TABLE OF CONTENTS

INTRODUCTORY SECTION

Letter to Members

Dear Members,

The Board of Trustees and staff of the Austin Police Retirement System are pleased to present the Annual Report for the fiscal year ended December 31, 2017.

The annual report is intended to provide complete and reliable information regarding the financial performance of the System and measure the responsible stewardship of the System's assets.

The annual report is divided into the following sections:

- The Introductory Section provides basic information about the organization.
- The Financial Section includes an investment overview provided by the System's consultants, the independent auditor's report, Management's Discussion and Analysis (MD&A), basic financial statements, notes to the basic financial statements and required supplemental information.
- The Actuarial Section contains the consulting actuary's Certification Letter and the full actuarial valuation report.
- The Historical Information & Benefits Sections contain highlights of historical benefit changes, a comparative statement of membership over the last two years and the membership benefit guide.

Montemayor Britton Bender PC, the System's independent auditor, issued an unqualified opinion on the System's financial statements. The report indicates that the financial statements are in accordance with Governmental Accounting Standards Board rulings and that the System's financial condition and operations are fairly presented. It is the best report an independent auditor may issue.

The 2017 actuarial valuation was performed by Gabriel, Roeder & Smith (GRS). The Actuarial Valuation Report indicates that the funding ratio (assets compared to liabilities) is 64.9 percent, and the funding period to amortize liabilities is 35 years.

The System's management staff is responsible for maintaining internal controls. These controls are designed to provide reasonable assurance that the assets are protected and that financial transactions are executed in accordance with Board policy and federal, state, and local laws and regulations. Additionally, the controls provide assurance regarding Management's responsibility to the System and facilitate the timely preparation of financial statements in accordance with generally accepted accounting principles.

As always, the Board of Trustees and staff welcome your comments. We appreciate your support and the opportunity to serve you. Trustees and staff are dedicated to maintaining the System's financial strength through diversification of fund assets and sound management of the System.

Sincerely,

Jim Beck, Chairman
Board of Trustees

Pattie Featherston
Executive Director

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2017

Presented to

City of Austin Police Retirement System

In recognition of meeting professional standards for

plan funding and administration as

set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

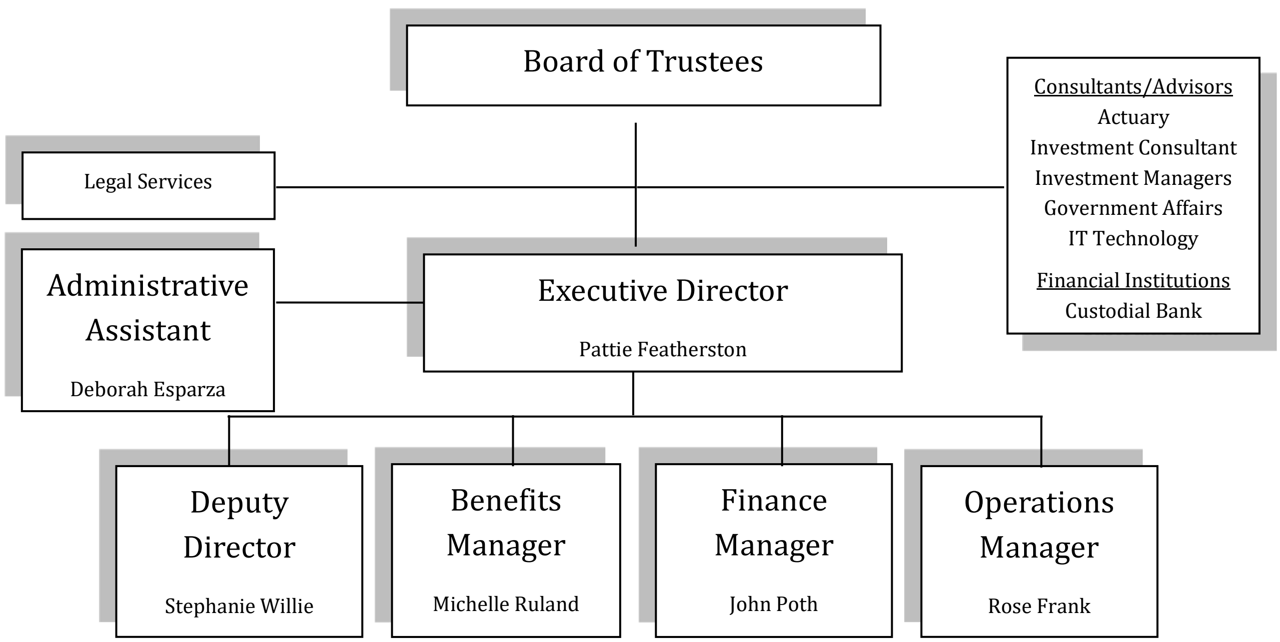
Alan H. Winkle

Alan H. Winkle

Program Administrator

Board of Trustees

Organizational Chart



Key Professional Service Providers

Custodian Bank

The Northern Trust Company, Chicago, Illinois

Investment Consultant & Performance Evaluator

AndCo Consulting, Orlando, Florida

Actuary

Gabriel, Roeder & Smith, Dallas, Texas

Auditor

Montemayor Britton Bender PC, Austin, Texas

Legal Counsel

Chuck Campbell, Jackson Walker, L.L.C., Austin, Texas

Investment Managers

Domestic Equity

Baird Investment Management, Milwaukee, Wisconsin
Kennedy Capital Management, Inc., St. Louis, Missouri
NTGI Russell 3000 Index Fund, Chicago, Illinois
Seizert Capital Partners, Birmingham, Michigan

International Equity

Dreihaus International Securities, LLC, Chicago, Illinois
Lee Munder Capital Group, LLC, Boston, Massachusetts
Thompson Siegel & Walmsley, LLC, Richmond, Virginia

Other Equity

Excelsior Investors, LTD, Dallas, Texas
Sail Capital Partners, LLC, Irvine, California
WR Huff Energy Fund, LP, Morristown, New Jersey

U.S./Non-U.S. Fixed Income

Orleans Capital, Mandeville, Louisiana
Franklin Templeton Global CIT, Miami, Florida

Other Fixed Income (Private Lending)

Capital Point Partners, Houston, Texas
LBC Credit Partners, Inc., Philadelphia, Pennsylvania
Providence Debt Fund III GP LP, New York, New York
Franchise Capital Partners (Capital Springs), Boca Raton, Florida

Multi Asset Class

Double Eagle Capital Management, Irving, Texas

Real Estate

AEW Capital Management, LP., Boston, Massachusetts
ARES (VEF Advisors, LLC), Los Angeles, California
Edison Investments, Inc., Wichita, Kansas
FWAR Investments, Dallas, Texas
Gainesville Land, Hall County, Georgia (formerly Vision Capital Partners)
Invesco Reality Advisors, Dallas, Texas
JP Morgan Asset Management, New York, New York
Morgan Stanley & Co. Inc., New York, New York
Rocksprings Capital Land, Houston, Texas

Timber

BTG Pactual Timberland Group, Atlanta, Georgia
Timberland Investment Resources, Atlanta, Georgia
Domain Timber Advisors (formerly Timbervest), Atlanta, Georgia

FINANCIAL SECTION

Investment Overview

Prepared by: AndCo Consulting, Investment Consultant to the Board

Investors entered 2017 amidst an environment of uncertainty after the unexpected election of Donald Trump in the U.S. For investors who were patient and stuck with investments in global stock markets, they were rewarded with one of the best years of stock market performance on record amidst an environment of record low volatility. Calendar year 2017 proved to be the first year on record in which the U.S. stock market generated positive performance in each calendar month. The U.S. equity markets produced strong results across the market cap spectrum with U.S. large cap stocks (S&P 500) regaining their dominance, up 21.8%, while mid-caps were up 18.5% and small caps were worst performers up 14.6%. Large cap performance continues to be driven by growth oriented issues – Facebook, Amazon, Apple, Netflix, and Google. International Equity Markets delivered returns ahead of U.S. markets for the year, up 27.2%. (MSCI ACWIxUS). Developed markets, as represented by the MSCI EAFE Index, were up 25.0%, while Emerging Markets (MSCI EME Index) were the best performing equity asset class in producing a return of 37.3%. Exiting 2017 investors were confident that markets can continue to rise amidst an environment of "synchronized global expansion."

U.S. stocks registered their largest annual return in four years and set record highs driven by robust earnings growth, an accelerating economy and strong appetite for technology. The Standard & Poor's 500 Composite Index rose 22%, the Dow Jones Industrial Average climbed 28%, while the technology-heavy Nasdaq increased nearly 30%. Strength in Technology, Healthcare and Consumer stocks led U.S. growth indices to once again dominate performance for the year after a brief year of value outperformance in 2016. Energy moved from a top performer in 2016 to a bottom performer in 2017 amidst rising U.S. oil supplies and falling oil prices.

