

City of Pittsburgh
Combined Pension Trust Funds

Financial Statements and Required
Supplementary and Supplementary Information

Year Ended December 31, 2013
with Independent Auditor's Report

MaherDuessel
Certified Public Accountants

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**CITY OF PITTSBURGH
COMBINED PENSION TRUST FUNDS**

YEAR ENDED DECEMBER 31, 2013

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Independent Auditor's Report

The Honorable Mayor, Honorable Members of
City Council, and Boards of Directors of the Plans
City of Pittsburgh, Pennsylvania

We have audited the accompanying financial statements of the City of Pittsburgh (City), Pennsylvania, Combined Pension Trust Funds (Funds) as of and for the year ended December 31, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 audit. We conducted our audit 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

The Honorable Mayor, Honorable Members of
City Council, and Boards of Directors of the Plans
City of Pittsburgh, Pennsylvania
Independent Auditor's Report

Emphasis of Matter

As discussed in Note 3, the financial statements present only the Funds and do not purport to, and do not, present fairly the financial position of the City, as of December 31, 2013, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension schedules on pages 20 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements are fairly stated, in all material respects, in relation to the financial statements as a whole.

Maher Duessel

Pittsburgh, Pennsylvania
April 30, 2014

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

COMBINED STATEMENT OF PLAN NET POSITION

DECEMBER 31, 2013

Assets	
Cash and short-term investments, at cost, which approximates fair value	\$ 17,834,520
Investments, at fair value:	
Preferred and common stock	51,674,529
U.S. government and agency obligations	11,084,697
Corporate and other obligations	33,149,565
Mutual funds:	
U.S. equities	115,876,091
Non-U.S. equities	79,628,748
Fixed income	40,885,200
Hedge funds	31,572,305
Private equity	10,799,683
Accrued interest and dividends receivable	495,748
Total Assets	393,001,086
Liabilities	
Benefits and related withholdings payable	2,636,078
Accrued liabilities and accounts payable	12,256
Due to City of Pittsburgh Trust and Agency Fund	11,059
Total Liabilities	2,659,393
Net Position - Restricted for Pension Benefits	
(Schedules of funding progress for the plans are presented on page 20)	\$ 390,341,693

The notes to financial statements are an integral part of this statement.

**CITY OF PITTSBURGH
COMBINED PENSION TRUST FUNDS**

COMBINED STATEMENT OF CHANGES IN PLAN NET POSITION

YEAR ENDED DECEMBER 31, 2013

Additions:

<u>Contributions:</u>	
Employer - pension benefits	\$ 31,610,697
Employer - other benefits	3,327,699
Plan members	10,929,813
Commonwealth of Pennsylvania	18,023,424
Total contributions	63,891,633
 <u>Investment income:</u>	
Net increase in fair value of investments	54,032,351
Interest and dividends	5,667,616
Total investment income	59,699,967
Investment expense	(867,486)
Net investment income	58,832,481
 <u>Miscellaneous:</u>	
Other	92,471
Total additions	122,816,585

Deductions:

Benefit payments	83,775,273
Dues refunds	1,369,952
Administrative expenses	1,200,906
Total deductions	86,346,131

Net Increase (Decrease) in Plan Net Position	36,470,454
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Net Position:

Beginning of year	353,871,239
End of year	\$ 390,341,693

The notes to financial statements are an integral part of this statement.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

1. DESCRIPTION OF PLAN

The City of Pittsburgh (City) is responsible for the funding of retirement benefits for the three pension funds described below. Investments of the funds are held by the Comprehensive Municipal Pension Trust Fund (Comprehensive Trust), in accordance with the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205) and are administered under the direction of that pension fund's Board of Directors.

In accordance with Act 205 and the Acts under which the Municipal Pension Fund of the City (Municipal Fund), the Policemen's Relief and Pension Fund of the City (Policemen's Fund), and the Firemen's Relief and Pension Fund of the City (Firemen's Fund) were established, a separate accounting for the activities of these three funds is maintained including the employees' contributions, allocation of state aid, and the City's annual contribution, and a calculation of each fund's undivided interest in the investments held by the Comprehensive Trust. Additionally, separate actuarial valuations are performed annually for each fund. However, the individual funds do not record the undivided interest in the investments of each fund, since the assets of the Comprehensive Trust are available for the payments of benefits and expenses of any of the three pension funds without limitation. Therefore, in accordance with Government Accounting Standards, the City is considered to be administering a single plan for financial reporting purposes. The three pension trust funds, plus the Comprehensive Trust, constitute the City's Pension Plan.

In 1984, the Pennsylvania General Assembly passed Act 205, which has significantly improved the administration and funding of municipal pension plans. Act 205 made changes to the actuarial reporting requirements for municipalities, set forth minimum municipal pension contributions, and established the framework for customized recovery programs for municipalities with large unfunded pension liabilities.

