CITY OF AUSTIN POLICE RETIREMENT SYSTEM

2012 Annual Report

For the year ended December 31, 2012

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INTRODUCTORY SECTION

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

City of Austin Police Retirement System

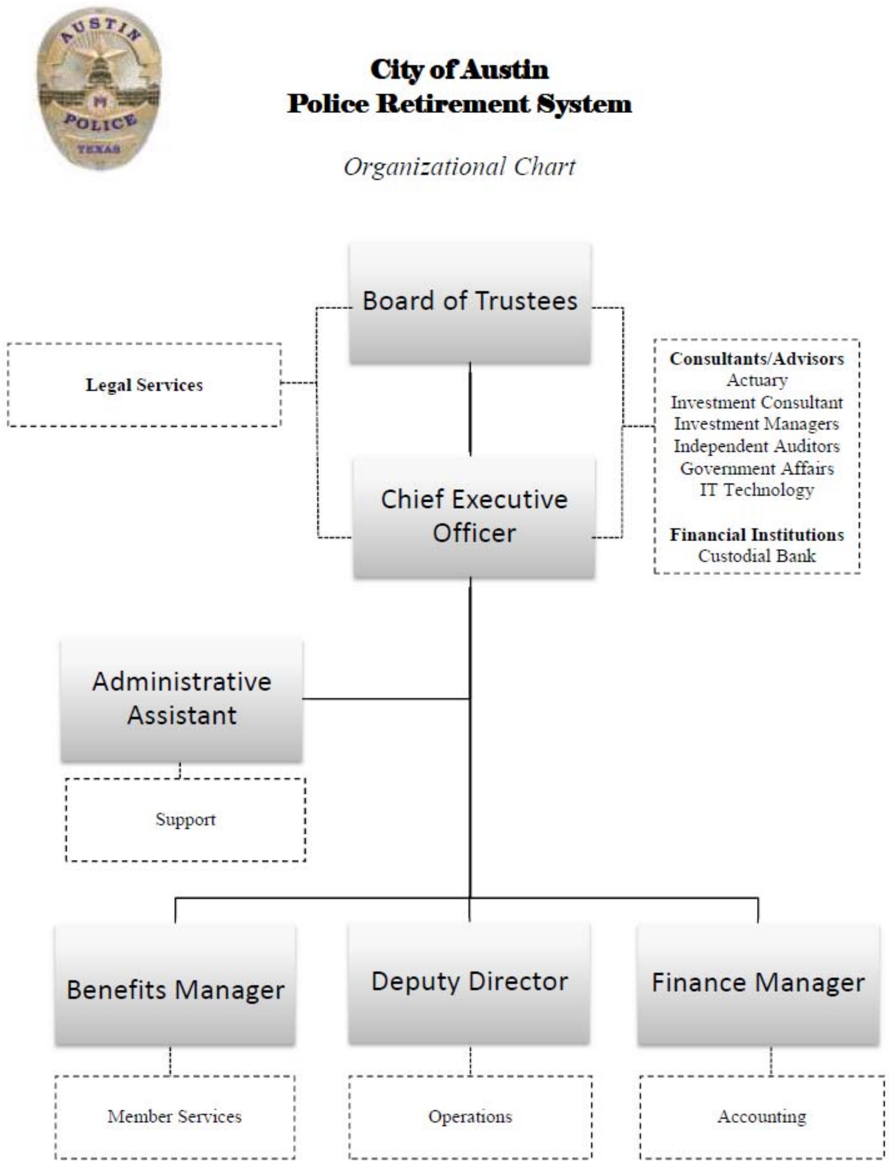
In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

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
Program Administrator

City of Austin Police Retirement System
Organizational Chart



City of Austin Police Retirement System
Board Of Trustees

Pension Office Staff

Chief Executive Officer

Sampson (Sam) K. Jordan

Deputy Director

Stephanie Schkade Willie

Benefit Services Manager

Michelle Ruland

Financial Manager

Vernon Webb

Administrative Secretary

Rosanna Frank

Professional Service Providers

Custodian Bank

The Northern Trust Company, Chicago, Illinois

Investment Consultant & Performance Evaluator

Consulting Services Group, Memphis, Tennessee

Actuary

Foster & Foster, Inc., Ft. Myers, Florida

Auditor

Montemayor Hill & Company, P.C., Austin, Texas

Legal Counsel

Klausner, Kaufman, Jensen & Levinson, PA, Plantation, Florida

Security Litigation Counsel

Berman DeValerio, PC, Boston, Massachusetts

Bernstein Liebhard, LLP, New York, New York

Spector Roseman Kodroff & Willis, PC, Philadelphia, Pennsylvania

Investment Managers

Equity

Delaware Investments % Maquire Group, Philadelphia, Pennsylvania

Driehaus International Securities, LLC, Chicago, Illinois

Kleinworth, Benson Investors, Int'l LTD, Dublin-2, Ireland

NTGI S&P 500, Chicago, Illinois

Thornburg Investments, Santa Fe, New Mexico

Wellington Management Company, Boston, Massachusetts

Fixed Income

Ashmore Investment Management, London, England

Extreme Power, Inc., Austin, Texas

Sail Extreme Power, LP, Irvine, California

SMH Capital, Fort Worth, Texas

Real Estate

C B Richard Ellis Strategic Partners, Inc. , Los Angeles, California

C B Richard Ellis Capital Partners, Inc., New York, New York

Edison Investments, Inc., Wichita, Kansas

GE Asset Management, Inc., Stamford, Connecticut

INVESCO Realty Advisors, Dallas, Texas

JP Morgan Asset Management, New York, New York

FWAR Investments, Dallas, Texas

Rockspring Capital Land, Houston, Texas

New Boston Fund, Inc., Boston, Massachusetts

Sentinel Real Estate, Inc., New York, New York

VEF Advisors, LLC, Atlanta, Georgia

Vision Capital, LP—Marietta, Georgia

World Class Capital Group, Austin, Texas

Investment Managers

Timber

Global Forest Partners, West Lebanon, New Hampshire

RMK Timberland Group, Atlanta, Georgia

Timberland Investment Resources, Atlanta, Georgia

Timbervest Crossover, LP, Atlanta, Georgia

Alternatives

Private Equity

CapitalSpring, LLC, New York, New York

Capital Point Partners, Houston, Texas

WR Huff Energy Fund, LP, Morristown, New Jersey

Sail Capital Partners, LLC, Irvine, California

Hedge Fund

Clinton Group, LLC, New York, New York

Double Eagle Capital Management, Irving, Texas

Excelsior Investors, LTD, Dallas, Texas

Intercontinental Capital Management, LLC, Boston, Massachusetts

August 16, 2013

2012 Annual Report
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, 2012.

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

This annual report is divided into the following sections;

- 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 & Benefit Section contains historical improvement highlights for the last 15 years, a comparative statement of membership for the last 2 years and the membership benefit guide.

Montemayor & Hill & Associates, PC, the System's independent auditor, issued an unqualified opinion on the System's financial statements. This 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 type of report an independent auditor may issue.

The actuarial valuation was performed by Foster & Foster, Inc. The Actuarial Valuation Report states that the overall funding of the System remains sound. The System achieved a funding ratio of 65.2% funded and a funding period of 29.4 years to fully fund.

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. The Board of Trustees and the staff are dedicated to maintaining the System's financial strength through diversification and sound management of the Pension System. We believe that a strong Pension System benefits the City and its taxpayers, as well as the Members of the System.

Sincerely,

Peter Morin
Chairman, Board of Trustees

Sampson K. Jordan
Chief Executive Officer

FINANCIAL SECTION

Investment Overview

The market during 2012 started with a rally, mainly rewarding riskier assets, as global equities gained throughout the first quarter. This was mainly due to positive news out of Greece, as the EU approved another round of Greek bailout funding. Markets remained highly sensitive to macro-economic events as the global markets fell during the second quarter surrounding further political uncertainty in Europe and worse the expected economic data out of China. Accommodative monetary policy news from central banks around the globe, provide a market advance for the third quarter, however, the US presidential election and subsequent concerns surrounding fiscal cliff talks put a halt to the rally for 2012. The S&P500 Index, a proxy for large U.S. stocks, started the year at a level of 1257.60 and ended the year at 1426.19. The US equity markets produced a return of +16.0% (S&P 500), with Global Equity Markets coming in slightly higher at 16.1% (MSCI ACWI). Developed markets, as represented by the MSCI EAFE Index were up 17.9% and Emerging Markets (MSCI EME Index) were up 18.6%. Financials led the way in equity markets for 2012, driven partly by the returns of the REIT sector as investors continue to seek yield, as well as an improving banking sector in the US. In the US, mid-cap stocks outperformed both small-cap and large-cap, while value stocks outperformed growth for the year. Fundamentals are starting to improve as corporate cash is at an all-time high, along with improvements in the housing sector and improving unemployment numbers.

For the year, the investment portfolio returned 80 basis points higher than the actuarial assumption of 8.0% to finish the year up 8.8%. Net Assets held in Trust increased $48,344,627 to $532,957,960, of which $42,917,661 was investment performance and the remaining $5,426,966 was attributable to a positive net contribution from non-investment related activities. The Equity allocation (39%) was up a little over 10.0%, which lagged the S&P (+16.0%) and MSCI ACWI (+16.1%) for the year. This was in large part due to the over allocation to Energy (27.3%) and Industrials (12.2%) as compared to the broad equity market benchmarks. Energy and Industrials were two of the worst performing sectors in the S&P 500 for 2012 at +1.4% and -1.4% respectively. An underweight to Financials also detracted, as Financials was the best performing S&P 500 sector for 2012 at +28.8%. as the mix of investments was underweight the Healthcare and Consumer Staples sector, two of the better performing areas of the market up 12.7% and 14% respectively and its 10% weighting to Financials which were down 17% and Materials which were down 10%. Additionally, the equity bucket has shifted from a more balanced global equity mandate to a mix of approximately 75% US equity to 25% international equity. This shift should position the equity portfolio well for 2013.

The Fixed Income allocation (13.2%) also aided performance as its more credit sensitive allocation was up 9.0% versus the Barclays Aggregate Index, a U.S. Investment Grade fixed income proxy which was up 4.2% for the year. The Emerging Markets Debt allocation, along with the two private fixed income allocations also helped the Fixed Income group outpace its benchmark and the equity group for the year.