International stock markets had one of their best years in 2017 fueled by strong gains in Europe amidst strong economic growth in the region. Entering 2017 there were fears that a wave of elections could lead to more countries pushing to exit the Eurozone but these fears proved to be unfounded in 2017. For emerging markets, the 37% gain was the best year of performance since 2009 and was fueled by an environment of U.S. Dollar weakness against most emerging market currencies and aggressive stimulus measures being enacted by the Chinese government.

The bond market saw a year of yield curve flattening as the short end of the yield curve rose amidst three interest rate hikes of 0.25% by the Federal Reserve and the long end of the curve saw rates decline on continued low inflation expectations. Investors continue to embrace risk in the bond markets as areas like U.S. corporate bonds, high yield bonds, and emerging market bonds proved to be the top performers for the year.

The Austin Police Retirement System investment portfolio returned 11.9% for the full year of 2017. The portfolio generated a return on investment of $83.5 million which brought the total portfolio value to $769.5 million at year end.

The Equity allocation, which represents 64% of the total fund, was the main driver of portfolio returns with a gain of 18.5%. U.S. equities (46% of the total fund) generated gains of 17.4%, while the international equity allocation (16% of the total fund) generated a substantial gain of 27.4% amidst an environment of strong global growth and a weakening U.S. dollar. The U.S. equity allocation saw strong performance from the majority of its actively managed allocations as well as significant returns from its passively managed index allocation.

The Fixed Income allocation (19% of the Fund) posted a return of 2.9% which slightly trailed the return of the broad U.S. bond market for the year. The portfolios U.S. bond manager and private credit managers generated significant gains and performance for the year, while global bonds did not keep up with the benchmark in 2017. Given the low return outlook for bonds the allocation remains low. Interest rates began to rise in late 2017 and continued higher into 2018 and managers have responded with defensively positioned portfolios entering 2018

The Real Estate allocation (9% of the Fund) generated a gain of 2.9% provided mostly from its open-end core commingled fund investment made a couple years ago along with several older investments in the final stages of liquidating their portfolios. The fund committed capital to two non-core value-add real estate funds during the year and those commitments will be invested over the next few years. The Timber allocation (3% of the Fund) posted a small loss of -3.9% in 2017 and that portfolio continues to be reduced through property sales. The Private Equity allocation (2% of the Fund) declined 17.6% in 2017 as the System wrote down underperforming investments that will likely not generate performance moving forward. In 2017 the Board established a new direction for private equity management and expect the allocation to grow consistently over the next seven to ten years to ultimately be a source of return strength for the System moving forward. The Hedge Fund/Multi Asset allocation (4% of the Fund) gained 0.8% for the year. While the low volatility environment proved beneficial for the System's traditional equity holdings, it proved to work against the System's hedge fund managers who look to volatility to create investment opportunities via market dislocations.

The Board of Trustees remains committed to investing for the long haul using a well-diversified mix of investments among various asset classes managed by professional money managers who have demonstrated their professionalism over time with a goal of generating a return that equals or exceeds the actuarial return assumption.

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 2017 and 2016. 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 $83.5 million in 2017, and increased by $41.8 million in 2016. The asset increases in 2017 and 2016 are the result of a strengthening U.S. economic market, strong employment, and overall increased consumer confidence in the economy.
- Contributions increased in 2017 by $3.4 million and decreased by $1.8 million in 2016. The increase in 2017 is primarily due to an increase in total payroll and service credit purchases related to an increase in retirements. The decrease in 2016 was primarily due to a decrease in the City's contribution rate required for the Proportionate Retirement Program, pursuant to an updated actuarial analysis in 2015.
- The amount of benefits paid to retired members and beneficiaries, including refunds to terminating employees, increased by $5,720,503 in 2017 and increased $822,063 in 2016. The larger increase in 2017 is due to an increase in retirements and refunds.
- The System's rate of return on investments for the year ended December 31, 2017 was 12.17 percent gross of fees and 11.89 percent net of fees, on a market value basis, as compared to 7.87 percent gross of fees and 7.67 percent net of fees for the year ended December 31, 2016, calculated on a time-weighted return basis.
- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2017, the date of the most recent actuarial valuation, the System's funded ratio of actuarial assets as a percentage of actuarial liabilities is 64.9 percent, as compared to 66.2 percent at December 31, 2016.

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 assets at fair market 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 the current year additions to and deductions from the plan. These two statements report the system's Net Position, the difference between assets and liabilities, which is one way to measure the Systems' financial position.
- **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 of the last three years, and summarizes the changes in Fiduciary Net Position for the year.

Financial Analysis

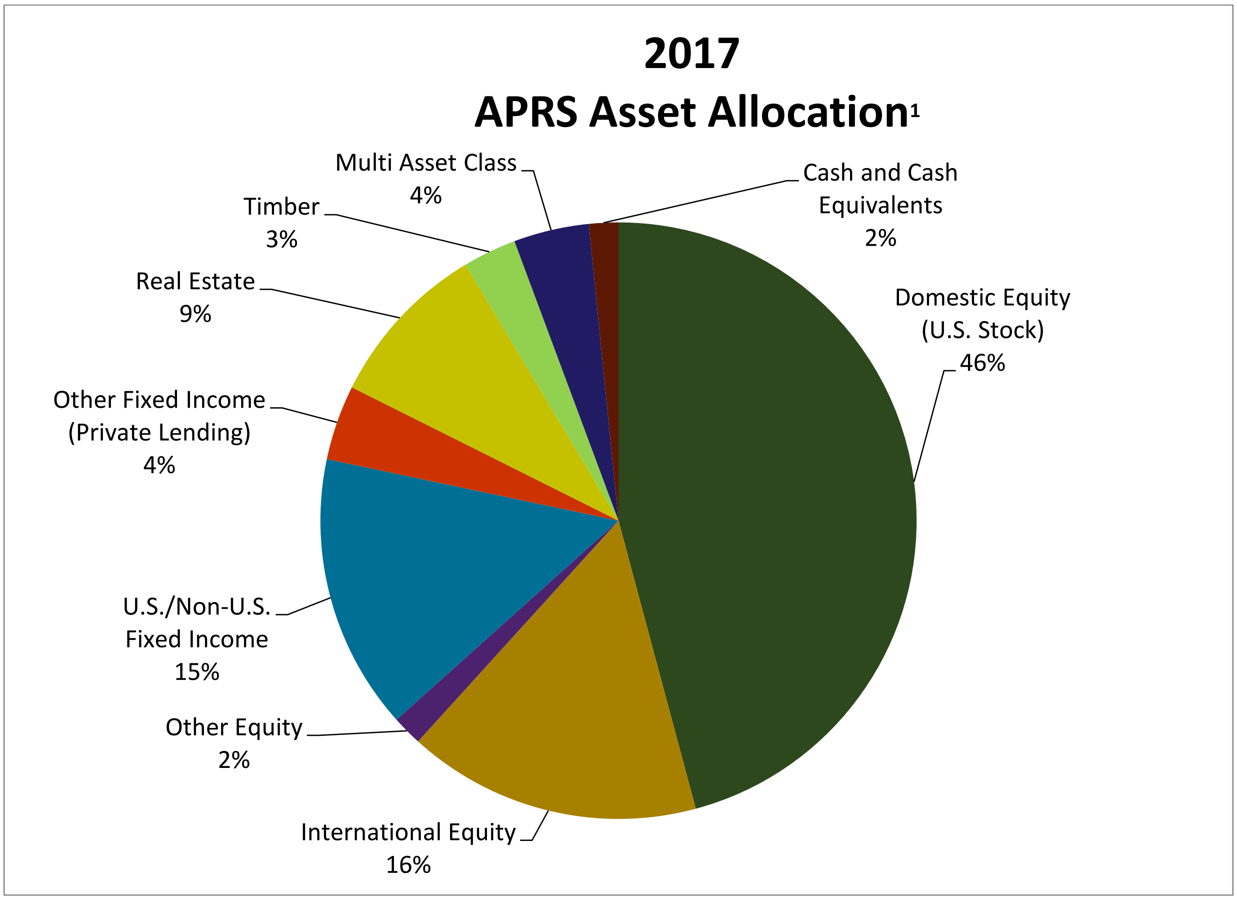
Summary of Fiduciary Net Position
December 31, 2017, 2016 and 2015

Assets	2017	2016	2015
Receivables	$ 1,363,953	$ 1,279,327	$ 3,476,641
Investments	771,506,987	687,472,332	643,286,642
Fixed assets, net	726,034	740,037	439,301
Other	7,665	7,665	10,573
Total assets	$ 773,604,639	$ 689,499,361	$ 647,213,157
Liabilities			
Total Liabilities	4,129,896	3,479,099	3,039,020
Fiduciary net position for pension benefits	$ 769,474,743	$ 686,020,262	$ 644,174,137

See independent auditor's report.