In accordance with Act 205, the City established the Comprehensive Trust in August 1987. The Comprehensive Trust Board's purpose is to oversee the activities of the City's pension funds and to receive and invest the City's pension assets.

General

The City has three defined benefit pension funds (Municipal, Policemen, and Firemen), which are administered by the respective pension boards, the majority of whose members are elected by the employees. The Policemen's and Firemen's Funds cover all employees of the Bureau of Police and the Bureau of Fire, respectively. Each full-time employee not covered under either the Policemen's or Firemen's Fund is required to join the Municipal Fund after serving a ninety-day probationary period.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Commonwealth of Pennsylvania (Commonwealth) pension contributions are determined under Act 205. The City is eligible for the maximum remedies available under Act 205. To qualify, the City is required to fund an amount equal to normal cost and the amortization payment required to eliminate the unfunded liability over a 40-year period less any member contributions.

Act 205 contains both mandatory and optional remedies for municipalities to design a program for dealing with unfunded pension liabilities. The mandatory remedies implemented by the City were the development and adoption of an administrative improvement plan for its pension funds, the establishment of lower cost pension benefits for new hires, and the aggregation of all of the City's pension assets for investment purposes under the guidance of a new oversight Comprehensive Municipal Pension Trust Fund Board (Board). The Board, which is comprised of seven members, four appointed by the mayor and approved by City Council, and one elected from each plan, manages the investments of all pension assets and funds, each plan's monthly payment of benefits, and administrative expenses from plan net assets. The optional remedies initially selected by the City were: 40-year amortization of the unfunded liability, level percent amortization, and a 15-year phase-in allowing the City to gradually increase its pension contributions.

Act 189 of 1990 amended the provisions of Chapter 3 of Act 205. Amendments require (1) annual payroll used in the calculation of financial requirements to be that of the current year (of the calculation) plus projected payroll to the end of the year and (2) an estimated state aid amount not be deducted from the total financial requirements in determining the minimum municipal obligation. The revised definition of the Minimum Municipal Obligation (MMO) is effective for MMOs developed and adopted for budgeting purposes subsequent to 1991. Additionally, the provisions for payment of the MMO were revised to require any one of three alternative methods, more fully described in Act 189, and payment of the MMO is to occur by December 31 of each year. The Commonwealth of Pennsylvania provides pension aid grants to local municipalities.

Funding Status

The City's funded status as of the actuarial valuation date, January 1, 2013, is as follows (in thousands). The deficit of assets over actuarial accrued liability for the municipal, policemen, and firemen is (\$122,167), (\$191,150), and (\$171,273), respectively. Schedules of funding progress are presented on page 21. This information presents assets reflected in the pension financial statements along with the dedicated stream of revenues created by Ordinances 42 and 44 of 2010, treated as an asset for purposes of submission to the Commonwealth of Pennsylvania for Act 205 of 1984 and Commonwealth of Pennsylvania Act 44 of 2009.

Commonwealth of Pennsylvania Act 44 of 2009 required the City's aggregate pension funding level to be at least 50 percent by December 31, 2010 to avoid having the City's pension funds seized and administered by the Pennsylvania Municipal Retirement System. The City's plan to

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

meet this level of funding included transferring approximately \$45 million to the Comprehensive Trust Fund, which was in the Debt Service Reserve Fund in 2010, and dedicating parking tax revenues for the next 31 years. Per Council legislation, the City intends to contribute parking tax revenues of \$13.4 million per year from 2011 through 2017 and \$26.8 million per year from 2018 through 2041. While the present value of the dedicated future parking tax revenues for future pension contributions did not meet the criteria for recognition as an asset in the City's financial statements, or those of the Comprehensive Trust, it was treated as an actuarial asset for purposes of funding levels under Commonwealth of Pennsylvania Act 44 of 2009 and the City was determined to have met the required funding level to avoid takeover of the City pensions by the Pennsylvania Municipal Retirement System, and continues to be treated as an actuarial asset for funding purposes.

For the year ended December 31, 2013, the City did contribute \$53 million to the Pension Trust Fund, which included \$13.4 million in an additional contribution of dedicated parking tax revenue.

Key provisions of the Municipal Pension Fund, the Policemen's Fund and the Firemen's Fund are summarized below. The actual plan provisions should be reviewed to capture all of the details.

The Municipal Pension Fund:

The Municipal Fund of the City was established by Act 259 of May 28, 1915, P.L. 596. Every full-time employee of the City and the Pittsburgh Water and Sewer Authority (PWSA) who is not covered by the Policemen's Fund or the Firemen's Fund is required to join the Plan after serving a ninety-day probationary period. The Municipal Fund is a single employer defined benefit plan and its purpose is to provide retirement, disability, and other benefits to its members. The City and members of the Municipal Fund are required to make contributions to the Municipal Fund for the purpose of paying benefits and administrative expenses. At January 1, 2013, the date of the most recent actuarial valuation, the Municipal Fund has 3,434 total members, of which 1,784 are active members; 1,584 retirees, disabled, and survivors; and 66 terminated but vested members.