The Real Estate allocation (19.9%) continued to show positive signs generating a positive 4.8% return for the year while the Private Equity allocation (9.1%) helped by its Energy allocation was up 9.5%. The Hedge Fund allocation (7.0%) gained 9.7% percent for the year, aiding the total portfolio performance.

Overall, 2012 was a positive year for the investment portfolio, and the Trustees remain 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 competence over time with a goal of generating a return that equals or exceeds the actuarial return assumption of 8%.

Prepared by: Consulting Services Group LLC; Investment Consultant to the Board

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, 2012 and 2011, 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the System as of December 31, 2012 and 2011, 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 17–21 and 41 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.

9 August 2013
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 2012 and 2011. 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 $54.8 million or positive 11.32% in 2012 and decreased by $8.5 million, or -1.72% in 2011. 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.

- Contributions increased by $3.6 million, or 8.83% in 2012 and increased by $3.6 million, or 8.88% in 2011. 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 increase in 2011 is due to increases in the City of Austin's required contributions effective October 1, 2011 from 19.63% to 20.63% , 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 $5.1 million, or 14.76% during 2012 and $4.0 million, or 12.9% during 2011. The increase in 2012 is due to the increase in number of System retirees by 7.0% and increase in 2011 is due to the increase number of retirees by 9.3%.

- The System's rate of return on investments for the year ended December 31, 2012 was positive 10.68% gross of fees and positive 9.9% net of fees, on a market value basis, which was more than the return of -2.7% gross of fees and -3.1% net of fees for the year ended December 31, 2011.

- The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2012, the date of the most recent actuarial valuation, the System's funding ratio of actuarial assets as a percentage of actuarial liabilities is 65.2% which is down from the 67.2% level at December 31, 2011. 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, 2012, 2011 and 2010

Assets	2012	2011	2010
Cash, receivables and prepaids	$ 4,670,268	$ 6,240,318	$ 2,490,384
Investments, at fair value	534,149,354	477,832,263	489,900,855
Fixed assets, net	578,687	656,545	744,435
Total assets	539,398,310	484,729,126	493,135,674
Liabilities			
Total liabilities	500,661	640,495	590,455
Net position restricted for pension benefits	$538,897,649	$484,088,631	$492,545,219

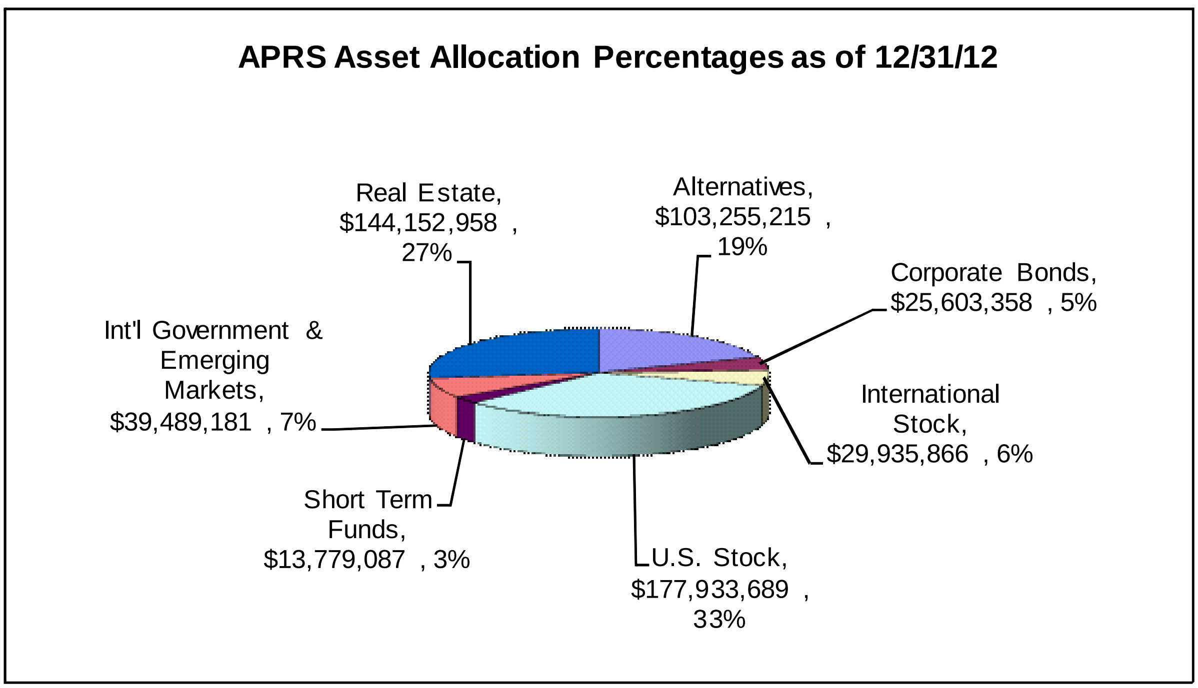
City of Austin Police Retirement System
Management Discussion and Analysis

Assets. The Systems' net position restricted for pension benefits increased by $54.8 million in 2012, decreased by $8.5 million in 2011, and increased by $60.5 million in 2010. 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 $1.6 million in 2012 is primarily due to more interest, dividends receivables and real property income investment . The increase in cash, receivables and prepays of approximately $3.7 million in 2011 is primarily due to interest, dividends and contribution receivables at year end.

Total net position was $538.9 million at the end of fiscal year 2012, $484.0 million at the end of fiscal year 2011 and $492.5 million at the end of fiscal year 2010, which is a increase of $54.8 million, or positive 11.32% growth for fiscal year 2012.

Below is a chart of the System's asset allocation for fiscal year ending December 31, 2012:



City of Austin Police Retirement System
Management Discussion and Analysis

Liabilities. Liabilities decreased by $140 thousand in 2012 and increased by $50 thousand in 2011. The decrease in 2012 is primarily due to fewer payables at year end. The increase in 2011 is primarily due to more payables being due and payable at year end.

Summary of Changes in Plan Net Position

Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
Additions			
Contributions	$ 47,302,279	$ 43,641,189	$ 40,081,162
Investment income	50,441,943	(14,200,799)	54,287,435
Investment expenses	(2,044,619)	(2,179,850)	(2,143,930)
Net investment income	48,397,324	(16,380,649)	52,143,505
Other income	77,768	103,329	91,722
Total additions	95,777,371	27,363,869	92,316,389
Deductions			
Benefit payments & contributions refunded	40,009,337	34,862,987	30,875,847
General and administrative expenses	959,016	957,470	922,877
Total deductions	40,968,353	35,820,457	31,798,724
Net increase/decrease	54,809,018	(8,456,588)	60,517,665
Net position restricted for pension benefits beginning of year	484,088,831	492,545,219	432,027,554
Net position restricted for pension benefits end of year	$538,897,649	$484,088,631	$492,545,219

Additions. Funds to pay benefits are accumulated through contributions and returns on invested funds. Member and City of Austin contributions for 2012 and 2011 totaled $47.3 million and $43.6 million, respectively. The 2012 contributions represent an increase of $3.7 million, or approximately 8.84% above the 2011 level and the 2011 contributions represent an increase of $3.6 million, or approximately 8.88% above 2010 level. 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. The increase in 2011 is due to City of Austin contributions increasing to 20.63% from 19.63% effective October 1, 2011 and a 3% general wage increase.

City of Austin Police Retirement System
Management Discussion and Analysis

The System market to market value on its investments increased 11.32% during 2012 and decreased -1.72% during 2011. 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. The 2011 decrease of $8.5 million was due to US and global market declines brought on by the debt worries and US security rating downgrade; 2010 gains of $60.5 million were due to recovery of the portfolio fund assets over previous year. Net investment income in 2010 of $60.5 million was due to massive economic stimulus provided by U.S. and other countries to prevent complete global financial collapse. Interest, dividend income generated in 2012 of $48 million was increase from the -$16.3 million lost in 2011. The total rate of return for the System's investment portfolio in 2012 was positive 9.9% (net of investment fees) as compared to -3.1% (net of investment fees) for 2011.

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 2012 were $40 million, an increase of $5.1 million over the $34.8 million paid in 2011. This is consistent with the increase in the number of retirees, beneficiaries and alternate payees to 626 in 2012 from 585 in 2011. Refunds to terminating employees in 2012 were $831 thousand, and increased by $366 thousand from 2011 refunds paid. Administrative expenses in 2012 were $960 thousand, approximately $3,000 more than those incurred in 2011.

Investment expenses paid by the System annually decreased by $135.2 thousand in 2012 and increased by $35.9 thousand in 2011. The decrease in 2012 is due to fewer investment manager fees, and the increase in 2011 is due to market performance fee increases on investment assets.

Overall Analysis. As of December 31, 2012, net position increased by $54.8 million or 11.3% from prior year and over the five-year period ending December 31, 2012 the net position was 2.08%. The past five-year period growth was dramatically impacted in 2008 by global market financial collapse at major banks, insurance, investment banks and brokerage firms, 2008 subprime liquidity crisis in the US mortgagee market, and 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, 2012 and 2011

ASSETS

	2012	2011
Investments, at fair value		
Real estate interests	$144,152,958	$126,796,553
Corporate stocks	177,933,689	144,078,779
International government securities	39,489,181	32,677,216
International stocks	29,935,866	24,314,676
Short-term investment funds	13,177,323	14,285,087
Partnership interests	53,051,133	47,466,319
Corporate bonds	25,603,358	13,938,904
Alternatives	50,204,082	73,786,678
Retiree death benefit fund	601,764	488,051
Total investments	534,149,354	477,832,263
Cash	70,521	83,784
Interest and dividends receivable	2,460,300	4,422,524
City of Austin retirement contributions receivable	1,286,732	1,021,301
City of Austin death benefit contributions receivable	6,527	5,401
Participant contributions receivable	800,588	667,356
Proportionate retirement program contributions receivable	38,798	32,341
Fixed assets, net	578,687	656,545
Other	6,803	7,611
	539,398,310	484,729,126
LIABILITIES		
Accounts payable and accrued liabilities	457,190	516,296
Refunds payable	43,471	124,199
	500,661	640,495
NET POSITION RESTRICTED FOR PENSION BENEFITS	$538,897,649	$484,088,631