The total Fiduciary Net Position increased by $83.5 million, or 12.2 percent, to $769.5 million at the end of 2017, compared to $686.0 million at the end of 2016 which was an increase of $41.8 million, or 6.5 percent. The investment asset increase of $84.0 million in 2017 is primarily the result of a growing stock market.

Below is a chart of the System's asset allocation percentages for the year ending December 31, 2017:

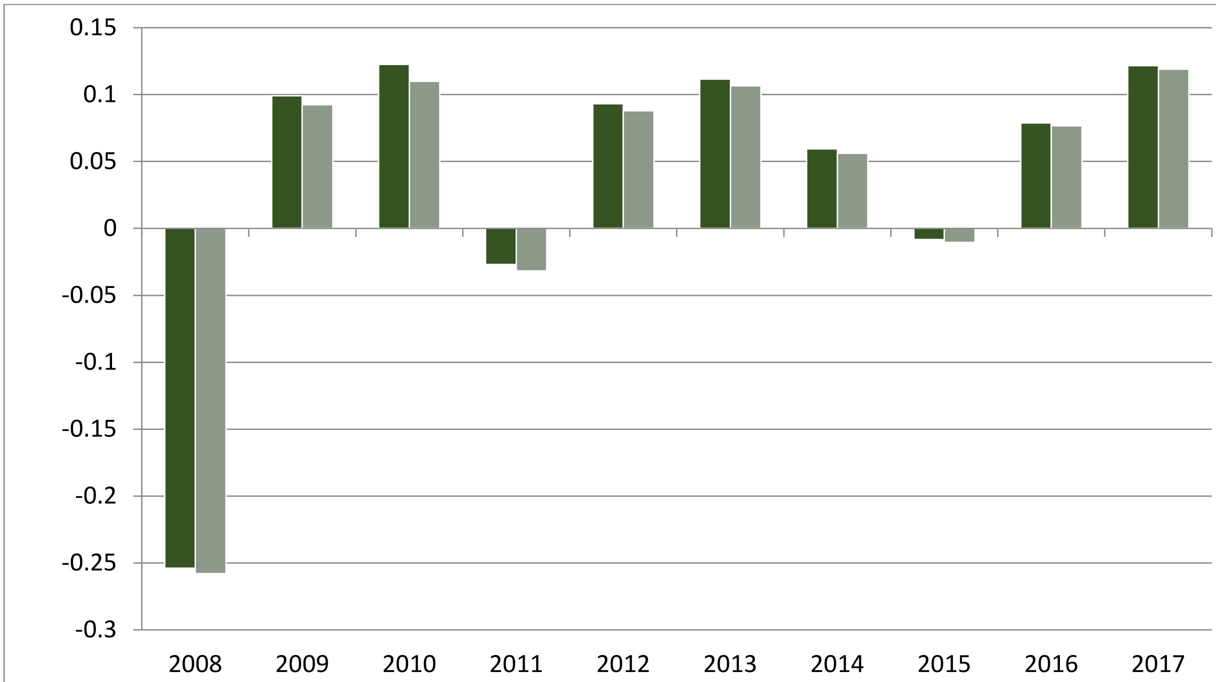


[1] Asset classes revised November 13, 2017

Investment Returns and Assumptions. The Systems' rate of return in 2017 is 11.89 percent net of expenses. The following chart exhibits the short- and long-term gains and losses.

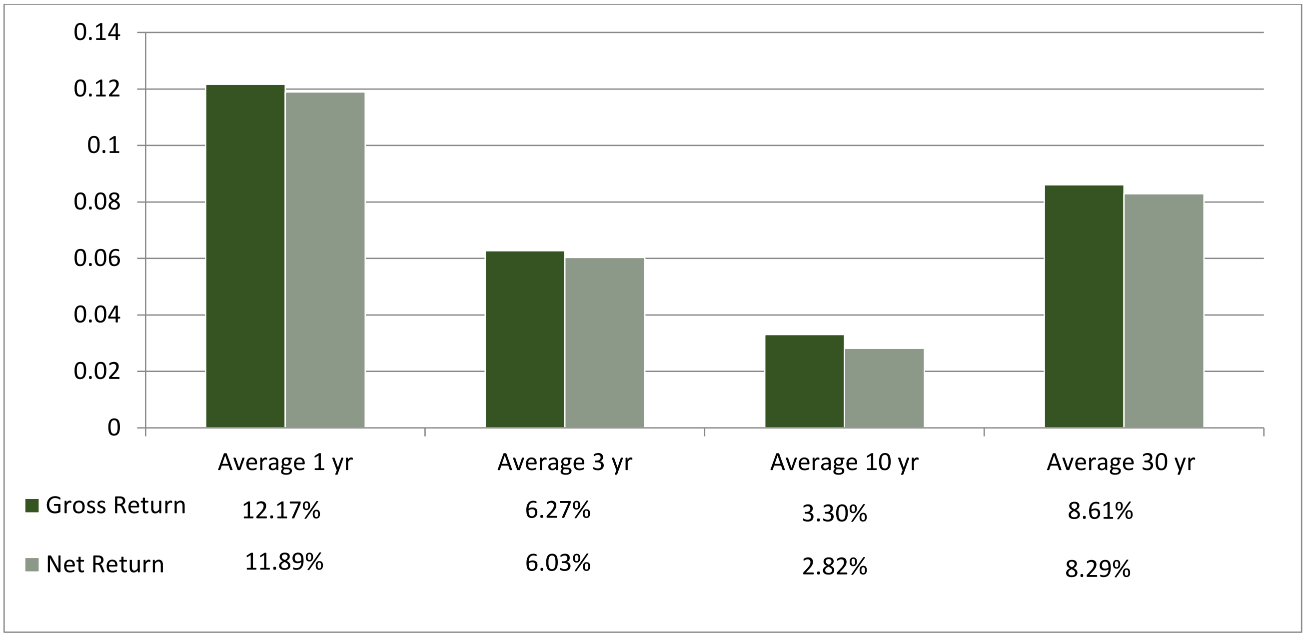
Note: Historical returns for 2000-2015 have been adjusted from previous annual reports to align with the calculations of the current investment consultant using time-weighted annualized returns.

10 Fiscal Year Returns



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross	-25.39%	9.92%	12.25%	-2.68%	9.31%	11.16%	5.94%	-0.83%	7.87%	12.17%
Net	-25.79%	9.24%	10.99%	-3.16%	8.79%	10.66%	5.61%	-1.05%	7.67%	11.89%

Annualized Rolling Gross & Net Investment Returns



See independent auditor's report.

Summary of Changes in Fiduciary Net Positions

Years Ended December 31, 2017, 2016 and 2015

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

Additions	**2017**	**2016**	**2015**
Contributions[1]	$ 59,493,168	$ 56,105,481	$ 57,948,151
Investment income	83,133,910	39,618,214	1,411,242
Investment expense	(1,819,122)	(1,881,521)	(2,025,329)
Net investment income	81,914,788	37,736,693	(614,087)
Other income	157,214	103,139	7,450
Total additions	$ 141,565,170	$ 93,945,313	$ 57,341,514
Deductions			
Benefit payments & contributions refunded[2]	$ 56,548,004	$ 50,827,501	$ 50,005,438
General and administrative expenses	1,562,685	1,271,687	1,181,008
Total deductions	$ 58,110,689	$ 52,099,188	$ 51,186,446
Net increase/decrease	$ 83,454,481	$ 41,846,125	$ 6,155,068
Fiduciary Net position beginning of year	$ 686,020,262	$ 644,174,137	$ 638,019,069
Fiduciary Net position end of year	$ 769,474,743	$ 686,020,262	$ 644,174,137

[1] Includes COA Contributions, Member Contributions, Contributions Applied to Death Benefit Fund, Contributions Applied to Proportional Retirement, Service Credit Purchases and APRS & Staff Contributions

[2] Includes Retirement Annuities, PROP, DROP, Death Benefit and Refund payments

Member and City of Austin contributions for 2017 and 2016 totaled $59.5 million and $56.1 million, respectively. The 2017 contributions represent an increase of $3.4 million, or 6.0 percent, above 2016. The 2016 contributions represent a decrease of $1.8 million, or 3.2 percent, below 2015. The 2015 contributions represent an increase of $3.9 million, or 7.2 percent, above 2014.

The total rate of return for the System's investment portfolio in 2017 (net of investment expenses) was 11.89 percent as compared to 7.67 percent for 2016 on a time-weighted basis.

Deductions. The expenses paid by the System encompass benefit payments and administrative costs. Benefit payments, comprising the vast majority of the System’s expenses, include payments to retirees, beneficiaries and alternate payees, as well as refunds of member contributions. Administrative expenses support the direct operations of the System, and include employee salaries and benefits, rent, utilities, and office expenses.