Effective January 1, 1995, the City terminated employment of 255 employees of its Water Department. As part of a cooperation agreement with PWSA, the 255 terminated employees became employees of PWSA. The PWSA employees' membership in the Municipal Fund continued with no break in service, as provided for by the Municipal Pension Act, because PWSA has no retirement plan. The City considers PWSA a part of the reporting unit and thus believes the Municipal Fund continues to be a single employer plan. As of the date of these financial statements, no separate allocations of contributions to the Municipal Fund, Plan assets, or Plan liabilities have been allocated to the employees of PWSA, nor have any separate and

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

distinct actuarial determinations been made. PWSA reimburses the City's General Fund for its portion of employer contributions in an amount that is not actuarially determined.

Retirement benefits are available, for all employees other than Emergency Medical Services, at the employee's option upon the later of attainment of age 60 or completion of 8 years of service, normal retirement. For Emergency Medical Service employees, normal retirement is available at the later of attainment of age 55 or 8 years of service. A member is eligible for early retirement upon attainment of age 50 and completion of eight years of service. For early retirees, benefit payments may be deferred until 60 years of age or paid immediately at reduced amounts, as defined by the Plan. Upon completion of eight years of service and attainment of age 40, an employee may terminate and remain eligible to receive benefits by continuing to make contributions to age 50. An employee who was a member prior to January 1, 1975, may terminate at any age after 15 years of service and be vested by continuing contributions to age 50.

Employees who become permanently disabled during the performance of their duties and are unable to continue to perform those duties are eligible to receive a disability pension. Employees who become otherwise disabled are eligible for a disability pension if eight years of service have been completed.

Normal monthly retirement benefit is equal to 50% of average compensation (as defined) and service increment, if any. The service increment is an additional monthly benefit of 1 percent of average compensation for each completed year of service in excess of 20 years to a maximum of \$100 per month. The monthly benefit is prorated for service less than 20 years. On a limited basis, reductions could apply for related to social security benefits received after reaching 65 years of age and certain other benefit provisions could apply for members hired prior to January 1, 1975.

A survivor benefit is available to the surviving spouse upon the death of an active member eligible for early retirement. The benefit amount is equal to 50% of the member's pension, had the member retired at the date of death. A survivor benefit equal to the excess of the member's contributions over the retirement benefits paid is provided to the beneficiary of a member whose death occurs after the retirement date. The member's contributions are returned to the beneficiary of a member whose death occurs prior to eligibility for early retirement.

Prior to January 1, 2002, upon termination and prior to vesting, member's contributions were refundable without interest to the member. Beginning January 1, 2002, contributions were refundable with 5% interest for certain classes of employees. Employee contributions to the Plan are 5% of pre-tax for employees hired prior to January 1, 1988, and 4% of pre-tax pay for those hired thereafter.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The Policemen's Relief and Pension Fund:

The Policemen's Fund of the City was established by Act 99 of May 25, 1935, P.L. 233. The Policemen's Fund is a single employer defined benefit plan and its purpose is to provide retirement, disability, and other benefits to its members. P.L. 233 requires the City and members of the Policemen's Fund to make contributions to the Policemen's Fund for the purpose of paying benefits and other plan administrative costs.

All employees of the Bureau of Police, including substitute uniformed employees, are eligible for membership in the Policemen's Fund. At January 1, 2013, the Policemen's Fund has 2,404 total members, of which 883 are active members; 1,496 retirees, disabled, and survivors; and 25 terminated members not yet receiving benefits.

Retirement benefits are available at the employee's option upon completion of the later of 20 years of service or attainment of age 50. Employees who become permanently disabled in the line of duty and who are unable to perform the duties of their position are eligible to receive a disability pension. Employees who become permanently disabled other than in the line of duty become eligible to receive a disability pension if they have completed 10 years of service.

The normal monthly retirement benefit is equal to 50% of average compensation (as defined) plus service increment, if any.

Service increments of \$20 per month for each year of service between 20 and 25 years and \$25 per month for each year in excess of 25 years are included in the retirement benefit. If so elected, a death benefit is available for the survivors, as defined by the plan, of any member who dies in the performance of his duties. A surviving spouse benefit, which is applicable to deaths not in the line of duty, may also be elected by plan participants.

An employee, who terminates employment after 20 years of service, and before age 50, may collect the normal retirement benefit based on average compensation at termination, providing the terminated member continues contributions at the rate in effect at termination. The benefit is deferred until age 50. If contributions continue at the same rate in effect at termination and continue to age 50, member may receive monthly benefit based on rate of pay in effect had the officer worked until the age of 50. If a member terminates employment before completing 20 years of service, accumulated employee contributions are refundable.

