,054,845
Cash & Equivalent	6,792,331	6,792,331		
Total	$66,052,187	$36,834,769	$22,168,549	$7,048,869

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, 2012, are as follows:

Quality Rating	Total Fair Value	Int'l Securities	Corporate Bonds
A1/A+	$201,395	$201,395	
A2/A	3,684,341	3,684,341	
A3/A-	1,386,070	1,386,070	
Aa2/AA	205,344	205,344	
Aaa	379,096	379,096	
B1/B+	7,475,512	4,320,116	3,155,396
B2/B	2,421,283		2,421,283
B3/B-	2,495,724		2,495,724
Ba1/BB+	1,899,430	1,899,430	
Ba2/BB	2,853,167	2,235,088	618,079
Ba3/BB-	2,850,366	1,840,196	1,010,170
Baa1/BBB+	5,658,800	5,658,800	
Baa2/BBB	4,689,508	3,463,201	1,226,307
Baa3/BBB-	7,384,477	7,384,477	
B2//B and below	4,928,250	4,928,250	
Caa1/ CCC+	3,173,037		3,173,037
Caa2/CCC	3,154,368		3,154,368
Not Rated	7,259,330	1,903,379	5,355,951
US Gov't Guaranteed			
Cash & Equivalent			
Total	$62,099,497	$39,489,181	$22,610,316

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, 2013, is as follows:

Currency	Int'l Gov't 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		
Philipines 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	6,482,919			
Totals	$21,997,724	$12,998,297	$	$3,532,957

(1) Represents a commingled pool in global equity investments
(2) Represents a commingled timberfund and a real estate partnership interest.

Notes to Financial Statements

Note 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 31, 2012, is as follows:

Currency	Int'l Gov't Securities	-Int'l Stocks	Corp Stocks (1)	Other (2)
Euro		$5,200,145		
Mexican Peso	2,641,826	109,229		
Argentine Peso		205,490		
Indonesia Rupiahs	1,220,216			
Hong Kong Dollar		2,131,547		
Japanese Yen		2,132,909		
Turkish New Lira	1,536,129			
Norwegian Krone		387,202		
British Pound		6,860,276		
Philipines Pesos		688,144		
Brazilian Real	2,152,160	4,400,176		
Danish Krone				
Swiss Franc		3,715,504		
Australian Dollar		2,064,132		1,746,224
Swedish Krona		152,921		
South African Rand	1,342,632			
Russian Ruble	3,451,354	348,439		
Canadian Dollar		12,036,868		
Bermudian Dollar		421,931		
India Rupees	1,623,005			3,909,073
Cayman Islands Dollar		321,636		
Polish Zlotych	2,547,052			
China Yuan Renminbi		1,569,913		
Thailand, Thai Baht		538,163		
Malaysian Ringgit	1,488,742			
Other	8,079,486	120,152		
Totals	$26,082,604	$43,404,778	$	$5,655,297

(1) Represents a commingled pool in global equity investments

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

Notes to Financial Statements

Note 6: 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, 2013, 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; is 0.102% for 2012 based on the December 31, 2010 actuarial valuation; and is 0.103% for 2013 based on the December 31, 2011 actuarial valuation. This portion was redeterimed based on the December 31, 2012 valuation to be 0.118% for 2014.

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, 2013 and the plan provisions recognized in that valuation, the normal cost was 21.775% of pay and the amortization period was 28.9 years.

Notes to Financial Statements

Note 7: 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, 2013 and 2012 of approximately $33,184,050 million and $4.0 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2013 and 2012, the total accumulated lump sum benefit due to forward DROP participants was $2,188,484 and $1,802,639, respectively.

At December 31, 2013 and 2012, the total accumulated lump sum benefit due to PROP participants was $22,161,032 and $18,928,050, respectively.

Note 8: Funded Status and Funding Progress Pension Plans

The funded status of each plan as of December 31, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
12/31/13	$604,841,897	$911,044,154	$306,202,257	66.4%	$147,138,718	208.1%

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

Notes to Financial Statements

Note 8: Funded Status and Funding Progress Pension Plans

Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	28.9 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on the market
Actuarial assumptions:	
Investment rate of return, net of expenses	8.0%
Projected salary increases	3.75 % to 21.75% per year, averaging 6.5%
Inflation rate per year	3.75%
Postretirement cost-of-living adjustments	None

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 is ranges from $1 million to $2 million and the System's total investment in the HR Huff Energy Fund is now $14,294,472.