In 2017, benefits paid to retirees, beneficiaries and alternate payees plus contribution refunds to terminating members were $56.5 million, an increase of $5.7 million over the $50.8 million paid in 2016. The total number of retirees, beneficiaries and alternate payees increased to 867 in 2017 compared to 849 in 2016. In 2017 the System actuary accounted for the Forward DROP members in the active member population while in 2016 the past System actuary accounted for the Forward DROP members in the retiree population. Refunds to terminating employees in 2017 increased by 38 percent to $1.37 million in 2017 compared to $996 thousand in 2016. General and administrative expenses in 2017 were $1.56 million and $1.27 million in 2016.

The System lowered its directly billed investment management fees by $62 thousand in 2017 and by $144 thousand in 2016. The decrease in 2017 and 2016 is largely due to an increase in investment indexing that reduces manager fees, and the diligent replacement of managers with higher fees.

Overall Analysis. As of December 31, 2017, the System's Fiduciary Net Position increased by $83.5 million from the prior year. Over the three-year period ending December 31, 2017 the System's Fiduciary Net Position has increased by $125.3 million.

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 the Executive Director, City of Austin Police Retirement System, 2520 South IH-35 Suite 100, Austin, Texas 78704.

Statement of Fiduciary Net Position

December 31, 2017 and 2016

ASSETS[1]	2017	2016
Investments, at fair value:		
Domestic Equity (U.S. Stock)	$ 352,635,641	$ 281,633,999
International Equity	122,447,653	98,087,795
Other Equity	12,563,438	15,212,975
U.S./Non-U.S. Fixed Income	114,958,695	109,748,163
Other Fixed Income (Private Lending)	31,298,165	31,138,820
Real Estate	69,572,389	69,564,043
Timber	22,349,839	24,563,697
Multi Asset Class	31,444,001	31,190,318
Cash & Cash Equivalents	14,237,166	26,332,523
Total Investments	771,506,987	687,472,333
Interest and dividends receivable	100,695	190,489
City of Austin retirement contributions receivable	745,914	655,753
City of Austin death benefit contributions receivable	5,379	4,692
Member contributions receivable	475,503	408,847
Proportionate retirement program contributions receivable	11,449	9,844
Fixed assets, net	726,034	740,037
Other	32,678	17,367
Total assets	773,609,639	689,499,362
LIABILITIES		
Accounts payable and accrued liabilities	3,361,115	2,710,286
Refunds payable	768,781	768,814
Total liabilities	4,129,896	3,479,099
FIDUCIARY NET POSITION	$ 769,474,743	$ 686,020,262

1 Asset classes revised November 13, 2017

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

Statement of Changes in Fiduciary Net Position

December 31, 2017 and 2016

ADDITIONS TO PLAN NET POSITION:	**2017**	**2016**
Contributions:		
City of Austin Retirement Contributions	$ 34,285,790	$ 33,025,835
City of Austin Contributions applied to the Death Benefit Fund	244,003	226,308
City of Austin Contributions applied to Proportional Retirement	514,855	495,205
Member (Police) Contributions	21,385,970	20,582,360
Service Credit Purchases	2,914,966	1,668,174
APRS Employer Contributions	96,556	66,834
APRS Employee Contributions	51,028	40,765
Total contributions	59,493,168	56,105,481
Investment income:		
Net increase (decrease) in the fair value of investments	79,743,640	31,764,798
Interest and dividends	3,990,270	7,853,982
Rental and other income	157,214	102,573
Total investment gain (loss) before expenses	83,891,124	39,721,353
Investment expenses:	(1,819,122)	(1,881,521)
Net gain (loss) from investments	82,072,002	37,839,832
Total additions (deletions) to Fiduciary Net Position	141,565,170	93,945,313
DEDUCTIONS FROM FIDUCIARY NET POSITION:		
Retirement benefit payments	54,909,433	49,761,331
Death benefit payments	109,203	70,000
Contributions refunded to terminating employees	1,529,368	996,170
General and administrative expenses	1,562,685	1,271,687
Total deductions from Fiduciary Net Position	58,110,689	52,099,188
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	83,454,481	41,846,125
Beginning fiduciary Net Position	686,020,262	644,174,137
ENDING FIDUCIARY NET POSITION	$ 769,474,743	$ 686,020,262

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. However, in 1991, the System became governed by state law with plan amendments to be 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 23 years of service excluding any purchased military service credit regardless of age, or at age 55 with 20 years of service excluding any purchased military service or at age 62. In 2009, the System and the City began participating in the Texas 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 eligibility requirements. Other participating systems include the Texas statewide systems, the City of Austin Employees' Retirement System, and the systems for the City of El Paso employees.

The monthly benefit is equal to 3.2 percent 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 purchased military service credit on the date the participant elects the Retro DROP benefit computation date. As of Board action on February 18, 2015, the Retro DROP option is open only to members with 23 years of creditable service as of March 31, 2015. Further, the Retro DROP provisions may be changed in the future by Board rule with approval by the System's actuary.

Note 1: Organization and System Description

The Forward Deferred Retirement Option Plan (Forward DROP) provisions require that a participant must have 23 years of creditable service with the retirement system excluding any purchased military service credit on the date the participant elects to enter the Forward DROP. There are two Forward DROP plans; (1) the Five-Year Forward DROP which is only open to members with 23 years of creditable service as of February 17, 2016 and (2) the Seven-Year Forward DROP which is open to members with 23 years of credible service after February 17, 2016. Forward DROP provisions may be changed in the future by Board rule with approval by the System's actuary.

The Post Retirement Option Plan (PROP) is a program allowing retiring members to transfer a DROP lump sum amount or defer a portion of the monthly annuity payments to an interest bearing PROP account. Interest will be paid on the participant's PROP account until the entire lump sum is paid. Interest is payable on PROP accounts on an annual rate determined by the Board.

Members with 20 years of creditable service (including Proportionate Retirement) may purchase Permissive Service credit (PSC) up to a maximum of five years. The purchase constitutes an immediate retirement. PSC deferred retirement is an option allowing a member with at least 20 years of creditable service at termination of employment with the APD the option to purchase service credit necessary to become eligible to retire and delay the retirement benefit.

A $10,000 post-retirement lump sum death benefit is payable from a separate Retiree Death Benefit Fund administered by the System. As of December 31, 2017 and 2016, the assets of the Retiree Death Benefit Fund were $1,226,556 and $1,084,516, respectively, which are included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of $769,474,743 and $686,020,263, respectively.

Note 1: Organization and System Description

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 percent per year, and subject to the approval of the Board and the actuary.

Note 1: Organization and System Description

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, 2017 and 2016:

	2017
Retirees and beneficiaries currently receiving benefits	965
(867) and terminated employees entitled to future monthly benefits (98)	
Current participating members	1,866
2017 Total	**2,831**

	2016
Retirees and beneficiaries currently receiving benefits	885
(849) and terminated employees entitled to future monthly benefits (36)	
Current participating members	1,837
2016 Total	**2,722**

Note: In 2017 the System actuary accounted for the Forward DROP members in the active member population while in 2016 the past System actuary accounted for the Forward DROP members in the retiree population.

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.

Note 2: Summary of Significant Accounting Policies

Investment purchases and sales are recorded as of their settlement 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, 2017 and 2016, 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. For other types of investments, the System uses financial statements submitted by investment managers, reviewed for alignment with values held by the external investment consultant and custodial bank.

Note 2: Summary of Significant Accounting Policies

Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a settlement-date basis.

SYSTEM EXPENSES

All System administrative costs are the responsibility of the System.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure through the date of the Independent Auditor's Report, 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 five to seven years for furniture and equipment. Fixed asset activity for the year ended December 31, 2017 consisted of:

	Beginning Balance	Additions	Deletions	Ending Balance
Assets not being depreciated				
Land	$ 150,000	$ -	$ -	$ 150,000
Assets being depreciated				
Building and improvements	1,213,715	51,375		1,265,090
Furniture and equipment	502,053	929		502,982
Leasehold improvements	56,986	8,625		65,611
Accumulated depreciation	(1,182,717)	(74,932)		(1,257,649)
Net Fixed Assets	$ 740,037	$ (14,003)	-	$ 726,034

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 retirement plan in Article 6243n-1, Vernon's Annotated Texas Civil Statutes, which 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 and state and federal law.

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, 2017 and 2016 are presented, by type, as follows:

Total Investments by Asset Class[1]	**2017**	**2016**
Domestic Equity (U.S. Equity)	$ 352,635,641	$ 281,633,999
International Equity	122,447,653	98,087,795
Other Equity	12,563,438	15,212,975
U.S./Non-U.S. Fixed Income	114,958,695	109,748,163
Other Fixed Income (Private Lending)	31,298,165	31,138,820
Real Estate	69,572,389	69,564,043
Timber	22,349,839	24,563,697
Multi Asset Class	31,444,001	31,190,318
Cash & Cash Equivalents	14,237,166	26,332,523
Total Investments	$ 771,506,987	$ 687,472,333

[1] Asset classes revised November 13, 2017

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 its 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.