Employee contributions to the Fund are 6% of pay plus \$1 per month, until age 65. Those electing the surviving spouse benefit contribute an additional ½% of pay.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

The Firemen's Relief and Pension Fund:

The Firemen's Fund of the City was established by Act of May 25, 1933, P.L. 1050. The Firemen's Fund is a single employer defined benefit plan and its purpose is to provide retirement, disability, and other benefits to its members. P.L. 1050 requires the City and members of the Firemen's Fund to make contributions to the plan for the purpose of paying benefits and administrative expenses.

Any uniformed employee of the City of Pittsburgh Bureau of Fire is eligible for membership in the Firemen's Fund. At January 1, 2013, the Fund has 1,696 total members, of which 584 are active members; 1,111 retirees, disabled, and survivors; and 1 terminated member not yet receiving benefits.

Normal retirement benefits are available at the employee's option upon completion of 20 years of service for any participant employed before January 1, 1976, or for those employed thereafter, the later of completion of 20 years of service or attainment of age 50. Employees who become permanently disabled in the line of duty and who are unable to perform the duties of their position are eligible to receive a disability pension. Employees who become permanently disabled other than in the line of duty become eligible to receive a disability pension if they have completed 10 years of service.

The regular pension benefit is equal to 50% of the average compensation (as defined). A service increment of \$20 per month for each year of service in excess of 20, excluding years of service after age 65, is also payable for those members hired before January 1, 2005. For those hired on or after January 1, 2005, the service increment is \$10 per month for each completed year of service in excess of 20 years, excluding years of service after age 65. The service increment is only payable after age 50. A surviving spouse benefit may also be elected by plan participants. A lump sum death benefit of \$1,200 is paid to the beneficiary of any deceased member.

Normal vesting occurs upon attainment of 20 years of service. However, if a retiree is under the age of 50, they must make contributions to the plan until the age of 50 to qualify for a monthly pension at age 50. Upon termination of employment, a member's contributions, without accumulation of interest, are refundable.

Employee contributions to the Firemen's Fund are 6.5% of pay plus \$1 per month until age 65. Those electing the surviving spouse benefit contribute an additional ½% of pay.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

2. FUNDING STATUS AND PROGRESS

The annual required contribution for the past three years is depicted in the following table.

Fiscal Year Ended	(\$ in Thousands)		
	Municipal	Policemen	Firemen
December 31, 2013:			
Annual required contribution	\$ 10,166	\$ 16,422	\$ 14,159
Contribution made	13,160	18,080	18,394
December 31, 2012:			
Annual required contribution	\$ 7,851	\$ 11,599	\$ 11,273
Contribution made	14,256	21,065	20,473
December 31, 2011:			
Annual required contribution	\$ 10,637	\$ 21,028	\$ 14,831
Contribution made	14,922	29,506	20,811

Significant assumptions underlying the actuarial computations include mortality, termination, vesting, marital status, and retirement estimates, as well as the following:

	Municipal	Policemen	Firemen
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar Closed	Level dollar Closed	Level dollar Closed
Remaining amortization period	30 years	30 years	30 years
Asset valuation method	Tabular Smoothing	Tabular Smoothing	Tabular Smoothing
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	4.00%	4.50%	5.75%
Inflation rate	3.00%	3.00%	3.00%
Merit and longevity increases	1.00%	1.50%	2.75%

Multiple assumption changes were made to the Municipal, Policemen, and Firemen actuarial valuations for January 1, 2013. The most significant is the change in the interest rate

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

assumption, which the City decided to lower from 8.0% to 7.5% per year to present a more reasonable and conservative assumption.

The Municipal actuarial valuation also recognized the following assumption changes: the mortality and retirement assumptions were changed, the retirement rates for non-EMS employees were extended two more year to age 70, and the projected increase in Medicare premiums was reduced from 6.5% to 5.5% per year. The net effect of these assumption changes, including the change in the interest rate assumption, was an increase in the actuarial accrued liability (AAL) of \$31,572,286, which will be amortized over 15 years.

The Policemen actuarial valuation also recognized the following assumption changes: the salary increase assumption was reduced from 5.0% to 4.5% per year, the employee turnover assumption was changed to reflect higher rates of withdrawal in the first five years of employees (the same rates were retained for once participants are beyond six years of employment), and the mortality assumption was changed. The net effect of these assumption changes, including the change in the interest rate assumption, was an increase in the AAL of \$41,759,441, which will be amortized over 15 years.

The Firemen actuarial valuation also recognized a change in the mortality assumption. The interest rate and mortality assumption changes increased the AAL by \$41,016,905, which will be amortized over 15 years.

There were no benefit changes made to the Municipal, Policemen, or Firemen actuarial valuations for January 1, 2013.