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

Statement of Changes in Plan Net Position
December 31, 2012 and 2011

ADDITIONS TO PLAN NET POSITION:	2012	2011
Contributions:		
City of Austin retirement contributions	$28,621,995	$25,948,297
City of Austin death benefit contributions	145,416	140,482
Participant contributions	18,534,868	17,552,410
	47,302,779	43,641,189
Investment income:		
Net increase (decrease) in the fair value of investments	42,834,376	(23,588,309)
Interest and dividends	7,607,567	9,387,510
Securities lending	0	0
Rental and other income	77,768	103,329
Total investment gain (loss) before expenses	50,519,711	(14,097,470)
Investment expenses	(2,044,619)	(2,179,850)
Net gain (loss) from investments	48,475,092	(16,277,320)
Total additions (deletions) to net position restricted for benefits	95,777,371	27,363,869
DEDUCTIONS FROM NET POSITION RESTRICTED FOR BENEFITS:		
Retirement benefit payments	39,147,910	34,348,065
Death benefit payments	30,000	50,000
Contributions refunded to terminating employees	831,427	464,922
General and administrative expenses	959,016	957,470
Total deductions from net position restricted for benefits	40,968,353	35,820,457
NET INCREASE (DECREASE) IN NET POSITION RESTRICTED FOR BENEFITS	54,809,018	(8,456,588)
Beginning net position restricted for benefits	484,088,631	492,545,219
ENDING NET ASSETS AVAILABLE FOR POSITION RESTRICTED	$538,897,649	$484,088,631

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, 2012, 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, 2012 and 2011, the assets of the Retiree Death Benefit Fund were $601,764 and $488,051 , respectively, which are included in the System's total market value of Net Assets Held in Trust Available for Pension Benefits of $538,897,649 and $484,088,631, 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, 2012 and 2011:

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

Notes to Financial Statements

Note 1: Organization and System Description

	2011
Retirees and beneficiaries currently receiving benefits (596) and terminated employees entitled to future monthly benefits (20)	596
Current participating members	1,679
2011 Total	2,294

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, 2012 and 2011, 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 16, 2013 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, 2012 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	474,832	1,597		476,429
Leasehold improvements	56,986			56,986
Accumulated depreciation	(895,489)	(79,455)		(974,944)
Net Fixed Assets	$656,545	($77,858)	$	$578,687

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, 2012 and 2011 are presented, by type, as follows:

Investment Type	2012	2011
Real Estate Interests	$144,152,958	$126,796,553
Corporate Stocks	177,933,689	144,078,779
International Government Securities	39,489,181	32,677,216
International Stocks	29,935,866	24,314,676
Partnership Interests	53,051,133	47,466,319
Corporate Bonds	25,603,358	13,938,905
Alternatives	50,204,082	73,786,678
Short-term Investment Funds	13,779,087	14,737,138
Total Investments	$534,149,354	$477,832,263

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, 2012 and 2011, the System's operating bank balance of $70,521 and $83,784 , 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, 2012 and 2011, 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, 2012 and 2011, 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 & 2011 there is one organization – Rockspring Capital Land– that holds more than 5% of the System's total fund. As of December 31, 2012 and 2011, Rockspring Capital Land holds approximately 5.1% and 5.41% respectively.

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
Equity	20% - 65%	45.00%
U.S. Large Cap	0% - 55%	
U.S. Small Cap	0% - 30%	
International	0% - 35%	
Special Situations	0% - 30%	
Fixed Income	10% - 70%	15.00%
Investment Grade	0% - 50%	
High Yield	0% - 25%	
International	0% - 30%	
Private	0% - 25%	
Real Estate	0% - 40%	22.50%
Real Estate	0% - 15%	
Timber	0% - 7.5%	
Alternatives	0% - 30%	15.00%
Hedge Funds	0% - 30%	
Private Equity	0% - 20%	
Cash	0% - 2.5%	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, 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, 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
Corporate 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

Notes to Financial Statements

Note 5: Deposit and Investment Risk

As of December 31, 2011, 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
Corporate Bonds	$13,468,534	$5,000,000	$6,834,830	$758,735	$874,969
International Securities	37,059,389	36,679,439	379,950		
Totals	$50,527,923	$41,679,439	$7,214,780	$758,735	$874,969

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, 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

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2011, are as follows:

Quality Rating	Total Fair Value	Int'l Securities	Corporate Bonds
A1/A+	$903,930	$903,930	
A2/A	388,100	388,100	
A3/A-	461,790	461,790	
Aa2/AA	105,622	105,622	
Aaa	115,448	115,448	
B1/B+	3,132,651	2,239,816	892,835
B2/B	746,403		746,403
B3/B-	2,777,294		2,777,294
Ba1/BB+	3,180,268	2,967,120	213,148
Ba2/BB	3,755,853	3,755,853	
Ba3/BB-	3,843,174	1,732,969	2,110,205
Baa1/BBB+	4,750,264	4,750,264	
Baa2/BBB	1,518,880	1,518,880	
Baa3/BBB-	4,887,878	4,887,878	
B2//B and below	9,769,802	9,711,556	58,246
Caa1/ CCC+	438,898		438,898
Caa2/CCC	418,170		418,170
Not Rated	24,246,535	18,591,539	5,654,996
US Gov't Guaran-teed			
Cash & Equivalent	539,164	539,164	
Total	$65,980,124	$52,669,929	$13,310,195

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, 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 5: Deposit and Investment Risk

The System's exposure to foreign currency risk as of December 31, 2011, is as follows:

Currency	Int'l Gov't Securities	-Int'l Stocks	Corp Stocks (1)	Other (2)
Euro	$3,935	($958,455)		
Mexican Peso	719,846			
Indonesia Rupiahs	273,683			
Hong Kong Dollar	581,582	1,851,216		
Japanese Yen				
Turkish New Lira	332,504			
Norwegian Krone				
British Pound	454,267	126,954		
Philipines Pesos				
Brazilian Real	1,621,287	2,491,469		
Danish Krone				
Swiss Franc		2,732,503		
Australian Dollar		1,337,335		1,715,143
Colombian Peso	198,165			
Chilean Peso	2,456			
Russian Ruble	1,312			
South Korean Won				
Canadian Dollar		2,148,633		
India Rupees	638,471			3,594,632
Nigeria Nairas				
China Yuan Renminbi	501,230			
Thailand, Thai Baht				
United Arab Emirates Dirhams	865,979			
Other	825,203			
Totals	$7,019,920	$9,729,655	$	$5,309,775

(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, 2012, 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, 2012 and the plan provisions recognized in that valuation, the normal cost was 21.743% of pay and the amortization period was 29.4 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, 2012 and 2011 of approximately $4.0 million and $8.8 million, respectively, pursuant to the terms of the respective interests.

At December 31, 2012 and 2011, the total accumulated lump sum benefit due to forward DROP participants was $1,802,639 and $2,547,444 , respectively.

At December 31, 2012 and 2011, the total accumulated lump sum benefit due to PROP participants was $18,928,050 and $13,046,718 , respectively.

Note 8: Funded Status and Funding Progress Pension Plans

The funded status of each plan as of December 31, 2012, 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)
12/31/12	$558,475,643	$856,576,826	$298,101,183	65.2%	$141,561,047	210.6%

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, 2012
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	29.4 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	3.5 % to 21.5% per year, averaging 6.8%
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 $20,263,841.

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

I. Schedule of Funding Progress

1 The covered payroll is based on the annual rate of base pay and longevity pay used in the valuation.

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)
12/31/07(2)	$482,303,290	$637,559,674	$155,256,384	75.6%	$111,809,091	138.9%
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	824,462,075	270,760,099	67.2	135,264,530	200.2
12/31/12(2)	558,475,643	856,576,826	298,101,183	65.2	141,561,047	210.6

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.

II. Schedule of Employer Contributions

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	
2007	17.919(2)	18,510,066(3)	12/31/2005	30.0	18.775	95.4
2008	17.900(2)	20,060,458(4)	12/31/2006	30.0	17.846	100.3
2009	18.254(5)	22,159,076(6)	12/31/2007	30.0	16.776	108.8
2010	18.788(7)	23,382,043(8)	12/31/2008	30.0	20.291	92.6
2011	19.782 (9)	25,948,297 (10)	12/31/2009	30.0	19.360	102.2
2012	20.778(11)	28,621,995(12)	12/31/2010	30.0	19.698	105.5

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 2007 including the RDBF was $18,594,236.
4. The employer's total contribution during 2008 including the RDBF was $20,171,151.
5. 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)
6. The employer's total contribution during 2009 including the RDBF was $22,272,667.
7. 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)
8. The employer's total contribution during 2010 including the RDBF was $23,501,903.
9. 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)
10. The employer's total contribution during 2011 including the RDBF was $26,088,779.
11. 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)
12. The employer's total contribution during 2011 including the RDBF was $28,767,411

See independent auditor's report

ACTUARIAL SECTION

AUSTIN POLICE
RETIREMENT SYSTEM

ACTUARIAL VALUATION
AS OF DECEMBER 31, 2012

FOSTER & FOSTER
ACTUARIES AND CONSULTANTS

2

July 12, 2013

Mr. Sam Jordan, CEO
Austin Police Retirement System
2520 South IH 35, Suite 100
Austin, TX 78704

Re: Austin Police Retirement System

Dear Mr. Jordan:

We are pleased to present to the Board this report of the annual actuarial valuation of the Austin Police Retirement System. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and to develop the appropriate funding requirements for the applicable plan year(s).

The valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board, and reflects applicable laws and regulations issued to date at the state and federal level. In our opinion, the assumptions used in this valuation, as adopted by the Board of Trustees, represent reasonable expectations of anticipated plan experience.

In conducting the valuation, we have relied on personnel, plan design, financial reports, and asset information supplied by the City of Austin, and the actuarial assumptions and methods described in the Actuarial Assumptions section of this report. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report.

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The undersigned is familiar with the immediate and long-term aspects of pension valuations, and meets the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this report are considered an integral part of the actuarial opinions.

To our knowledge, no associate of Foster & Foster Inc. working on valuations of the program has any direct financial interest or indirect material interest in the City of Austin, nor does anyone at Foster & Foster Inc. act as a member of the Board of Trustees of the Austin Police Retirement System. Thus, there is no relationship existing that might affect our capacity to prepare and certify this actuarial report.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact me at 239-433-5500.

Respectfully submitted,

Foster & Foster Inc.

By: ______________________________
Bradley R. Heinrichs, FSA, EA, MAAA
Enrolled Actuary #11-6901

BRH/lke

Enclosures

TABLE OF CONTENTS

SUMMARY OF REPORT

The regular annual actuarial valuation of the Austin Police Retirement System, performed as of December 31, 2012, has been completed and the results are presented in this Report.