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 the 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, 2017 and 2016, 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, 2017, there is no security issued by a single issuer that holds more than 5 percent of the System’s fund.

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 System’s Funds.

Note 5: Deposit and Investment Risk

As of December 31, 2017, the System had the following investment asset allocations:

Asset Class[1]	Target	Allowable Range
Domestic Equity (U.S. Equity)	42.5%	30%-50%
International Equity	15.0%	5%-25%
Other Equity	7.5%	0%-10%
U.S./Non-U.S. Fixed Income	10.0%	5%-30%
Other Fixed Income (Private Lending)	5.0%	0%-10%
Real Estate	15.0%	0%-30%
Timber	0.0%	0%-5%
Multi Asset Class	5.0%	0%-10%
Cash & Cash Equivalents	0.0%	0%-5%

[1] Asset classes revised November 13, 2017

The Board has adopted an Investment Policy Statement (IPS) with a general investment objective to obtain a total rate of return commensurate with the Prudent Investor Rule and any other applicable statutes. Reasonable consistency of return and protection of assets against the inroads of inflation is paramount. Performance results will be compared over the long-term in the context of five years or more given interest rate fluctuations and volatility of securities markets.

The Board will employ investment professionals to oversee and invest the assets within the parameters allowed by the IPS and the agreements. The investment managers will have investment discretion over their mandates, including security selection, sector weightings and investment style, subject to certain constraints of the IPS.

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.

Note 5: Deposit and Investment Risk

INTEREST RATE RISK

Interest rate risk is the risk that measures whether 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, 2017, the System had the following investments:

Investment Type[1]	Fair Value	Less Than 1 Year	1 to 6 Years	6 to 10 Years	Over 10 Years
Bonds	$73,387,670	$3,998,642	$22,693,784	$15,373,047	$31,322,197

As of December 31, 2016, the System had the following investments:

Investment Type[1]	Fair Value	Less Than 1 Year	1 to 6 Years	6 to 10 Years	Over 10 Years
Bonds	$67,942,195	$3,009,947	$21,187,793	$13,344,072	$30,400,383

[1] Source: 2017 GASB 40 Report

CREDIT RISK

Credit risk is the risk associated with an issuer or other counterparty to an investment that does 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.

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, 2017, are as follows:

Quality Rating[1]	Total Fair Value	International Securities	Corporate Bonds	Government Bonds
Aaa / AAA				
Aa1 / AA+	$ 2,025,400		$ 2,025,400	
Aa2 / AA				
Aa3 / AA-	3,428,368		3,428,368	
A1 / A+				
A2 / A	11,166,118		11,166,118	
A3 / A-	11,502,080		11,502,080	
Baa1 / BBB+	8,662,154		8,662,154	
Baa2 / BBB	12,916,402		12,916,402	
Baa3 / BBB-	2,046,518		2,046,518	
Ba1 / BB+				
Ba2 / BB				
Ba3 / BB-				
B1 / B+				
B2 / B				
B3 / B-				
Caa / CCC				
Ca / CC				
C and below				
Not Rated	69,735,252	69,735,252		
U.S. Gov't Guaranteed	21,640,630			21,640,630
Cash & Equivalent	18,405,243	18,405,243		
Total	$ 161,528,165	$ 88,140,495	$ 51,747,040	$ 21,640,630

[1] Source: 2017 GASB 40 Report

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, 2016, are as follows:

Quality Rating[1]	Total Fair Value	International Securities	Corporate Bonds	Government Bonds
Aaa / AAA				
Aa1 / AA+	$ 1,992,500		$ 1,992,500	
Aa2 / AA				
Aa3 / AA-	4,564,579		4,564,579	
A1 / A+				
A2 / A	9,316,945		9,316,945	
A3 / A-	11,198,712		11,198,712	
Baa1 / BBB+	7,847,195		7,847,195	
Baa2 / BBB	9,633,728		9,633,728	
Baa3 / BBB-	2,033,942		2,033,942	
Ba1 / BB+				
Ba2 / BB				
Ba3 / BB-				
B1 / B+				
B2 / B				
B3 / B-				
Caa / CCC				
Ca / CC				
C and below				
Not Rated		$35,905,897		
U.S. Gov't Guaranteed	21,354,593			$ 21,354,593
Cash & Equivalent	(169,211)	(169,211)		
Total	$ 67,772,983	$ 35,736,686	$ 46,587,601	$ 21,354,593

[1] Source: 2017 GASB 40 Report

Note 5: Deposit and Investment Risk

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that occurs when changes in exchange rates 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 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 U.S. dollars and accounted for at fair market value.

The System's exposure to foreign currency risk as of December 31, 2017, is as follows:

2017 Foreign Currency Risk[1]

Country	Non-Securities	International Equities	Other[2]
Belgium, Euro			$1,992,860
Canada, Dollar		$61,975	
France, Euro		23,098	
India, Rupee		250,211	
Ireland, Euro		887,667	
Israel, Shekel		220,269	
Netherlands, Euro		142,597	
Norway, Krone		155,817	
Taiwan, Dollar		205,074	
UK, Pound		31,363	
	$	$1,978,071	$1,992,860

1 Source: 2017 GASB 40 Report

2 Represents corporate bonds

Note 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 15, 2016, is as follows:

2016 Foreign Currency Risk[1]

Country	Non-Securities	International Equities	Other[2]
Greece, Euro		$ 39,321	
Netherlands, Euro		69,119	
Belgium, Euro			1,960,420
India, Rupee		108,878	
Israel, Shekel		468,203	
Taiwan, Dollar		116,760	
	$ -	$ 802,281	$ 1,960,420

1 Source: 2017 GASB 40 Report

2 Represents corporate bonds

Note 6: Fair Market Measurement

In accordance with GASB 72, the System categorizes the fair measurement of its investments within a fair value hierarchy as established by generally accepted accounting principles. Fair value measurements are classified as Level 1, Level 2 or Level 3, based on inputs utilized to establish fair values:

> Level-1 inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets that an entity can access at the measurement date.
>
> Level-2 inputs (other than quoted prices included within Level 1) are observable for similar assets or liabilities.
>
> Level-3 inputs are developed by the reporting entity based on unobservable inputs for an asset or liability.

The categorization of investments described below is based solely on the objectivity of the inputs used, to reflect relative reliability in the measurement of an investment's fair value, and does not reflect the level of risk associated with the investment.

Note 6: Fair Value Measurement

APRS investments have the following fair value measurements as of December 31, 2017.

2017 GASB 72 Fair Value Measurement

Investments by fair value level:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Short-Term Securities				
Cash - STIF Account	14,237,166		14,237,167	
Total	**$14,237,166**		**$14,237,167**	
Debt Securities (1)				
Debt Securities	77,295,521		77,295,521	
Total	**$77,295,521**		**$77,295,521**	
Equity Securities				
U.S. Denominated Equities	141,868,719	141,868,719		
Total	**$141,868,719**	**$141,868,719**		
Pooled Funds				
Domestic equity collective trust	210,766,922	210,766,922		
International equity collective trust	84,157,697	84,157,697		
Global bond collective trust	37,668,150		37,668,150	
Emerging markets collective trust	22,381,484	22,381,484		
International equity mutual fund	15,908,472	15,908,472		
Total	**$370,882,725**	**$333,214,575**	**$37,668,150**	
Total investments by fair value level	**$604,284,131**	**$475,083,294**	**$129,200,838**	
Investments Measured at Level 3				
Timber	22,349,839	a, b, c,		22,349,839
Real Estate	69,572,389	d, e, f, g, h, i, j, k, l, m, n		69,572,389
Other Fixed Income (Private Lending)	31,293,189	o, p, q, r, s		31,293,189
Other Equity	12,563,438	t, u, v, w, x, y		12,563,438
Multi Asset Class	31,444,001	z		31,444,001
Total	**$167,222,856**			**$167,222,857**
Total investments measured at fair value	**$771,506,987**			

(1) **Includes**: Commercial mortgage-backed securities, Corporate Bonds, Government mortgage-backed securities, Government agencies and Government Bonds. All held by one manager.