As described in the City's Comprehensive Annual Financial Report for the year ended December 31, 2013, Note 7, the information in the table below presents assets reflected in the pension financial statements along with the dedicated stream of revenues created by Ordinances 42 and 44 of 2010, treated as an asset for purposes of submission to the Commonwealth of PA for Act 205 of 1984 and Commonwealth Act 44 of 2009. The funded status and related information as of the actuarial valuation date, January 1, 2013, is as follows (in thousands):

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess (Deficiency) as a Percentage of Covered Payroll
Municipal:					
\$ 202,530	\$ 324,697	\$ (122,167)	62.38%	\$ 81,916	(149.14)%
Policemen:					
\$ 248,872	\$ 440,022	\$ (191,150)	56.56%	\$ 68,562	(278.80)%
Firemen:					
\$ 224,051	\$ 395,324	\$ (171,273)	56.68%	\$ 52,375	(327.01)%

The required schedule of funding progress included as required supplementary information immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Schedules of funding progress are presented on page 20.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying combined financial statements include all of the accounts of the plans which contain assets whose purpose is to satisfy retirement and related obligations of the City. The funds inclusive are as follows:

Comprehensive Municipal Pension Trust Fund (Comprehensive Trust)
The Municipal Pension Fund of the City of Pittsburgh
The Policemen's Relief and Pension Fund of the City of Pittsburgh
The Firemen's Relief and Pension Fund of the City of Pittsburgh

The Pension Trust Funds (Funds) are considered blended component units for the purpose of the City of Pittsburgh's financial statements and are reported as fiduciary funds. The accompanying financial statements present only the Funds' financial position and activity.

Basis of Accounting

The accompanying financial statements of the Funds have been prepared on the accrual basis of accounting.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Investments

Trust investments are reported at fair value. Short-term investments are reported at cost, which approximate fair value. Securities traded on public exchanges are valued at closing public exchange rates at December 31st of each year. Hedge funds are valued using the net asset value per share (NAV).

Subsequent Events

Subsequent events have been evaluated through the Independent Auditor's Report date, which is the date the financial statements were available to be issued.

Pending Pronouncement

Governmental Accounting Standards Board (GASB) has issued Statement No. 67, "*Financial Reporting for Pension Plans*," effective for financial statements for periods beginning after June 15, 2013, and has also issued Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," effective for fiscal years beginning after June 15, 2014. These statements revise existing guidance for the financial reports of most pension plans, and establish new financial reporting requirements for most governments that provide their employees with pension benefits. The effect of implementation of these statements has not yet been determined but is expected to be significant.

4. DEPOSITS AND INVESTMENTS HELD BY FINANCIAL INSTITUTIONS

Deposits are maintained by all entities within the Funds. The Comprehensive Trust holds all investment vehicles on behalf of the Funds. The Comprehensive Trust was established on January 1, 1988 by combining the assets and liabilities of the three prior investment plans representing the City Police and Fire Departments and Non-uniformed Municipal workers in order to provide a consolidated investment strategy to support the City's pension obligation.

The Comprehensive Trust is governed by a formal investment policy established by its Board of Directors (Board). The policy dictates that investments must be managed in a manner consistent

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

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YEAR ENDED DECEMBER 31, 2013

with the Pennsylvania Municipal Pension Plan Funding Standard and Recovery Act (Act 205) and the Pennsylvania Fiduciaries Code. The policy covers the two components of the Comprehensive Trust: 1) the Operating Fund and 2) the Long-Term Assets. The Operating Fund is a liquidity pool to accept employee, employer, and supplemental state contributions and to make benefit disbursements. As such, the Operating Fund investments are restricted to high quality, very short duration fixed income instruments whose average maturity must not exceed six months and whose quality is restricted to investment grade and above securities. The Long-Term Asset component includes restrictions on both fixed income and equity investments as discussed below.

GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*,” requires disclosures related to the following deposit and investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The following is a description of the City’s deposit and investment risks:

Deposits

Custodial Credit Risk – For a deposit, custodial credit risk is the risk that in the event of a bank failure, the combined deposits of the City’s pension funds may not be returned to it. There are no formal deposit policies specifically addressing custodial credit risk.

As of December 31, 2013, \$767,155 of the City’s pension cash and short-term investment account deposits of the \$3,310,164 combined bank balance were insured by the Federal Deposit Insurance Corporation. The remaining bank balance was exposed to custodial credit risk, which is collateralized in accordance with Act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name. \$2,968,543 of cash and cash equivalents was held at December 31, 2013 in the separate pension funds; the remaining \$14,877,674 was held in the Comprehensive Trust.

Investments

Long-term investments are all held by the Comprehensive Trust. These investments are assigned to professional asset managers that specialize in certain types of investments with oversight by an outside investment consultant and the Board in order to achieve an appropriate, diversified and balanced asset class mix to minimize portfolio risk.

The Investment Policy of the Comprehensive Trust dictates an allocation of 60% equity, 40% fixed income, with a variation of 10% above or below these targets for each classification. At December 31, 2013, the Comprehensive Trust had been in compliance with this policy. Within each investment category, there are specific policies to further address various types of risk

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

compared to return. The investment advisors monitor compliance with the City's investment policy on a granular level that is different from the table below.