The pension costs, compared with those developed in the December 31, 2011 actuarial valuation report, are as follows:

Valuation Date	12/31/12	12/31/11
Normal Cost % of Total Annual Payroll	21.743%	22.318%
Expected Member Contributions % of Total Annual Payroll	13.000%	13.000%
City Normal Cost Rate % of Total Annual Payroll	8.743%	9.318%
Funding Period To Amortize UAAL (expressed in number of years)	29.4	25.2

As can be seen above, the funding period required to amortize the Unfunded Actuarial Accrued Liability has increased from 25.2 to 29.4 years since the prior valuation. This increase is the result of net unfavorable actuarial experience over the past year. The primary component of unfavorable experience included a -0.5% investment return (Actuarial Asset Basis) that fell significantly short of the 8.0% assumption. Please refer to the Gain/Loss Analysis on Page 12 for additional details.

In conjunction with this valuation report, the Board of Trustees has approved two changes to the actuarial assumptions, as described on the following page. The impact associated with implementing these changes is displayed in the comparative summary section of this report.

The balance of this Report presents additional details of the actuarial valuation and the general operation of the Fund. The undersigned would be pleased to meet with the Board of Trustees in order to discuss the Report and answer any pending questions concerning its contents.

Respectfully submitted,

FOSTER & FOSTER INC.

By: ______________________________
Bradley R. Heinrichs, FSA, EA, MAAA

CHANGES SINCE PRIOR REPORT

1. Benefit Provisions

There have been no changes in benefits since the prior valuation.

2. Actuarial Assumptions/Methods

As approved by the Board of Trustees, there have been two changes to the actuarial assumptions since the prior valuation, as follows:

- The mortality rate assumption has been amended from the RP-2000 Mortality Table projected to 2014 to the RP-2000 Mortality Table without projection of future mortality improvements. While major mortality studies of the general population have shown mortality rates becoming lower over extended periods of time, this may not necessarily be the case for public safety workers. Based upon a study that we performed of the experience of 650 retirement plans for public safety workers, our results showed that there was a 10% margin for future mortality improvements using the RP-2000 Mortality Table with static rates.

- The payroll growth assumption utilized to amortize the Unfunded Actuarial Accrued Liability was reduced from 4.0% to 3.5% per year.

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COMPARATIVE SUMMARY OF PRINCIPAL VALUATION RESULTS

Valuation Date	12/31/2012	12/31/2012	12/31/2011
A. Participant Data			
Actives	1,709	1,709	1,679
Service Retirees + DROP	575	575	527
Beneficiaries	44	44	43
QDRO	25	25	22
Disability Retirees	4	4	4
Terminated Vested	23	23	19
Total	2,380	2,380	2,294
Total Annual Payroll	141,561,047	141,561,047	134,843,931
Payroll Under Assumed Ret. Age	141,561,047	141,561,047	134,843,931
Annual Rate of Payments to:			
Service Retirees + DROP	35,193,018	35,193,018	31,561,485
Beneficiaries	1,916,217	1,916,217	1,897,411
QDRO	355,420	355,420	323,121
Disability Retirees	136,509	136,509	136,509
Terminated Vested	601,903	601,903	416,942
B. Assets			
Actuarial Value	558,475,643	558,475,643	553,701,976
Market Value	538,295,885	538,295,885	483,600,580
C. Liabilities			
Present Value of Benefits			
Active Members			
Retirement Benefits	763,007,423	781,930,154	751,002,491
Vested Benefits	1,576,678	1,629,211	1,757,624
Death Benefits	14,023,341	11,244,456	11,264,236
Disability Benefits	15,479,539	15,713,284	15,806,982
Refund of Contributions	3,177,242	3,178,230	3,090,675
Service Retirees + DROP	379,302,484	386,090,668	343,627,645
Beneficiaries	15,910,016	16,203,614	16,435,130
QDRO	3,736,704	3,775,620	3,498,187
Disability Retirees	1,589,185	1,608,211	1,618,819
Terminated Vested	1,798,204	1,854,278	1,332,205
Total	1,199,600,816	1,223,227,726	1,149,433,994

Valuation Date	12/31/2012	12/31/2012	12/31/2011
C. Liabilities - (Continued)			
Present Value of Future Salaries	1,682,723,298	1,685,659,353	1,606,400,949
Normal Cost (Entry Age Normal)			
Retirement Benefits	27,412,662	28,098,790	26,870,016
Vested Benefits	129,014	133,318	140,584
Death Benefits	628,536	509,947	499,244
Disability Benefits	933,921	946,487	938,893
Refund of Contributions	457,658	457,738	456,152
Total Normal Cost	29,561,791	30,146,280	28,904,889
Present Value of Future Normal Costs	343,023,990	350,521,601	334,175,218
Actuarial Accrued Liability			
Retirement Benefits	439,356,351	449,616,886	434,971,886
Vested Benefits	721,723	745,253	822,539
Death Benefits	7,015,678	5,565,899	5,721,281
Disability Benefits	6,366,009	6,465,138	6,422,920
Refund of Contributions	780,472	780,558	808,164
Inactives	402,336,593	409,532,391	366,511,986
Total Actuarial Accrued Liability	856,576,826	872,706,125	815,258,776
Unfunded Actuarial Accrued Liability (UAAL)	298,101,183	314,230,482	261,556,800
D. Actuarial Present Value of Accrued Benefits			
Vested Accrued Benefits			
Inactives	402,336,593	409,532,391	366,511,986
Actives	138,294,726	143,244,252	137,924,766
Member Contributions	129,963,192	129,963,192	121,671,207
Total	670,594,511	682,739,835	626,107,959
Non-vested Accrued Benefits	21,034,476	21,429,715	16,899,693
Total Present Value Accrued Benefits	691,628,987	704,169,550	643,007,652

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Valuation Date	12/31/2012	12/31/2012	12/31/2011
E. Pension Cost			
Normal Cost (with interest) % of Total Annual Payroll*	21.743	22.172	22.318
Expected Member Contributions % of Total Annual Payroll*	13.000	13.000	13.000
City Normal Cost Rate % of Total Annual Payroll*	8.743	9.172	9.318
Funding Period to Amortize UAAL **	29.4 years	31.2 years	25.2 years
F. 30-Year Funding Cost			
Normal Cost (with interest) % of Total Annual Payroll*	21.743	22.172	22.318
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 30 years % of Total Annual Payroll*	12.655	12.617	11.025
Total 30-Year Funding Cost % of Total Annual Payroll*	34.398	34.789	33.343

* Contributions developed as of 12/31/12 are expressed as a percentage of total annual payroll at 12/31/12 of $141,561,047 and include 0.025% of payroll for assumed additional administrative expenses for participation in the Proportionate Retirement Program

** The period required to amortize the UAAL was calculated based on the City's currently scheduled annual contribution rate to the Fund of 21.63% of total payroll, less the calculated contribution rate required to fund the Retiree Death Benefit Fund

Valuation Date	12/31/2012	12/31/2012	12/31/2011
G. Retiree Death Benefit Fund *			
Present Value of Benefits			
Active Members	1,078,255	983,179	973,446
Retired and Terminated Vested Members	1,768,327	1,647,550	1,489,705
Total	2,846,582	2,630,729	2,463,151
Present Value of Future Normal Costs	473,410	431,731	426,096
Actuarial Accrued Liability	2,373,172	2,198,998	2,037,055
Asset Value of Fund	601,764	601,764	488,051
Unfunded Actuarial Accrued Liability (UAAL)	1,771,408	1,597,234	1,549,004
Payment Required to Amortize Unfunded Actuarial Accrued Liability over 23 years (as of 12/31/12) % of Total Annual Payroll	0.087	0.075	0.074
Normal Cost (with interest) % of Total Annual Payroll	0.031	0.028	0.029
Total Required City Contribution Rate Allocated to the Retiree Death Benefit Fund % of Total Annual Payroll	0.118	0.103	0.103

* The Retiree Death Benefit Fund was established effective September 1, 2003.
The Fund operates as a separate account within the system that is used to advance fund and to pay the $10,000 post-retirement lump sum death benefits for retirees

GAIN/LOSS ANALYSIS

a. Total Gain/(Loss)

1. UAAL, Beginning of Year	261,556,800
2. Normal Cost Applicable for Year	28,904,889
3. Interest on (1) and (2)	23,236,935
4. Contributions During Year	47,156,863
5. Interest on (4)	1,849,987
6. Expected UAAL, End of Year: (1)+(2)+(3)-(4)-(5)	264,691,774
7. Actual UAAL, End of Year (Before Assumption Change)	314,230,482
Total Actuarial Gain/(Loss)	(49,538,708)

b. Gain/(Loss) on Assets

1. Actuarial Value of Assets (AVA), Beginning of Year	553,701,976
2. Contributions Less Benefit Payments	7,147,526
3. Expected Investment Earnings	44,576,559
4. Expected AVA, End of Year: (1)+(2)+(3)	605,426,061
5. Actual Actuarial Value of Assets, End of Year	558,475,643
Gain/(Loss) on Assets	(46,950,418)

c. Gain/(Loss) on Liabilities

1. Expected Actuarial Accrued Liability: a(6)+b(4)	870,117,835
2. Actual Actuarial Accrued Liability (Before Assumption Change)	872,706,125
Gain/(Loss) on Liabilities	(2,588,290)

ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Rates – All Lives	**Current:** RP-2000 Combined Healthy without projection – Sex Distinct. **Previous:** RP-2000 Combined Healthy Mortality Table for males and females projected to 2014 -- Sex Distinct.
Interest Rate	8.0% per year, compounded annually, net of all expenses.
Payroll Growth	3.5% (previously 4.0%) per year for amortization of the Unfunded Actuarial Accrued Liability.
Administrative Expenses	0.025% of payroll added to Normal Cost.
PROP Investment Accounts	75% retiring in DROP will elect to leave their lump sum in the System until age 60. Average annual rate credited to the PROP accounts will be 4.0%.
Marital Status	85% of actives are assumed to be married at time of benefit commencement Females are assumed to be 3 years younger than Males.
Funding Method	Entry Age Normal Actuarial Cost Method
Actuarial Asset Method	All assets are valued at market value with an adjustment made to uniformly spread actuarial investment gains and losses (as measured by actual market value investment return against expected market value investment return) over a five-year period. The asset value of the Retiree Death Benefit Fund is then subtracted to determine the Actuarial Value of Assets.
Retirement Rates	See following tables.
Termination Rates	See following tables.
Disability Rates	See following tables. 55% of disablements are assumed to be service related.
Salary Increases	See following tables.