2017 Financial Notes and Security Descriptions Footnotes:		Liquidity	Notice
a) BTG Pactual I	Actively managed diversified timber holdings located in the USA. The investment is in liquidation.	Illiquid	N/A
b) Capital Timberland Investments	Actively managed diversified timber holdings located in Texas, USA.	Illiquid	N/A
c) Domain Environmental (formerly Timbervest)	Actively managed real estate portfolio of environmental preservation and restoration projects located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
d) Rocksprings Funds	Actively manage portfolio of real estate investments located in Texas, USA.	Illiquid	N/A
e) CBRE Special Situation Fund	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
f) ARES (VEF Advisors Funds)	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
g) Invesco Real Estate Funds	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
h) Edison Investments (Jayhawk & Sycamore)	Actively managed opportunistic and value-added real estate portfolio of primarily equity real estate investments located in the USA. The investment is in liquidation.	Illiquid	N/A
i) JP Morgan India Property Fund	Actively managed opportunistic and value-added real estate portfolio of equity real estate investments located in India. This fund is near the end of its expected term.	Illiquid	N/A
j) Gainesville Property (formerly Vision Capital)	Actively managed portfolio of real estate investments located in the Georgia, USA.	Illiquid	N/A
k) FWAR Investments	Actively managed portfolio of real estate investments located in the Arizona, USA. The investment is in liquidation.	Illiquid	N/A
l) Morgan Stanley Prime Property Fund	Actively managed core portfolio of primarily equity real estate investments located in the USA.	Quarterly	90 days
m) AEW Partners Fund VIII	Actively managed core portfolio of primarily equity real estate investments located in the United States.	Illiquid	N/A
n) Green Oak U.S. III	Actively managed core portfolio of primarily equity real estate investments located in the United States. Contracted. Waiting to fund.	Illiquid	N/A
o) LBC Credit Partners III	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
p) LBC Credit Partners IV	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
q) Providence Debt Fund III	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
r) Capital Point Partners	Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation.	Illiquid	N/A
s) Franchise Equity Capital Partners II (Capital Springs)	Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation.	Illiquid	N/A
t) Huff Energy	Actively managed portfolio of private energy investments located in the USA. The fund is nearing the end of its expected term.	Illiquid	N/A
u) Sail Venture I	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
v) Sail Ventures II	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
w) Sail Pre-Exit Acceleration Fund	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
x) Excelsior Investors	Actively managed private equity portfolio of private finance oriented investments located in the USA.	Illiquid	N/A
y) Franklin Park Private Equity Fund	Actively managed portfolio of private finance oriented investments located in the United States.	Illiquid	N/A
z) Double Eagle Capital Ace Fund	Diversified fund of hedge funds with blending global macro, long/short equity and diversified credit strategies.	Quarterly	95 days

Note 6: Fair Value Measurement

APRS investments have the following fair value measurements as of December 31, 2016.

2016 GASB 72 Fair Value Measurement

Investments by fair value level:	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Short-Term Securities				
Cash - STIF Account	26,332,523		26,332,523	
Total	**$26,332,523**		**$26,332,523**	
Debt Securities (1)				
Debt Securities	73,842,266		73,842,266	
Total	**$73,842,266**		**$73,842,266**	
Equity Securities				
US Denominated Equities	122,182,219	122,182,219		
Total	**$122,182,219**	**$122,182,219**		
Pooled Funds				
Domestic equity collective trust	159,451,780	159,451,780		
International equity collective trust	68,590,593	68,590,593		
Global bond collective trust	35,905,897		35,905,897	
Emerging markets collective trust	16,465,942	16,465,942		
International equity mutual fund	13,031,260	13,031,260		
Total	**$293,445,472**	**$257,539,575**	**$35,905,897**	
Total investments by fair value level	**$515,802,480**	**$379,721,794**	**$136,080,686**	
Investments Measured at Level 3				
Timber	24,563,697	a, b, c,		24,563,697
Real Estate	69,564,043	d, e, f, g, h, i, j, k, l, m, n,		69,564,043
Other Equity (Private Equity)	15,212,975	o, p, q, r, s, t,		15,212,975
Other Fixed Income (Private Lending)	31,138,820	u, v, w, x, y,		31,138,820
Hedge Funds	31,190,318	z		31,190,318
Total	**$171,669,853**			**$171,669,853**
Total investments measured at fair value	**$687,472,333**			

(1) **Includes**: Commercial mortgage-backed securities, Corporate Bonds, Government mortgage-backed securities, Government agencies and Government Bonds. All held by one manager.

2016 Financial Notes and Security Descriptions Footnotes:		Liquidity	Notice
a) BTG Pactual 1, 2, 3 -	Actively managed diversified timber holdings located in the USA. The investment is in liquidation.	Illiquid	N/A
b) Capital Timberland Investments -	Actively managed diversified timber holdings located in Texas, USA.	Illiquid	N/A
c) Timbervest -	Actively managed real estate portfolio of environmental preservation and restoration projects located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
d) RockSpring Land Funds -	Actively manage portfolio of real estate investments located in Texas, USA.	Illiquid	N/A
e) CB Richard Ellis Funds -	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
f) Sentinel Funds -	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
g) New Boston Funds -	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
h) VEF Advisors Funds -	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
i) Invesco Real Estate Funds -	Actively manage value-added real estate portfolio of primarily equity real estate investments located in the USA. This fund is near the end of its expected term.	Illiquid	N/A
j) Edison Investments (Jayhawk & Sycamore) -	Actively managed opportunistic and value-added real estate portfolio of primarily equity real estate investments located in the USA. The investment is in liquidation.	Illiquid	N/A
k) JP Morgan India Property Fund -	Actively managed opportunistic and value-added real estate portfolio of equity real estate investments located in India. This fund is near the end of its expected term.	Illiquid	N/A
l) Gainesville Land (formerly Vision Capital Partners) -	Actively managed portfolio of real estate investments located in the Georgia, USA.	Illiquid	N/A
m) FWAR Investments -	Actively managed portfolio of real estate investments located in the Arizona, USA. The investment is in liquidation.	Illiquid	N/A
n) Morgan Stanley Prime Property Fund -	Actively managed core portfolio of primarily equity real estate investments located in the USA.	Quarterly	90 days
o) LBC Credit Partners III -	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
p) LBC Credit Partners IV -	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
q) Providence Debt Fund III -	Actively managed private investment fund of private loan investments located in the USA.	Illiquid	N/A
r) Capital Point Partners -	Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation.	Illiquid	N/A
s) Capital Partners II -	Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation.	Illiquid	N/A
t) Capital Partners III -	Actively managed private investment fund of private loan investments located in the USA. This investment is in liquidation.	Illiquid	N/A
u) Huff Energy -	Actively managed portfolio of private energy investments located in the USA. The fund is nearing the end of its expected term.	Illiquid	N/A
v) Sail Venture I -	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
w) Sail Ventures II -	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
x) Sail Pre-Exit Acceleration Fund -	Actively managed private equity portfolio of venture capital investments located in the USA.	Illiquid	N/A
y) Excelsior Investors -	Actively managed private equity portfolio of private finance oriented investments located in the USA.	Illiquid	N/A
z) Double Eagle Capital Ace Fund -	Diversified fund of hedge funds with blending global macro, long/short equity and diversified credit strategies.	Quarterly	95 days

Note 7: Schedule of Investment Returns

For the year ended December 31, 2017 and 2016 the annual money-weighted rate of return on investments, net of investment expense, was 11.95 percent and 5.88 percent, respectively, as calculated by the System actuary.

Note 8: Contributions

The System is funded by biweekly contributions from both employees and the City based on employee compensation, consisting of base pay and longevity pay. Under the provisions that were in effect during December 2017 and 2016, participants are required to contribute 13 percent of their compensation.

The City's required contribution rate for fiscal year 2017 and 2016 was 21.313 percent.

Since September 1, 2003, a portion of the City's total contribution has been allocated to the Retiree Death Benefit Fund. The allocation rate for fiscal year 2017 was 0.145 percent. In fiscal year 2016 the rate was 0.147 percent.

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 member contribution rate must be at least 13 percent in accordance with state law. The member contribution rate may be changed by the Legislature of the State of Texas or by appropriate actions of the Board and the participating members in accordance with state law.

Note 8: Contributions

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. The amortization period is determined using the open, level percentage of payroll method. Based on the actuarial valuation as of December 31, 2017 and the plan provisions recognized in the valuation, the normal cost is 22.291 percent of pay and the amortization period is 35 years. Based on the actuarial valuation as of December 31, 2016 as conducted by the prior actuary, the normal cost was 21.724 percent of pay and the amortization period was 27.3 years.

The System selected a different actuary, Gabriel, Roeder & Smith (GRS), for completion of the 2017 actuarial valuation. GRS replicated the 2016 valuation of the prior actuary and closely replicated the Unfunded Actuarial Accrued Liability; however, GRS determined the amortization period to be 34 years and the normal cost to be 22.309 percent as of December 31, 2016.

Note 9: Commitments and Contingencies

The System's investments in real assets (real estate and timber) are included in the table appearing in Note 5. In connection with those investments, the System has remaining commitments as of December 31, 2017 and 2016 of approximately $91,922,228 million and $94,127,740 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2017 and 2016, the total accumulated lump sum benefit due to forward DROP participants was $10,662,425 and $8,087,876 respectively.