As of December 31, 2013, the Comprehensive Trust had the following cash, cash equivalents, and investments in its pension trust fund:

Investment Type	Fair Value
U.S. government and agency obligations	\$ 11,084,697
Corporate debt	27,334,965
Other	5,814,600
Total debt securities	44,234,262
Cash and cash equivalents	17,834,520
Mutual funds:	
U.S. equities	115,876,091
Non-U.S. equities	79,628,748
Fixed income	40,885,200
Preferred and common stocks	51,674,529
Hedge funds	31,572,305
Private equity	10,799,683
Total cash, cash equivalents, and other investments	348,271,076
Combined total	\$ 392,505,338

Concentration of Credit Risk – The Comprehensive Trust investment guidelines address this risk by requiring diversity and investment percentage limits. With the exception of Federal Government and Agency obligations, no one issue will comprise more than 10% of the aggregate fixed-income portfolio without the Board's prior approval. In addition, equity investment concentration in any single industry and in any company shall not exceed 25% and 5%, respectively, of the market value of the plan assets. To further reduce risk, diversification will also be achieved by using multiple managers whose styles and strategies are sufficiently distinctive. International managers may be allocated up to 30% of the plan's equity assets, and up to 50% of this allocation may be allocated to emerging markets investments. As of December 31, 2013, these limits have been met.

Interest Rate Risk - The Comprehensive Trust has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The schedule below details maturity by investment type.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

Cash or Investment Type	Fair Market Value	Investment Maturities from December 31, 2013			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government and agency obligations	\$ 11,084,697	\$ 50	\$ 1,905,583	\$ 1,035,163	\$ 8,143,901
Corporate debt	27,334,965	1,035,161	12,450,380	11,215,441	2,633,983
Other	5,814,600	1,414,391	249,993	205,920	3,944,296
Total debt securities	<u>\$ 44,234,262</u>	<u>\$ 2,449,602</u>	<u>\$ 14,605,956</u>	<u>\$ 12,456,524</u>	<u>\$ 14,722,180</u>

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations is called credit risk. The policy guidelines of the Comprehensive Trust limit investments to Federal Government and Agency issues and corporate issues having a Moody's rating of Aaa to Baa, with the exception that up to 20% of the fixed income assets may be allocated to high yield fixed-income securities. The Pension Trust Fund's December 31, 2013 investments in corporate bonds have received the following ratings from Moody's; the City's remaining investments were unrated:

	Moody's Credit Rating	% of Corporate Debt Portfolio
Corporate debt	Aaa	15.50%
Corporate debt	A1	1.16%
Corporate debt	A2	1.30%
Corporate debt	A3	2.71%
Corporate debt	BAA & below	79.33%
		<u>100.0%</u>

The City's investment in mutual funds and U.S. Government agencies implicitly guaranteed by the U.S. Government were unrated.

5. BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits disclosed in Note 1, resolutions of City Council, State statutes, and labor agreements have provided for certain benefits other than pension benefits, to be provided to retirees or their beneficiaries. Such benefits are primarily funded through annual appropriations from the City's General Fund and Trust designated for those purposes. Payment of such benefits is included in the monthly pension disbursement to the retiree. Additional benefit amounts for hospitalization insurance, Medicare benefits, and life insurance are paid

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

through the Controller's Office. A brief summary of the benefits paid through the pension offices follows:

Policemen's Pension Fund:

Police officers retiring in 1979 are eligible at age 65 to receive a maximum of \$50 per month for hospitalization insurance premiums if such retirees actually pay such premiums. Police officers retiring in 1980 and 1981 are eligible at age 60 to receive a maximum of \$50 per month for hospitalization insurance premiums if such retirees actually pay such premiums. As of December 31, 2013, the Policemen's Pension Fund has 25 retirees receiving the \$50 per month. Police officers retiring in 1982 and 1983 have health insurance premiums paid by the City for the retiree only. Police officers retiring in 1984-2003 have premiums paid by the City, with the retiree paying premium increases after the year of retirement. Surviving spouses of deceased retirees who do not otherwise receive survivor's benefits under the plan received \$350 per month.

Firemen's Pension Fund:

Retirees who retired between January 1, 1979 and December 31, 1986 receive up to \$70 per month as an allowance for health insurance.

Retirees who retired January 1, 1987 through December 31, 1991 receive Husband and Wife coverage at no cost at the time of retirement. Any increases in premiums subsequent to retirement are paid by the retiree and coverage ends when retiree becomes eligible for Medicare.

Retirees who retired January 1, 1992 through December 31, 2005 receive Husband and Wife coverage at no cost for the rest of their lives. If they elect Family coverage, they are responsible for the cost difference between Husband and Wife coverage and Family coverage.

Retirees who retired after January 1, 2006 and later receive Husband and Wife coverage at no cost at the time of retirement. Any subsequent increases in premiums above established rates specified in the contract are paid by the retiree. If they elect Family coverage, they are also responsible for the cost difference between Husband and Wife coverage and Family coverage.

Surviving spouses of deceased retirees who do not otherwise receive survivor benefits under the plan receive \$350 per month.