Pre-Retirement Death Payment Form — Married: Joint and 100% to Survivor
Single: 15-Year Certain and Life Annuity

Retirement Rates

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

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

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

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

Termination Rates

Combined Years of Service[1]	Probability of Termination During Year
0	0.05
1	0.02
2	0.02
3	0.02
4	0.02
5	0.02
6	0.02
7	0.02
8	0.02
9	0.02
10	0.01
11	0.01
12	0.05
13	0.05
14	0.05
15 & Above	0

[1] APRS service combined with Proportionate Retirement Program service.

Disability Rates

Age	Probability of Disablement During Year
20	0.00014
22	0.00016
24	0.00018
26	0.00021
28	0.00025
30	0.00031
32	0.00040
34	0.00049
36	0.00054
38	0.00062
40	0.00092
42	0.00132
44	0.00173
46	0.00255
48	0.00334
50	0.00379
52	0.00404
54	0.00456
56	0.00532
58	0.00660
60	0.00911
62 & Above	0

Salary Increases

Years of Service	Increase in Salary[1]
0	18.0%
1	11.2
2	5.8
3	0.9
4	0.9
5	7.1
6	0.5
7	0.5
8	0.5
9	7.1
10	0.3
11	0.3
12	0.3
13	7.1
14	0.2
15	7.2
16	0.2
17	0.1
18	0.1
19	0.1
20	0.1
21	0.1
22	0.1
23	0.1
24	0.1
25 & Above	0.0

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

VALUATION NOTES

Total Annual Payroll is the annual rate of pay as of the valuation date of all covered Members.

Present Value of Benefits is the single sum value on the valuation date of all future benefits to be paid to current Members, Retirees, Beneficiaries, Disability Retirees and Vested Terminations.

Entry Age Normal Cost Method - Under this method, the normal cost is the sum of the individual normal costs for all active participants. For an active participant, the normal cost is the participant's normal cost accrual rate, multiplied by the participant's current compensation.

(a) The normal cost accrual rate equals:

(i) the present value of future benefits for the participant, determined as of the participant's entry age, divided by

(ii) the present value of the compensation expected to be paid to the participant for each year of the participant's anticipated future service, determined as of the participant's entry age .

(b) In calculating the present value of future compensation, the salary scale is applied both retrospectively and prospectively to estimate compensation in years prior to and subsequent to the valuation year based on the compensation used for the valuation.

(c) The accrued liability is the sum of the individual accrued liabilities for all participants and beneficiaries. A participant's accrued liability equals the present value, at the participant's attained age, of future benefits less the present value at the participant's attained age of the individual normal costs payable in the future. A beneficiary's accrued liability equals the present value, at the beneficiary's attained age, of future benefits. The unfunded accrued liability equals the total accrued liability less the actuarial value of assets.

(d) Under this method, the entry age used for each active participant is the participant's age at the time he or she would have commenced participation if the plan had always been in existence under current terms, or the age as of which he or she first earns service credits for purposes of benefit accrual under the current terms of the plan.

Austin Police
Retirement System

BALANCE SHEET
December 31, 2012

ASSETS	MARKET VALUE
Cash and Cash Equivalents:	
Short Term Investments	13,177,323.38
Checking Account	70,520.58
Prepaid Expenses	6,803.36
Total Cash and Equivalents	13,254,647.32
Receivable:	
Member Contributions	800,588.68
City Contributions	1,332,056.40
Accrued Income	2,460,299.56
Total Receivable	4,592,944.64
Investments:	
Partnership Interests	53,051,133.00
Corporate Bonds	25,603,358.00
Corporate Stocks	177,933,688.81
International Stocks	29,935,866.00
International Government Securities	39,489,181.31
Real Estate Interests	144,152,958.00
Mutual Funds:	
Alternatives	50,204,082.00
International	0.00
Total Investments	520,370,267.12
Retiree Death Benefit Fund	601,763.77
Net Fixed Assets	578,687.35
TOTAL ASSETS	539,398,310.20
LIABILITIES AND NET ASSETS	
Liabilities:	
Payable:	
Refunds	43,471.02
Other	457,190.07
Total Liabilities	500,661.09
Net Assets[1]	538,897,649.11
TOTAL LIABILITIES AND NET ASSETS	539,398,310.20

[1]Includes $601,764 for the Retiree Death Benefit Fund. The Net Market Value of Assets excluding the Retiree Death Benefit Fund, is $538,295,885.

Austin Police
Retirement System

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2012
Market Value Basis

REVENUES

Contributions:		
Member	17,874,653.70	
Buy-Back	660,214.00	
City	27,757,746.37	
City for Proportionate Retirement Program	864,248.80	
City for Retiree Death Benefit	145,415.98	
Total Contributions		47,302,278.85
Earnings from Investments		
Interest & Dividends	3,494,762.74	
Miscellaneous Income	4,190,122.17	
Net Realized Gain (Loss)	10,189,795.55	
Unrealized Gain (Loss)	32,646,629.08	
Total Earnings and Investment Gains		50,521,309.54

EXPENDITURES

Expenses:		
Investment Related[1]	1,842,582.06	
Administrative	1,162,651.17	
Total Expenses		3,005,233.23
Distributions to Members:		
Benefit Payments	33,452,171.06	
Lump Sum DROP and PROP Balances	5,695,738.64	
Retiree Death Benefits	30,000.00	
Termination Payments	831,427.35	
Total Distributions		40,009,337.05
Change in Net Assets for the Year		54,809,018.11
Net Assets Beginning of the Year		484,088,631.00
Net Assets End of the Year		538,897,649.11

[1]Investment Related expenses include investment advisory, custodial and performance monitoring fees.

Austin Police
Retirement System

ACTUARIAL ASSET VALUATION
December 31, 2012

Actuarial Assets for funding purposes are developed by recognizing the total actuarial investment gain or loss for each Plan Year over a five year period. In the first year, 20% of the gain or loss is recognized. In the second year 40%, in the third year 60%, in the fourth year 80%, and in the fifth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return.

Gains/(Losses) Not Yet Recognized

Plan Year Ending	Gain/(Loss)	Amounts Not Yet Recognized by Valuation Year 2013	2014	2015	2016	2017
12/31/2009	3,260,002	652,000	0	0	0	0
12/31/2010	16,389,018	6,555,607	3,277,804	0	0	0
12/31/2011	(56,982,781)	(34,189,669)	(22,793,112)	(11,396,556)	0	0
12/31/2012	8,502,880	6,802,304	5,101,728	3,401,152	1,700,576	0
Total		(20,179,758)	(14,413,580)	(7,995,404)	1,700,576	0

Development of Investment Gain/Loss

Market Value of Assets, including Retiree Death Benefit Fund, 12/31/2011	484,088,631
Contributions Less Benefit Payments	7,292,942
Expected Investment Earnings*	39,013,196
Actual Net Investment Earnings	47,516,076
2013 Actuarial Investment Gain/(Loss)	8,502,880

*Expected Investment Earnings = 0.08 * 484,088,631 + [(1 + 0.08) ^0.5 - 1] * 7,292,942

Development of Actuarial Value of Assets

Market Value of Assets, 12/31/2012	538,897,649
(Gains)/Losses Not Yet Recognized	20,179,758
Actuarial Value of Assets, 12/31/2012	559,077,407
(A) 12/31/2011 Actuarial Assets, including Retiree Death Benefit Fund:	554,190,027
(I) Net Investment Income:	
1. Interest, Dividends and Misc Income	7,684,885
2. Realized Gains (Losses)	10,189,796
3. Change in Actuarial Value	(17,388,722)
4. Investment and Administrative Expenses	(3,005,233)
Total	(2,519,274)
(B) 12/31/2012 Actuarial Assets, including Retiree Death Benefit Fund:	559,077,407
Actuarial Assets Rate of Return = 2I/(A+B-I):	-0.5%
Market Value of Assets Rate of Return:	9.7%

12/31/2012 Limited Actuarial Assets, including Retiree Death Benefit Fund: 559,077,407
(Lesser of Actuarial Assets or 120% of Market Value, but no less than 80% of Market Value)

12/31/2012 Limited Net Actuarial Assets, excluding Retiree Death Benefit Fund: 558,475,643

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Austin Police
Retirement System

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2012
Actuarial Asset Basis

REVENUES		
Contributions:		
Member	17,874,653.70	
Buy-Back	660,214.00	
City	27,757,746.37	
City for Proportionate Retirement Program	864,248.80	
City for Retiree Death Benefit	145,415.98	
Total Contributions		47,302,278.85
Earnings from Investments		
Interest & Dividends	3,494,762.74	
Miscellaneous Income	4,190,122.17	
Net Realized Gain (Loss)	10,189,795.55	
Change in Actuarial Value	(17,388,721.69)	
Total Earnings and Investment Gains		485,958.77
EXPENDITURES		
Expenses:		
Investment Related[1]	1,842,582.06	
Administrative	1,162,651.17	
Total Expenses		3,005,233.23
Distributions to Members:		
Benefit Payments	33,452,171.06	
Lump Sum DROP and PROP Balances	5,695,738.64	
Retiree Death Benefits	30,000.00	
Termination Payments	831,427.35	
Total Distributions		40,009,337.05
Change in Net Assets for the Year		4,773,667.34
Net Assets Beginning of the Year		553,701,976.00
Net Assets End of the Year[2]		558,475,643.34

[1]Investment Related expenses include investment advisory, custodial and performance monitoring fees.
[2]Net Assets may be limited for actuarial consideration, and exclude the Retiree Death Benefit Fund of $601,764.

Austin Police
Retirement System

CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2012
Actuarial Asset Basis

REVENUES

Contributions:		
Member	17,874,653.70	
Buy-Back	660,214.00	
City	27,757,746.37	
City for Proportionate Retirement Program	864,248.80	
City for Retiree Death Benefit	145,415.98	
Total Contributions		47,302,278.85
Earnings from Investments		
Interest & Dividends	3,494,762.74	
Miscellaneous Income	4,190,122.17	
Net Realized Gain (Loss)	10,189,795.55	
Change in Actuarial Value	(17,388,721.69)	
Total Earnings and Investment Gains		485,958.77

EXPENDITURES

Expenses:		
Investment Related[1]	1,842,582.06	
Administrative	1,162,651.17	
Total Expenses		3,005,233.23
Distributions to Members:		
Benefit Payments	33,452,171.06	
Lump Sum DROP and PROP Balances	5,695,738.64	
Retiree Death Benefits	30,000.00	
Termination Payments	831,427.35	
Total Distributions		40,009,337.05
Change in Net Assets for the Year		4,773,667.34
Net Assets Beginning of the Year		553,701,976.00
Net Assets End of the Year[2]		558,475,643.34

[1]Investment Related expenses include investment advisory, custodial and performance monitoring fees.
[2]Net Assets may be limited for actuarial consideration, and exclude the Retiree Death Benefit Fund of $601,764.