At December 31, 2017 and 2016, the total accumulated lump sum benefit due to PROP participants was $30,173,974 and $29,011,929, respectively.

Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2017 were as follows:

Total Pension Liability	$1,189,590,940
Plan Fiduciary Net Position Sponsor's	$ (769,474,743)
Net Pension Liability	$ 420,116,197
Plan Fiduciary Net Position as a percentage of Total Pension Liability	64.68%

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2017 using the following actuarial assumptions:

Inflation	3.0%
Salary Increases	Services Based
Discount Rate	7.70%
Investment Rate of Return	7.70%

Mortality rates (all lives) were based on the RP-2000 Combined Healthy without projection - Sex Distinct.

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.

Note 10: Net Pension Liability of the Sponsor

The components of the Net Pension Liability of the Sponsor on December 31, 2016 were as follows:

Total Pension Liability	$1,106,189,208
Plan Fiduciary Net Position Sponsor's	$ (686,020,262)
Net Pension Liability	$ 420,168,946
Plan Fiduciary Net Position as a percentage of Total Pension Liability	62.02%

Actuarial Assumptions:

The Total Pension Liability was determined by an actuarial valuation as of December 31, 2016 using the following actuarial assumptions:

Inflation	3.0%
Salary Increases	Services Based
Discount Rate	7.70%
Investment Rate of Return	7.70%

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 percent, margin for future mortality improvements.

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.

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, 2017 are summarized in the following table:

Asset Class[1]	Long Term Expected Real Rate of Return
Domestic Equity	7.50%
International Equity	8.50%
Other Equity	7.50%
U.S./Non-U.S. Fixed Income	3.00%
Other Fixed Income (Private Lending)	3.50%
Real Estate	4.50%
Timber	2.50%
Multi Asset Class	5.00%
Cash & Cash Equivalents	0.00%

[1] Asset classes revised November 13, 2017

Discount Rate:

The Discount Rate used to measure the Total Pension Liability was 7.7 percent. 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 percent of compensation and that plan sponsor contributions will be made at the current contribution rate of 21.313 percent 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.

	1% Decrease	Current Discount Rate	1% Increase
	6.70%	7.70%	8.70%
Sponsor's Net Pension Liability	$ 553,553,243	$ 420,116,197	$ 307,088,678

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, 2016 are summarized in the following table:

Asset Class	Long Term Expected Real Rate of Return
Domestic Equity	7.50%
International Equity	8.50%
Domestic Fixed Income	2.50%
Global Fixed Income	3.50%
Real Estate	4.50%
Timber	2.50%
Private Equity	7.50%
Hedge Funds	5.00%

Discount Rate:

The Discount Rate used to measure the Total Pension Liability was 7.70 percent. 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 percent of compensation and that plan sponsor contributions will be made at the current contribution rate of 21.313 percent 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.

	1% Decrease	Current Discount Rate	1% Increase
	6.70%	7.70%	8.70%
Sponsor's Net Pension Liability	$ 543,431,167	$ 420,168,946	$ 315,660,846

DISCLOSURES IN ACCORDANCE WITH GASB STATEMENT NO. 67 REQUIRED SUPPLEMENTARY INFORMATION

ACTUARIAL SECTION

HISTORICAL INFORMATION AND BENEFITS SECTION

Changes in Plan Provisions

September 1999

Board Membership changed to allow for greater membership participation by adding one active officer and one retired officer position to the Board of Trustees.

July 2000

Benefit formula multiplier was increased from 2.88 percent to 3.0 percent with an equivalent special ad hoc increase granted to retirees.

September 2001

Provision added for retirement eligibility with unreduced benefits to include members who have 23 years of creditable service excluding pre-membership military service.

Post Retirement Option Plan (PROP) provision added for members who select the Retroactive Deferred Retirement Option Plan (DROP) and instead of receiving a single lump-sum payment, elect to receive partial payments from the member's DROP account for each calendar year, in an amount elected by the member.

September 2003

IRS Code adopted to allow the retiree death benefit amount of $7,500 to be distributed to beneficiary of retired member as a tax free lump sum amount.

Permissive Service Credit provision added, which allows members with 20 years of service to purchase additional time at actuarially neutral cost to the System.

April 2006

The PROP Monthly Annuity Deferral Option was added for retiree members.

October 2006

Member contribution rate was increased from 9 percent to 11 percent.

April 2007
Forward Deferred Retirement Option Plan (Forward DROP) provision added for a one-time benefit whereby active police officers can choose to retire, continue working for and receiving a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement System.

September 2007
Permissive service credit was changed to: (1) allow the purchase by a deceased member's designated beneficiary if there is no surviving spouse; and (2) allow the purchase to be based on deferring the actual date when retirement benefits would begin in order to reduce the member's cost (Deferred Permissive Service).

The retiree death benefit was increased from $7,500 to $10,000.

October 2007
Member contribution rate was increased from 11 percent to 13 percent.

December 2007
Benefit formula multiplier was increased from 3.0 percent to 3.2 percent with an equivalent special ad hoc increase granted to retirees.

January 2009
The City's contribution rate was increased from 18 percent to 18.25 percent to fund APRS participation in Texas Proportionate Retirement System.

March 2009
APRS joined the Texas Proportionate Retirement System, which allows members with service credit in more than one participating retirement system to be eligible to combine their service credits in order to satisfy the length of service requirements used to determine eligibility for service retirement.

September 2009
The City's contribution rate was increased from 18.25 percent to 18.63 percent to fund APRS participation in Texas Proportionate Retirement Program.

October 2010
The City’s contribution rate was increased from 18.63 percent to 19.63 percent.

October 2011
The City's contribution rate was increased from 19.63 percent to 20.63 percent.

October 2012
The City's contribution rate was increased from 20.63 percent to 21.63 percent.

February 20I5
Effective February 18, 2015, the opportunity to purchase permissive service in conjunction with utilizing the Forward or Retro DROP was eliminated.

Effective February 18, 2015, permissive service credit factors shall be determined based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.

Effective April 1, 2015, Retro DROP was eliminated for members with less than 23 years of APRS service.

Effective August 1, 20I5, the Forward DROP interest rate will be set annually in the same manner as the PROP interest rate, except for those with 23 years of APRS service as of July 3 I, 2015 who will not be affected.

New hires beginning February 1, 2016 will be required to pay the full actuarial cost to purchase military service. All others will continue to pay 25 percent of the actuarial cost, which will be based on an interest rate that is 50 basis points lower than the valuation assumption and generational mortality.

October 2015
The City's contribution rate was decreased from 21.63 percent to 21.313 percent on October 1, 2015. The change was due to an actuarial study conducted to assess the cost of participation in the Proportionate Retirement Program.

February 2016

A new Forward DROP program was created. Modifications included elimination of interest paid to the account, elimination of member contributions being credited to the account, a graduated fee in each year of the Forward DROP period, and an option to elect up to seven years in the new Forward DROP.

Changes would not apply to members with 23 years of creditable service as of February 17, 2016. Grandfathered members could choose either the old Five Year Forward DROP or the new Seven Year Forward DROP.

Interest Paid on Member Accounts

YEAR	INTEREST PAID
2017	0.0%
2016	0.0%
2015	0.0%
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007*	5.0%
2006	0.0%
2005	0.0%
2004	2.0%
2003	2.0%
2002	2.0%

*Beginning in 2007, interest (if granted) is only paid on vested members accounts

Interest Paid On Retirement Contributions.

The Board of Trustees annually determines the amount of interest paid on vested members' accumulated deposits, taking into consideration the performance of the Fund's investments and the actuary's recommendations.

Retirement interest is paid only to vested members' (10 years of service) accounts at the end of the calendar year based on the amount in the member account on the first day of that calendar year.

COLA's Paid to Retirees and Beneficiaries

YEAR	COLA PAID
2017	0.0%
2016	0.0%
2015	0.0%
2014	0.0%
2013	0.0%
2012	0.0%
2011	0.0%
2010	0.0%
2009	0.0%
2008	0.0%
2007	1.0%
2006	0.0%
2005	0.0%
2004	1.75%
2003	3.0%
2002	1.5%

Cost Of Living Adjustments for retirees.

On January 1 of each year the Board may approve a cost-of-living adjustment for those retirees who retired on or before December 31 of the previous year. The amount of the adjustment is set by the Board upon recommendation by the System's actuary that such an adjustment will not make the Fund financially unsound, and the adjustment is not inconsistent with the Plan provisions. The adjustment is prorated for any benefit which has been in effect for less than a year, with the proration being 1/12 for each monthly payment received during the prior year.