A comprehensive explanation of other post-employment benefits can be found in Note 8 of the City's Comprehensive Annual Financial Report.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2013

6. CONTINGENCIES

The Plans are defendants in a number of lawsuits involving the determination of eligibility for benefits, and/or the date from which benefits should be paid. None of the legal actions are expected to have a materially adverse effect on the Trust, should an unfavorable outcome occur. Management intends to aggressively defend its position in each case. The ultimate outcome of the lawsuits is not determinable at this time.

**Required Supplementary
Information**

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

SCHEDULES OF FUNDING PROGRESS (Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Excess of Assets Over (Under) AAL	Funded Ratio	Covered Payroll	Excess as a Percentage of Covered Payroll
<u>Municipal:</u>						
1/1/2003	\$ 91,604	\$ 212,206	\$ (120,602)	43.17%	\$ 69,034	-174.70%
1/1/2005	109,791	234,134	(124,343)	46.89%	67,412	-184.45%
1/1/2007	117,692	237,314	(119,622)	49.59%	70,189	-170.43%
1/1/2009	115,323	267,616	(152,293)	43.09%	73,072	-208.41%
1/1/2011	132,461	282,683	(150,222)	46.86%	81,444	-184.45%
1/1/2013	202,530	324,697	(122,167)	62.38%	81,916	-149.14%
<u>Policemen:</u>						
1/1/2003	\$ 106,340	\$ 323,466	\$ (217,126)	32.88%	\$ 54,308	-399.80%
1/1/2005	117,822	353,479	(235,657)	33.33%	50,253	-468.94%
1/1/2007	114,889	353,522	(238,633)	32.50%	54,862	-434.97%
1/1/2009	105,565	387,858	(282,293)	27.22%	63,787	-442.56%
1/1/2011	127,118	390,254	(263,136)	32.57%	67,225	-391.43%
1/1/2013	248,872	440,022	(191,150)	56.56%	68,562	-278.80%
<u>Firemen:</u>						
1/1/2003	\$ 114,527	\$ 230,092	\$ (115,565)	49.77%	\$ 54,006	-213.99%
1/1/2005	145,995	255,770	(109,775)	57.08%	56,591	-193.98%
1/1/2007	142,787	308,412	(165,625)	46.30%	47,573	-348.15%
1/1/2009	118,292	334,060	(215,768)	35.41%	47,509	-454.16%
1/1/2011	133,839	339,135	(205,296)	39.46%	49,516	-414.61%
1/1/2013	224,051	395,324	(171,273)	56.68%	52,375	-327.01%
<u>Total:</u>						
1/1/2003	\$ 312,471	\$ 765,764	\$ (453,293)	40.81%	\$ 177,348	-255.60%
1/1/2005	373,608	843,383	(469,775)	44.30%	174,256	-269.59%
1/1/2007	375,368	899,248	(523,880)	41.74%	172,624	-303.48%
1/1/2009	339,180	989,534	(650,354)	34.28%	184,368	-352.75%
1/1/2011	393,418	1,012,072	(618,654)	38.87%	198,185	-312.16%
1/1/2013	675,453	1,160,043	(484,590)	58.23%	202,853	-238.89%

Note 1: 1/1/2011 reflects the valuation dated August 31, 2011.

Note 2: The 1/1/2013 valuation presents assets reflected in the pension financial statements along with the dedicated stream of revenues created by Ordinances 42 and 44 of 2010, treated as an asset for purposes of submission to the Commonwealth of PA for Act 205 of 1984 and Commonwealth of PA Act 44 of 2009.

See accompanying note to supplementary pension schedules.

CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS AND OTHER CONTRIBUTING ENTITIES (Dollar Amounts in Thousands)