STATISTICAL DATA

	12/31/2011	12/31/2012
Actives	1,679	1,709
Average Current Age	39.7	39.6
Average Age at Employment	28.0	28.1
Average Past Service	11.7	11.5
Average Annual Salary	$79,636	$82,079

* Foster & Foster does not have enough historical data to include data prior to 12/31/2011.
We will add hisortical data going forward.

AGE AND SERVICE DISTRIBUTION

PAST SERVICE

AGE	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30+	Total
15 - 19	0	0	0	0	0	0	0	0	0	0	0	0
20 - 24	13	5	1	0	0	0	0	0	0	0	0	19
25 - 29	43	49	12	26	12	34	0	0	0	0	0	176
30 - 34	24	28	12	45	24	144	29	1	0	0	0	307
35 - 39	12	9	7	21	10	89	176	26	0	0	0	350
40 - 44	4	2	3	25	5	56	128	142	18	0	0	383
45 - 49	0	1	2	19	3	29	58	72	81	11	0	276
50 - 54	0	0	0	9	1	5	19	21	50	39	2	146
55 - 59	0	0	0	5	2	0	4	4	16	13	5	49
60 - 64	0	0	0	1	0	0	0	0	0	0	1	2
65+	0	0	0	0	0	0	0	0	0	0	1	1
Total	96	94	37	151	57	357	414	266	165	63	9	1,709

AUSTIN POLICE RETIREMENT SYSTEM
SUMMARY OF BENEFIT PROVISIONS

Creditable Service	Total years and completed months (excluding a month in which service amount to fewer than 15 days) during which a Member makes contributions to the System.
Earnings	Base pay, plus longevity pay.
Average Final Compensation	Average Earnings for the highest 36 months over the last 120 months of service.
Member Contributions	13.0% of Earnings.
City Contributions	20.63% (as of 12/31/2011), scheduled to increase to 21.63% effective October 1, 2012.
Normal Retirement	
Date	Earlier of age 62, age 55 and 20 years of Creditable Service, or 23 years of Creditable Service, regardless of age (excluding military service).
Benefit	3.20% of Average Final Compensation times Creditable Service.
Form of Benefit	Modified Cash Refund (options available).
Vesting	
Schedule	100% after 10 years of Creditable Service.
Benefit Amount	Member will receive his (her) accrued benefit payable at the Normal Retirement Date based upon actual Creditable Service prior to termination. Non-vested members receive a refund of accumulated contributions.

Disability	
Eligibility	Total and permanent as determined by the Board. Members must have 10 years of Creditable Service if the disability was non-service related.
Benefit	Accrued benefit at date of disability, but not less than 64% of Average Final Compensation for service related disablements.
Form of Benefit	Modified Cash Refund (options available).
Death Benefits	
Before Retirement Eligibility	Twice the amount of the Member's accumulated contributions, subject to a minimum of $10,000.
After Retirement Eligibility	Member's accrued benefit as of the date of death, payable based on optional annuity selected either by Member or beneficiary. Additionally, a lump sum death benefit is payable in the amount of $10,000.
Retiree Death Benefit Fund	Effective September 1, 2003, a separate fund (funded as a portion of the City's contribution rate) was established to pay post-retirement lump sum death benefits. Effective September 1, 2007, the amount of these benefits was increased to $10,000.
Cost of Living Adjustment	
Eligibility	Normal Retirement.
Amount	Determined by the actuary if providing a COLA (not to exceed 6.0% per year) will not impair financial stability of the System. Post-Retirement benefit increases will automatically be provided when the System's benefit accrual rate is increased.

Proportionate Retirement Program	Effective September 1, 2009, the System and the City began participating in the statewide Proportionate Retirement Program (PRP). Service in other participating public employee 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 of a terminated Member. The participating systems, in addition to the System, are the six statewide systems, the City of Austin Employees' Retirement System, and the systems for the City of El Paso employees.
Forward DROP	
Eligibility	Completion of 23 years of Creditable Service, excluding military service.
Participation Period	Not to exceed 60 months.
Rate of Return	5.0%, compounded annually.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.
Retro DROP	
Eligibility	Completion of 23 years of Creditable Service, excluding military service.
Participation Period	Upon election to retroactively enter DROP, the Retro DROP period will not exceed 36 months.
Rate of Return	5.0%, compounded annually.
Form of Distribution	Cash lump sum (or rollover to PROP account) at termination of employment.

DISCLOSURE INFORMATION PER STATEMENT NO. 25 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The schedule provided below has been prepared in accordance with the requirements of paragraph 37 of Statement No. 25 of the Governmental Accounting Standards Board.

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)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/12	558,475,643	856,576,826	298,101,183	65.2%	141,561,047	210.6%
12/31/11	553,701,976	815,258,776	261,556,800	67.9%	134,843,931	194.0%
12/31/10	546,956,628	776,231,027	229,274,399	70.5%	127,731,696	179.5%
12/31/09	518,111,923	733,634,660	215,522,737	70.6%	122,928,285	175.3%
12/31/08	464,230,585	693,202,499	228,971,914	67.0%	122,735,216	186.6%
12/31/07	482,303,290	637,559,674	155,256,384	75.6%	111,809,091	138.9%

The schedule provided below has been prepared in accordance with the requirements of paragraph 38 of Statement No. 25 of the Governmental Accounting Standards Board.

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution (% of Pay)	City Contribution (% of Pay)	Percentage Contributed
2012	19.698%	20.778%	105.5%
2011	19.360%	19.782%	102.2%
2010	20.291%	18.788%	92.6%
2009	16.776%	18.254%	108.8%
2008	17.846%	17.900%	100.3%
2007	18.775%	17.919%	95.4%

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DISCLOSURE INFORMATION PER STATEMENT NO. 27 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

ANNUAL PENSION COSTS AND RELATED INFORMATION

THREE YEAR TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/2012	26,409,663	105.3%	(7,039,826)
9/30/2011	22,269,355	117.3%	(5,640,531)
9/30/2010	20,609,831	111.0%	(1,798,632)

DEVELOPMENT OF NET PENSION OBLIGATION (NPO)

Fiscal Year Ending		9/30/2010	9/30/2011	9/30/2012
Annual Required Contribution (ARC - %)		16.776%	16.776%	19.698%
City Contribution Rate (%)		18.6300%	19.630%	20.630%
Actual Contributions Made ($)		22,877,000	26,111,254	27,808,958
City ARC ($)		20,600,352	22,314,946	26,552,635
Interest on NPO		37,483	(143,891)	(451,242)
Adjustment to ARC		(28,004)	98,300	308,270
		--------	--------	--------
Annual Pension Cost		20,609,831	22,269,355	26,409,663
Contributions Made		22,877,000	26,111,254	27,808,958
		--------	--------	--------
Increase in NPO		(2,267,169)	(3,841,899)	(1,399,295)
NPO Beginning of Year		468,537	(1,798,632)	(5,640,531)
		--------	--------	--------
NPO End of Year	468,537	(1,798,632)	(5,640,531)	(7,039,826)

HISTORICAL INFORMATION SECTION

Improvements to the System
(Last 15 Years)

April 1998

Officers who had non-membership time after they were enrolled in Cadet class are now able to buy back that non-membership time as retirement service credit.

Cadets are now members of the retirement system at enrollment date and upon contributing 9% of their biweekly payroll.

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% to 3.0%

Special Ad hoc increase granted to retirees based on benefit multiplier 3.0% divided by benefit multiplier 2.88%, minus one, and multiplied by 100.

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 to purchase at 20 years of service, additional time, minimum of three years service credit needed to retire at normal retirement eligibility (23 years) at actuarially neutral cost to the 'System'.

April 2006

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

Improvements to the System
(Last 15 Years)

October 2006
Member contribution rate was increased from 9% to 11%.

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 drawing 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 is increased to $10,000 from $7,500

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

December 2007
Benefit formula multiplier was increased from 3.0% to 3.2%.

Special Ad hoc increase granted to retirees based on benefit multiplier 3.2% divided by benefit multiplier 3.0%, minus one, and multiplied by 100.

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

March 2009
APRS joined the Texas Proportionate Retirement System. This allowed 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.

Improvements to the System
(Last 15 Years)

September 2009

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

October 2010

The City's contribution rate was increased from 18.63% to 19.63% .

October 2011

The City's contribution rate was increased from 19.63% to 20.63% .

October 2012

The City's contribution rate was increased from 20.63% to 21.63% .

Interest Paid On Member Contributions
(15 year History)

Year	Interest Paid
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%
2001	4.0%
2000	5.0%
1999	5.0%
1998	5.0%

*Beginning in 2007, interest is only paid on vested members accounts

How is the amount of interest paid on retirement contributions determined?

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. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current officers who will someday retire.

Retirement interest is paid only to vested members' (10 yrs. Of service) accounts at the end of the calendar year based on the amount that each officer had in the system on the first day of that calendar year. For instance, if you had $50,000 on January 1, and on December 31, you had $60,000, your

Cost of Living (Ad Hoc) Adjustments
(15 Year History)

Year	COLA Paid
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%
2001	3.0%
2000	3.0%
1999	3.0%
1998	4.0%

How is the amount of cost of living adjustments for retirees determined?

The Board of Trustees annually determines the amount of cost of living adjustment (Ad Hoc) to pay retirees, taking into consideration the performance of the Fund's investments, consumer price index (CPI) and the actuary's recommendations. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current officers who will someday retire, making sure the liabilities can be amortized within acceptable accounting and governmental guidelines.