Comparative Statement of Membership

Active Members		**2017**	**2016**
Total Number of Active Members, January 1		1,883	1,761
Add:	New Members	114	156
Deduct:	Members Terminated/Refunded	(56)	(22)
	Deceased Members	(3)	(2)
	Members Transferred to Retiree/DROP System	(72)	(56)
TOTAL ACTIVE MEMBERS, DECEMBER 31		1,866	1,837

Vested Terminated

TOTAL VESTED TERMINATED MEMBERS, DECEMBER 31	45	36

Retired Members

Total Number of Retired Members, January 1		803	801
Add:	New Retired Members	54	56
Deduct:	Retired Members Deceased	(7)	(8)
TOTAL RETIRED MEMBERS, DECEMBER 31		867	849

TOTAL APRS MEMBERS, DECEMBER 31	**2,831**	**2,722**

Note: In 2017 the System actuary accounted for the Forward DROP members in the active member population while in 2016 the past System actuary accounted for the Forward DROP members in the retiree population.

Summary of Plan Benefits

Introduction

This is a general overview of the Austin Police Retirement System (APRS or System) membership and benefits. In the event of any inconsistency between this general overview and state or federal law as modified, interpreted, and applied from time to time, the state or federal law will govern and control.

APRS is an IRS tax-qualified 401(a) defined benefit plan governed by Texas state law.

Membership Requirements

All cadets upon enrollment in the Austin Police Academy, and commissioned law enforcement officers employed by the City of Austin Police Department, as well as full time employees of the City of Austin Police Retirement System (after serving a 6-month probationary period); become members of the Police Retirement System at the date of employment.

Contributions

Each member of the system contributes 13 percent of base pay bi-weekly and annual longevity pay through payroll deduction. Overtime or special pay is not included. Contributions continue unless a member is on leave of absence, or withdraws by terminating and/or retiring.

The City of Austin contributes 21.313 percent of every member's base pay bi-weekly and 21.313 percent of member’s longevity pay annually.

Creditable Service

Creditable service is service that is used in computing retirement benefits. There are seven types of creditable service:

- Membership Service
- Probationary Service
- Pre-Membership Military Service
- Uniformed Leave of Absence Service
- Reinstated Forfeited Service
- Cadet Service
- Permissive Service Credit
- Deferred Retirement Permissive Service Credit

Proportionate Retirement Program

Participating systems recognize service from other participating systems. A member with service credit in more than one participating retirement system may be eligible to combine that service in order to satisfy the length of service requirements used to determine eligibility for service retirement. Please note that proportionate service counts for eligibility purposes only and does not add to additional service credit years for pension calculation purposes. Participating systems include:

- Austin Police Retirement System
- City of Austin Employees' Retirement System (COAERS)
- The El Paso City Employees' Pension Fund
- El Paso Firemen and Policemen's Pension Fund
- Employees Retirement System of Texas (ERS)
- Judicial Retirement System of Texas I & II
- Teacher Retirement System of Texas (TRS)
- Texas Municipal Retirement System of Texas (TMRS)
- Texas County and District Retirement System (TCDRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program.

Vesting

When a member reaches ten (10) years of creditable service which may include approved Proportionate Service Credit if applicable, they become a vested member of the retirement system.

Retirement

Members are eligible for normal, unreduced retirement when they meet one of the following age and service requirements, excluding pre-membership military service:

- Age 62
- Age 55 with 20 years of creditable service
- Any age with 23 years creditable service

Retirement Benefit Calculation

The basic retirement benefit Life Annuity is calculated by using the following formula: 3.2 percent times the years of creditable service times the average monthly salary for the highest 36 months of the last ten years of contributing service. The monthly annuity benefit payment begins the month following the member's retirement from the System.

Retirement Benefit Options

The Police Retirement System provides several options under which monthly benefits may be paid. The options below require verifiable information to be submitted to the System for calculation. The options that include benefits to a survivor are figured according to the ages of both member and survivor included in the plan. A member's benefit is permanently reduced if an option is chosen that provides survivor benefits. Please note: A member may not change their chosen option or survivor after they have already retired.

- Life Annuity
- 100% Joint and Survivor Annuity
- 50% Joint and Survivor Annuity
- 66-2/3% Joint and Survivor Annuity
- Joint and 66-2/3% Last Survivor Annuity
- Fifteen Year Certain and Lift Annuity

Retroactive Deferred Retirement Option (Retro DROP)

The retroactive deferred retirement option plan, referred to as Retro DROP, is a one-time benefit paid at retirement to a member with a subsequent associated reduced monthly annuity. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military or permissive service credit. The maximum amount of service to be used in computation of the Retro DROP after normal service retirement of 23 years is 36 months. Effective April 1, 2015, the Retro DROP program will only apply to members with 23 years of creditable service as of that date.

Forward Deferred Retirement Option (Forward DROP)

The Forward DROP allows active police officers to freeze their retirement benefit calculation, but continue working and drawing a paycheck from APD, while their retirement annuity is deferred into a DROP account on their behalf at the retirement system. To be eligible a member must qualify with a normal service retirement of 23 years at any age, as of the date of his or her election to participate in the Forward DROP.

- Five-Year Forward DROP for members with 23 years of creditable service as of February 17, 2016:

The maximum amount of service to be used in computation of the Forward DROP after normal service retirement of 23 years, excluding pre-membership service credit and permissive service credit, is sixty (60) months. During the period that a member participates in Forward DROP, retirement contributions shall be made to the member's Forward DROP account. The Forward DROP benefit balance will include the accumulated monthly benefits during Forward DROP participation, member contributions and a 5 percent simple interest calculation on December 31st for balances on deposit as of January 1st of the same calendar year. Effective August 1, 2015, the interest rate for new DROP member's interest will be the same as PROP, which was 2.25 percent in fiscal year 2017 except members with 23 years of service by July 31, 2015.

- Seven-Year Forward DROP for members with 23 years of creditable service after February 17, 2016:

The maximum amount of service to be used in computation of the Forward DROP after normal service retirement of 23 years, excluding pre-membership service credit and permissive service credit, is eighty-four (84) months. During the period that a member participates in Forward DROP, employee contributions will be collected but not credited to the member's Forward DROP account. There will be no interest applied to the member's Forward DROP account. In addition, a fee is applied to the participant's monthly Forward DROP amount.

Post Retirement Option Plan (PROP)

Instead of receiving a single lump-sum payment, a member may elect to receive partial payments from the member's RETRO or Forward DROP account by transferring the funds into a PROP account, in an amount elected by the member.

Post Retirement Option Plan (PROP) Monthly Annuity Deferral Program

The PROP Monthly Annuity Deferral plan allows retired members to defer receipt of a minimum of $250 of their monthly annuity in order to defer the taxation of the deferred payments and to have the monthly benefits accumulate for later disbursement and later taxation in a Post Retirement Option Plan account.

Disability Retirement Benefits

To be eligible for disability retirement, the applicant must be unable to perform employment duties due to medical or emotional restriction's and/or diagnosis. The disability must be considered a permanent job performance disability. The disability must also be subsequent to the member's effective date of membership AND,

- If the member has less than 10 years of creditable service, the disability must have been a direct or proximate result of the performance of the member's employment duties with the City or the System. The disability will be calculated at 20 years of service.
- If the member has 10 years or more of creditable service, the disability does not have to be a direct or proximate result of the performance of the member's employment duties with the City or the System. On-duty disabilities will be calculated at 20 years of service and Off-duty disabilities will be calculated using the actual number of years of service the member has once the disability is granted.
- If the member is retirement eligible, they cannot apply for disability retirement; however, they can apply for normal retirement.

Death and Survivor Benefits

- At the death of an active or vested member, the designated beneficiary(ies) are entitled to a lump sum benefit of twice the members accumulated contributions with a $10,000 minimum payment.
- At the death of an active or vested member who is eligible to retire, the designated survivor will be entitled to receive monthly payments under a retirement option in lieu of a lump sum death benefit. In the event a member who is eligible for service retirement dies without making a written option selection, and the member leaves a surviving spouse, the surviving spouse may select a retirement option in the same manner as the member would have made or may select a lump sum payment equal to twice the members accumulated deposits. If there is no surviving spouse, the deceased member's designated beneficiary may elect to receive payment under Option V, a Fifteen Year Certain and Life Annuity, which will pay monthly benefits for a period of fifteen years, or a lump sum payment equal to twice the member's accumulated deposits. When monthly benefits are payable in lieu of a lump sum, a $10,000 taxable death benefit will be paid to the beneficiary(ies).
- At the death of a retiree, a tax-free death benefit of $10,000 (or a proportionate amount if the member retired under the Proportionate Retirement Program) is paid to the designated beneficiary(ies) or estate. If the member has a PROP or DROP account at the time of their death, those funds are paid to the designated beneficiary(ies) for those programs. If a survivor option was chosen, the elected survivor begins to receive the elected portion of the annuity. If the Life Annuity was chosen, the monthly benefits cease.