On February 14, 2014, APRS filed a claim against the manager of one of its investments. On April 2, 2014, the management in turn, filed a counter claim against APRS. Management is seeking from APRS (1) claimed unpaid management fees of $53,571; (2) damages for further management fees in the amount of at least $267,855; (3) damages in the amount of $321,426 for the alleged deprivation of management's profit interest in the investment; (4) punitive damages in an unspecified amount; and (5) attorneys' fees and costs of litigation. In APRS' council's opinion, neither a favorable not 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.

Disclosures in Accordance with GASB Statement No. 50
Required Supplementary Information

I. Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll(1) (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
12/31/08(2)	$464,230,585	$693,202,499	$228,971,914	67.0%	$122,735,216	186.6%
12/31/09(2,3)	518,111,923	733,634,660	215,522,737	70.6	122,928,285	175.3
12/31/2010 (2)	546,956,628	776,231,027	229,274,399	70.5	127,731,696	179.5
12/31/2011 (2)	553,701,976	815,258,776	261,556,800	67.9	134,843,931	194.0
12/31/12(2)	558,475,643	856,576,826	298,101,183	65.2	141,561,047	210.6
12/31/13	604,841,897	911,044,154	306,202,257	66.4	147,138,718	208.1

1 The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.
1 The covered payroll is based on the annual rate of base pay and longevity pay assumed for the year following the valuation date.
2 Some of the actuarial assumptions were revised.
3 Reflects changes in plan benefit provisions effective January 2009.

Plan Year Ended December 31	Annual Contribution as a Fixed Percentage of Payroll	Actual Contribution Amount		Annual Required Contribution		Percent of ARC Contributed
			Date	AP	Rate	
2008	17.900(2)	20,060,458(3)	12/31/2006	30.0	17.846	100.3%
2009	18.254(4)	22,159,076(5)	12/31/2007	30.0	16.776	108.8
2010	18.788(6)	23,382,043(7)	12/31/2008	30.0	20.291	92.6
2011	19.782 (8)	25,948,297 (9)	12/31/2009	30.0	19.360	102.2
2012	20.778(10)	28,621,995(11)	12/31/2010	30.0	19.698	105.5
2013	21.527(12)	31,007,375(12)	12/31/2011	30.0	20.343	105.8

II. Schedule of Employer Contributions

1. The ARC is based on a one-year lag between the date of the actuarial valuation ("Date") and the beginning of the plan year. The ARC is expressed as a contribution rate ("Rate") that is a percent of covered payroll. An amortization period (AP) for the ARC of up to 40 years was compliant with GASB parameters through the 2006 plan year. After the 2006 plan year, an AP of up to 30 years is compliant.
2. A portion of the Employer's total 18% contribution is allocated to a Retiree Death Benefit Fund.
3. The employer's total contribution during 2008 including the RDBF was $20,171,151.
4. The employer's total contribution rate was 18.25% January-September 2009 and 18.63% October-December 2009. The average contribution rate was 15.254% (18.345% total average—0.091% for the RDBF)
5. The employer's total contribution during 2009 including the RDBF was $22,272,667.
6. The employer's total contribution rate was 18.63% January-September 2010 and 19.63% October-December 2010. The average contribution rate was 18.788% (18.88% total average—0.092% for the RDBF)
7. The employer's total contribution during 2010 including the RDBF was $23,501,903.
8. The employer's total contribution rate was 19.63% January-September 2011 and 20.63% October-December 2011. The average contribution rate was 19.782% (19.88% total average—0.098% for the RDBF)
9. The employer's total contribution during 2011 including the RDBF was $26,088,779.
10. The employer's total contribution rate was 20.63% January-September 2012 and 21.63% October-December 2012. The average contribution rate was 22.682% (22.682 total average—0.103% for the RDBF)
11. The employer's total contribution during 2011 including the RDBF was $28,767,411
12. The employer's total contribution rate was 21.63% in 2013. The employer's total contribution during 2012 including the RDBF was $31,160,764.