Cost of living adjustments are paid at the beginning of the calendar year, of the year proceeding the year approved. A member who retires between January 1, and December 31, in the year the cost of living adjustment is approved, will see their amount paid prorated for the number of months the retiree was

Comparative Statement of Membership

		2012	2011
ACTIVE MEMBERS			
Total Number of Members, January 1		1,679	1,624
Add:	New Members	106	108
Deduct:	Members Terminated	(23)	(19)
	Deceased Members	1	(0)
	Members Transferred to Retiree System	(52)	(34)
TOTAL ACTIVE MEMBERS, DECEMBER 31		1,709	1679
VESTED TERMINATED			
TOTAL VESTED TERMINATED MEMBERS, DECEMBER 31		23	19
RETIREE MEMBERS			
Total Number of Members, January 1		596 (2)	566
Add: Retired Members Transferred to System		52	34
Deduct: Retired Members Deceased		(3)	(4)
TOTAL RETIRED MEMBERS, DECEMBER 31		648(1)	596(2)
TOTAL APRS MEMBERS DECEMBER 31		**2,380**	**2,294**

1. Includes 25 alternate payees of QDROs and 0 new survivor benefits
2. Includes 22 alternate payees of QDROs and 1 new survivor benefits

BENEFIT GUIDE SECTION

INTRODUCTION

While this guide sets forth most of the facts about the plan, it does not attempt to describe all provisions or limitations as they apply in individual situations. In case of any conflict between the guide and the statute, Article 6243n-1, Vernon's Texas Civil Statutes, as amended will prevail.

RETIREMENT SYSTEM MEMBERSHIP AND CONTRIBUTIONS

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 date of employment.

CONTRIBUTIONS

Each member of the system contributes 13% 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, withdraws by terminating and/or retiring.

The City of Austin contributes 19% (20% effective 10/1/2011, 21% effective 10/1/2012) of every police member's base pay bi-weekly and 19% (20% effective 10/1/2011, 21% effective 10/1/2012) of member's longevity pay annually. Once it becomes a part of the retirement fund, the City's contribution is invested for the benefit of all active employees and made available to pay benefits at retirement. Most retirees receive benefits equal to all their own contributions and interest, through their monthly annuity payments, within two or three years after retirement. Because of the contributions made by the City and the interest earned on the Fund's investments, money is available to continue paying each retiree monthly benefits according to their selected option as long as they live, long after their own contributions have been received. These contributions and interest earned thereof, also help in paying lifetime benefits to the surviving beneficiaries of deceased retirees according to their selected option and pay periodic (Ad-Hoc) cost of living adjustments (COLA's).

In addition, 2009 legislation provided that the City of Austin contribute additional costs incurred by the System for participating in the proportionate retirement program as set forth in Chapter 803 in the Texas Government Code (the "PRP"):

1. Increasing contribution rates from 20.00% to 20.63% for periods following October 1, 2011
2. Increasing contribution rates from 20.63% to 21.63% for periods following October 1, 2012, and
3. Subsequent adjustments to the City's contribution rate following each 5 years of PRP participation with adjustments to be based on experience studies performed by the system's actuary.

RETIREMENT FUND INVESTING

The COA-Police Retirement System's Fund monies are invested according to requirements prescribed by the system's statutory plan and further defined in the Board's Statement of Investment Policy and Statement Guidelines. The investments provide returns that help fund the monthly retirement allowances and make benefit improvements to the system on behalf of active members, retired members and beneficiaries.

SERVICE RETIREMENT BENEFITS

RETIREMENT ELIGIBILITY

Normal, unreduced retirement:

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

* Any age and 23 years creditable service. (excluding Pre-membership Military Service)
* Age 55 and 20-years creditable service. (excluding Pre-membership Military Service)
* Age 62 and any number of creditable service years.

CREDITABLE SERVICE

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

1. Membership Service - Eligible service during employment period where a member makes payroll contributions to the fund.

2. Probationary Service - Eligible service purchased from commission date to retirement system start date in the event it has not been credited.

3. Military Service - Eligible service purchased for up to two years previous active federal duty military service, prior to employment. A member is not eligible to use this type of military service credit when it has been used as creditable service in another federal or statutory public retirement system in Texas.

4. Uniformed Leave of Absence Service - Eligible service for military leave of absence granted from City employment and purchased within five years of reemployment with the City.

5. Reinstated Forfeited Service - Eligible service for prior Austin Police Retirement System membership service that was forfeited by withdrawal of accumulated deposits, and repurchased after 24 consecutive months of membership service after police reemployment.

6. Cadet Service - Eligible service purchased from date of cadet class enrollment to commission date in the event it has not been credited.

7. Permissive Service - Eligible service of up to 60 months at 20 years of service credit or more for immediate retirement, excluding pre-membership military service, at full actuarial present value cost.

8. Deferred Retirement Permissive Service- Eligible service of up to 60 months at 20 years of service credit or more with a delayed monthly annuity, excluding pre-membership military service, at full actuarial present value cost.

PROPORTIONATE SERVICE

Program for the benefit of members of participating public retirement systems. A member of two or more of the following participating retirement systems may be eligible for proportionate benefits:

- Austin Police Retirement System
- City of Austin Employees' Retirement System
- 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
- Texas Municipal Retirement System (TMRS)
- Texas County and District Retirement System (TCDRS)
- Teacher Retirement System of Texas (TRS)
- Other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the 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. Retirement benefits will be paid separately from each system, based only on the service performed in that system. Military service purchases may only be used once in determining the amount of the member's combined service credit. A member of a participating retirement system who forfeited membership service by withdrawing their deposits may re-establish credit for service earned in another participating proportionate retirement system. A member must contact the system in which they previously had membership in order to determine eligibility requirements to re-establish service credit and/or membership. A member should determine their proportionate retirement benefits before withdrawing member deposits in any of these systems.

RETIREMENT BENEFIT LIFE ANNUITY CALCULATED

Basic retirement benefit Life Annuity are calculated using the following formula. Monthly annuity check would begin at the date the member would have been eligible for normal retirement.

$6,250

Average monthly salary for highest 36 months of last 10 years of contributing service

23	x 3.2% =	$4,600
Total years of membership		Basic monthly benefit amount service

*3.2% multiplied by years of membership service times averaged monthly salary for the highest 36 months of the last ten years of contributing service by payroll deduction.

RETIREMENT 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 Pension Office for calculation. Please note: A member may not change their chosen option after they have already retired.

Life Annuity -

Monthly retirement annuity payable only to the member for life with no survivor benefits.

Option I - 100% Joint and Survivor Annuity

This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive the same annuity amount.

Option II - 50% Joint and Survivor Annuity

This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive one-half the annuity amount.

Option III - 66 2/3% Joint and Survivor Annuity

This is a retirement annuity payable monthly as long as you live. At your death, your surviving beneficiary will receive two-thirds the annuity amount.

Option IV - Joint and 66 2/3% Last Survivor Annuity

This is a retirement annuity payable monthly as long as you live. At either your death or the death of your beneficiary, the last survivor of the two will receive two-thirds of the annuity amount.

Option V - Fifteen year Certain and Life Annuity

This is a retirement annuity payable monthly as long as you live. If your death occurs before you have received 180 payments, your designated beneficiary or estate will receive the remaining monthly payments. If you are still living after receiving the 180 payments, payments will continue until your death.

The options that include benefits to a survivor are figured according to the ages of both member and surviving beneficiary included in the plan.

A member's benefit is permanently reduced if an option is chosen that provide survivor benefits to a beneficiary. This reduction is applied to the member's basic benefit relative to the option the member chooses.

The reduction of member benefits is necessary to pay for the continued benefits the surviving beneficiary is expected to receive.

RETROACTIVE DEFERRED RETIREMENT OPTION PLAN (RETRO DROP)

The retroactive deferred retirement option plan, referred to as RETRO DROP Option, is a one-time benefit paid at retirement with a reduced monthly retirement benefit. To be eligible a member must qualify with a normal service retirement of 23 years at any age, excluding pre-membership military service credit. The maximum amount of service to be used in computation of the RETRO DROP after normal service retirement of 23 years, excluding pre-membership service credit is 36 months.

On the election of RETRO DROP and the selection of the RETRO DROP benefit computation date, the member's monthly retirement option is computed as if the member had retired on the RETRO DROP benefit computation date. The RETRO DROP benefit balance will include the accumulated monthly benefits after 23 years with retiree COLA'S, multiplier increases, member contributions and a 5% simple interest calculation on December 31st for balances on deposit as of January 1st of the same calendar year.

A member who elects RETRO DROP receives a one-time benefit with a reduced monthly retirement benefit at retirement date.

Certain selections of options and beneficiary designations other than a surviving spouse may have adverse consequences under the Internal Revenue Code of 1986, which may cause a reduction in the amount of benefit payable. You are urged to consult your attorney or tax advisor prior to a final selection of an option.

FORWARD DEFERRED RETIREMENT OPTION PLAN (Forward DROP)

The forward option one-time benefit whereby active police officers can choose to retire, continue working for 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, excluding pre-membership military service credit and permissive service credit, as of the date of his or her election to participate in the Forward DROP. 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.

A member's election to participate in the Forward DROP is irrevocable. 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 with retiree COLA'S, multiplier increases, member contributions and a 5% simple interest calculation on December 31st for balances on deposit as of January 1st of the same calendar year. A member who elects Forward DROP receives a one-time lump sum benefit with a reduced monthly retirement benefit at termination of employment date.

If a member electing to participate in Forward DROP decides to continue employment covered by the Act governing the System after her or she has participated in Forward DROP for sixty (60) months, no further annuity deferrals or member contributions shall be deposited to the members Forward DROP account after that sixty month period. In that event, the member shall continue making all contributions required under the Act governing the System, however, these contributions will not be used in the pension benefit calculation and the member will not receive any further service credit for time worked.

Certain selections of options and beneficiary designations other than a surviving spouse may have adverse consequences under the Internal Revenue Code of 1986, which may cause a reduction in the amount of benefit payable. You are urged to consult your attorney or tax advisor prior to a final selection of an option.

DROP BALANCE OPTION PLAN or (PROP) Post Retirement Option Plan

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, in an amount elected by the member. The board may establish procedures concerning partial payments, including limitations on timing and frequency of those payments. A member who elects partial payments may, at any time, elect to receive the member's entire remaining RETRO or Forward DROP account balance in a single lump-sum payment, with the payment to be made under rules adopted by the board.

If a member elects partial payments, the member's RETRO or Forward DROP funds in the PROP account shall be credited with earnings or losses of the system while they remain in the account. These earnings or losses will be determined at an annual rate established under a rule adopted by the board, which can be amended by board rule.

PROP MONTHLY ANNUITY DEFERRAL

The PROP Monthly Annuity Deferral plan allows retiring or 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. Special rules provide for two (one-time) period of deferrals in a calendar year that cease at the earliest of: (1) the date payment on the monthly benefit is requested, or (2) the IRS required age of 70 ½ is reached.

Making an election to defer a member's monthly annuity into PROP or revoking that election can have adverse tax consequences in some situations, especially if the member terminated active service before the year in which he or she attained age 50. Therefore, the election should not be made until the member has discussed the matter with a professional financial planner or tax advisor who is knowledgeable about the tax treatment of distributions from qualified tax plans.

RETIREMENT OPTION'S AFFECT ON BENEFICIARY

If a member selects the Life Annuity, the monthly benefit stops at the death of the member. At that time an amount equal to the excess, if any, of the member's accumulated deposits over the amount of payments made to the member will be paid in a lump sum to the member's designated beneficiaries or estate.

If the member chooses an option providing benefits to a survivor, then at the member's death the benefit specified in the option will be paid to the designated beneficiary for life. If the designee does not survive the member, monthly benefits cease. The amount equal to the excess, if any, of the members accumulated deposits over the amount of payments which have been made to both the member and the beneficiary combined will be paid in a lump sum to other designated beneficiaries, or to the estate of the deceased member.

DISABILITY RETIREMENT BENEFITS

DISABILITY ELIGIBLITY

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,

1) if an active member with less than 10 years of creditable service has, become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation as a direct result of injuries sustained subsequent to the member’s effective date of membership in the Police Retirement System, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the injury sustained was as a direct or proximate result of the performance of the member’s employment duties with the City or with the system; that it is likely to result in the member’s inability to perform the duties of a position offered to the member in the system, the police department, or any other department in the City; that pays as much or more than the current pay of the position the member was holding on the date of the member’s disability.

2) if an active member with more than 10 years of creditable service has become mentally or physically incapacitated for the performance of the employment duties the member had immediately before incapacitation, the member may apply for disability retirement. Such application made for or on behalf of the injured member, shall show that the incapacity is likely to result in the member’s inability to perform the duties of a position offered to such member in the system, the police department, or any other department in the City; that pays as much or more than the current pay of the position the member was holding on the date of the member’s disability.

Disability applications are presented to the Disability Committee, whose recommendations are reported to the Retirement Board. The Board has the final authority in granting disability retirement benefits.

COMPUTATION OF DISABILITY BENEFIT

On award of disability retirement benefits, the member shall receive a disability retirement benefit computed in the same manner that a service retirement benefit would be computed at the member's normal retirement date, based on average final compensation and creditable service at date of disability retirement without reduction for early retirement. If the disability is a direct or proximate result of the performance of the member's employment duties with the system or the city, then the disability retirement benefit will be subject to a minimum benefit based on average final compensation at date of disability retirement and 20 years of service.

A member approved for a disability retirement benefit will have the option to select an unreduced basic 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; and Fifteen Year Certain and Life Annuity.

Disability retirees are required annually to provide proof of continued disability and financial need to the Retirement Board.

DISABLILTY BENEFIT LIFE ANNUITY CALCULATED

Disability retirement benefit Life Annuity are calculated using the following formula:

$6,250
Average monthly salary for highest 36 months of last 10 years
of contributing service

20	x 3.2% =		$4,000
Total years of membership		Basic monthly benefit amount service	

*3.2% multiplied by years of membership service times averaged monthly salary for the highest 36 months of the last ten years of contributing service by payroll deduction.

DEATH & SURVIVOR BENEFITS

FOR RETIREE OR ELIGIBLE RETIREE'S BENEFICIARY

At the death of a retiree, a tax free death benefit of $10,000 (or a proportionate benefit if the member retired under the Proportionate Retirement Program) is paid to the designated beneficiary(ies) or estate.

At the death of an active member eligible to retire, a tax free death benefit of $10,000 is paid to the designated beneficiary(ies) or estate.

FOR ACTIVE & VESTED MEMBER'S BENEFICIARY

At the death (whether on or off the job) of an active member:

Who is not eligible for retirement, the designated beneficiary(ies) is entitled to a lump sum payment consisting of a return of the member's accumulated deposits (contributions and interest) and a death benefit from the Fund of an amount equal to the member's accumulated deposits. The lump sum payment may not be less than $10,000. When the $10,000 minimum is payable, the amount payable from the Fund is $10,000 minus the accumulated deposits standing to the member's credit.

At the death of a vest member:

Who has terminated employment, but left their contributions in the Fund waiting to become eligible for retirement. If such a vested member dies before the annuity payments begin, their designated beneficiary would receive in a lump sum amount twice the deceased vested members' accumulated deposits.

If a member has met the requirements of retirement eligibility prior to death:

The surviving designated beneficiary will be entitled to receive monthly payments under a retirement option in lieu of the return of the member's accumulated deposits and 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 members 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).

SELECTION OF RETIREMENT OPTIONS AND DESIGNATING A BENEFICIARY

Within one year prior to the date on which a member becomes eligible for service retirement, the member may file with the board the member's written statement either selecting a retirement option or designation of beneficiary. The member will retain the right to make a final selection of retirement option or designation of beneficiary until the date of retirement.

HEALTH INSURANCE

Basic medical, dental and vision insurance coverage is available through the City of Austin Human Resources Benefits Division.

Retirees have several choices of insurance carriers and coverage options. Any questions about carriers and plan coverage choices should be directed to the City of Austin Benefits Office at www.ci.austin.tx.us/benefits/enrollment or One Texas Center, 505 Barton Springs Rd., Suite 600, P.O. Box 1088, Austin, Texas 78704 or by phone at (512) 974-3284.

LEAVING THE SYSTEM

DEFINITION OF A VESTED MEMBER

When you declare participation in the Texas Proportionate Retirement Program or have attained ten years of Austin Police Retirement System creditable service, you become a vested member of the retirement system.

This means that you have a right to receive a monthly annuity when you reach retirement eligibility. Even if you leave the City Police employment before reaching eligibility, if you are vested, you can decide to leave your contributions in the system and begin drawing your annuity when you reach age 62, or when you meet other age and service requirements for retirement eligibility.

It is important to note retirement contributions for vested inactive members draw interest, the inactive member's multiplier can increase during the years between the member's termination and retirement, but no cost of living increases are applied to the member's benefit.

RETIREMENT BENEFITS RETURNED TO MEMBER

When you leave the City as a cadet or a commissioned officer, you will fill out a refund form telling the Pension Office which option you wish, when you want to receive your retirement contributions and where you want them to be sent. Your choices are:

1. Have your contributions refunded as soon as you terminate employment. Your retirement contribution refund check will be issued two weeks after you receive your final check. It will be mailed to the address on the refund form. (Federal Income Tax will be withheld on all untaxed contributions and interest at 20% of the total taxable amount.)
2. Have your contributions refunded to you the end of the calendar year. By doing this, you may receive interest on your contributions. Once the year has ended, your refund check will be issued to you in January. (Federal Income Tax will be withheld on all untaxed contributions and interest at 20% of the total taxable amount).
3. Have your contributions transferred to an I.R.S. qualified retirement plan through a direct rollover by leaving a letter of transfer with the Pension Office. (Federal Income Tax will not be withheld but the monies will be made payable and moved to the qualified retirement plan on your behalf).
4. Have your contributions left in the System if you have ten or more credit service years. You can choose to take advantage of your vested right to an annuity when you reach retirement eligibility. If you indicate that you want to vest your benefits, your contributions will remain in the retirement system until you reach retirement eligibility and request that your monthly annuity begin. Your contributions may continue to earn interest until your monthly annuity begins. One thing to remember should you choose vesting is when you reach eligibility, your benefits will be based on the eligibility in effect at the time you terminated employment. You will receive the current multiplier but no cost of living increases will be applied to your benefits after you leave City Police employment and before the date your annuity payments begin.
5. Have your contributions left in the System if you are eligible or expect to become eligible to participate in the Proportionate Retirement Program.

RETIREMENT REFUND CHECKS ISSUED AFTER WITHDRAWING CONTRIBUTIONS

With your final paycheck, one final contribution will be made to the retirement fund. After that check is issued, the exact amount of your total refund can be determined. Retirement refund checks are issued every two weeks, at the same time regular payroll checks are issued. Therefore, a member's retirement refund check will be issued the payday following the issuance of that member's final paycheck.

NOTE: Your final time sheet must be properly coded before your retirement refund check can be issued. If you have ten or more years of service at termination, contact the Pension Office regarding your option to receive a vested accrued retirement benefit.

LEAVING THE CITY AND WITHDRAWING ACCUMULATED DEPOSITS

Every payday the City contributes an amount to the retirement fund that is 21.63% of the total of all members payroll. This money becomes a part of the retirement fund. Whereas each member's own contributions are individually accounted for, the amount paid in by the City belongs to all the members of the retirement system and is not specifically assigned to individual members.

When you leave police employment before becoming eligible for retirement, all of your own contributions and interest are returned, however no City contributions, or interest earned, will be paid to you.

FUND INFORMATION

RETIREMENT FUND LOANS AND WITHDRAWALS

The Austin Police Retirement System is an approved I.R.S. qualified 414(h) defined benefit plan designed to provide income to members who retire from the City. Because of this, APRS members are not allowed, by Federal law, to borrow or withdraw funds as long as they are still employed.

DETERMINING INTEREST ON YOUR VESTED 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. The actuary considers what funds are necessary to pay all the benefits that retirees and their surviving beneficiaries are entitled to, as well as the expected liability for current members who will someday retire.

Retirement interest is paid on December 31st, based on the amount each member has in the Police Retirement System on January 1st of the same calendar year.

DETERMINING YOUR COA-POLICE RETIREMENT SYSTEM'S DEPOSIT AMOUNT

Members receive an 'Annual Statement' from the Austin Police Retirement System in January each year which provides information on total accumulated deposits and interest along with total creditable service.

WHO SHOULD I CONTACT FOR MEMBER SERVICES

A Pension Office has been established to serve the membership. Group and individual counseling is provided to members by this office. Prior to your retirement, the Benefit Services Manager will prepare a schedule of your benefits under each of the options and assist you in your preparation to retire.

The Pension Office personnel can be reached at www.ausprs.org or (512) 416-7672 and their address is 2520 South I.H. 35, Suite 100, Austin, Texas 78704.

NOTES:

CITY OF AUSTIN POLICE RETIREMENT SYSTEM

P.O. Box 41089
2520 S. IH-35
Suite 100
Austin, TX 78704

Phone: 512-416-7672
Fax: 512-416-7138
Website: www.ausprs.org