Calendar Year	Annual Required Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Required Contributions	Commonwealth of Pennsylvania Pension Aid (1)	Commonwealth of Pennsylvania Pension Aid as a Percentage of Annual Required Contributions	Total Contributions	Total Contributions as a Percentage of Annual Required Contributions
<u>Municipal:</u>							
2008	\$ 10,457	\$ 4,810	46.0%	\$ 5,647	54.0%	\$ 10,457	100.0%
2009	10,158	4,589	45.2%	5,569	54.8%	10,158	100.0%
2010	10,334	19,678	190.4%	3,568	34.5%	23,246	224.9%
2011	10,637	8,766	82.4%	6,156	57.9%	14,922	140.3%
2012	7,851	9,934	126.5%	4,322	55.1%	14,256	181.6%
2013	10,166	6,370	62.7%	6,790	66.8%	13,160	129.5%
<u>Policemen:</u>							
2008	\$ 19,769	\$ 14,327	72.5%	\$ 5,442	27.5%	\$ 19,769	100.0%
2009	20,241	14,584	72.1%	5,657	27.9%	20,241	100.0%
2010	20,429	38,899	190.4%	7,053	34.5%	45,952	224.9%
2011	21,028	17,337	82.4%	12,169	57.9%	29,506	140.3%
2012	11,599	14,682	126.6%	6,383	55.0%	21,065	181.6%
2013	16,422	11,422	69.6%	6,658	40.5%	18,080	110.1%
<u>Firemen:</u>							
2008	\$ 7,901	\$ 3,842	48.6%	\$ 4,059	51.4%	\$ 7,901	100.0%
2009	14,116	10,312	73.1%	3,804	26.9%	14,116	100.0%
2010	14,408	27,436	190.4%	4,974	34.5%	32,410	224.9%
2011	14,831	12,228	82.4%	8,583	57.9%	20,811	140.3%
2012	11,273	14,270	126.6%	6,203	55.0%	20,473	181.6%
2013	14,159	13,819	97.6%	4,575	32.3%	18,394	129.9%
<u>Total:</u>							
2008	\$ 38,127	\$ 22,979	60.3%	\$ 15,148	39.7%	\$ 38,127	100.0%
2009	44,515	29,485	66.2%	15,030	33.8%	44,515	100.0%
2010	45,171	86,013	190.4%	15,595	34.5%	101,608	224.9%
2011	46,496	38,331	82.4%	26,908	57.9%	65,239	140.3%
2012	30,723	38,886	126.6%	16,908	55.0%	55,794	181.6%
2013	40,747	31,611	77.6%	18,023	44.2%	49,634	121.8%

(1) Allocation of State funding is based upon State-determined eligibility units for each plan.

See accompanying note to supplementary pension schedules.

**CITY OF PITTSBURGH
COMBINED PENSION TRUST FUNDS**

NOTE TO SUPPLEMENTARY PENSION SCHEDULES

YEAR ENDED DECEMBER 31, 2013

The information presented in the required supplementary pension schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Municipal</u>	<u>Policemen</u>	<u>Firemen</u>
Actuarial valuation date	1/1/2013	1/1/2013	1/1/2013
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Amortization period	30 years	30 years	30 years
Asset valuation method	Tabular Smoothing	Tabular Smoothing	Tabular Smoothing
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	4.00%	4.50%	5.75%
Cost-of-living adjustments	3.00%	3.00%	3.00%
Merit and longevity increases	1.00%	1.50%	2.75%

Supplementary Information

CITY OF PITTSBURGH
COMBINED PENSION TRUST FUNDS

COMBINING STATEMENT OF PLAN NET POSITION

DECEMBER 31, 2013

	Comprehensive Trust	Municipal Fund	Policemen's Fund	Firemen's Fund	Total
Assets					
Cash and short-term investments, at cost, which approximates fair value	\$ 14,877,674	\$ 191,135	\$ 2,746,304	\$ 19,407	\$ 17,834,520
Investments, at fair value:					
Preferred and common stock	51,674,529	-	-	-	51,674,529
U.S. government and agency obligations	11,084,697	-	-	-	11,084,697
Corporate and other obligations	33,149,565	-	-	-	33,149,565
Mutual funds:					
U.S. equities	115,876,091	-	-	-	115,876,091
Non-U.S. equities	79,628,748	-	-	-	79,628,748
Fixed income	40,885,200	-	-	-	40,885,200
Hedge funds	31,572,305	-	-	-	31,572,305
Private equity	10,799,683	-	-	-	10,799,683
Due from (to) other fund	(435,783)	-	435,783	-	-
Accrued interest and dividends receivable	495,748	-	-	-	495,748
Total Assets	389,608,457	191,135	3,182,087	19,407	393,001,086
Liabilities					
Benefits and related withholdings payable	-	-	2,636,078	-	2,636,078
Accrued liabilities and accounts payable	-	12,256	-	-	12,256
Due to City of Pittsburgh Trust and Agency Fund	-	-	6,640	4,419	11,059
Total Liabilities	-	12,256	2,642,718	4,419	2,659,393
Net Position - Restricted for Pension Benefits	\$ 389,608,457	\$ 178,879	\$ 539,369	\$ 14,988	\$ 390,341,693

**CITY OF PITTSBURGH
COMBINED PENSION TRUST FUNDS**

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION

YEAR ENDED DECEMBER 31, 2013

	Comprehensive Trust	Municipal Fund	Policemen's Fund	Firemen's Fund	Total
Additions:					
Contributions:					
Employer - pension benefits	\$ 31,610,697	\$ -	\$ -	\$ -	\$ 31,610,697
Employer - other benefits	2,291,572	-	1,036,127	-	3,327,699
Plan members	10,929,813	-	-	-	10,929,813
Commonwealth of Pennsylvania	18,023,424	-	-	-	18,023,424
Total contributions	62,855,506	-	1,036,127	-	63,891,633
Investment income:					
Net increase in fair value of investments	54,032,351	-	-	-	54,032,351
Interest and dividends	5,666,142	-	-	1,474	5,667,616
Total investment income	59,698,493	-	-	1,474	59,699,967
Investment expense	(867,486)	-	-	-	(867,486)
Net investment income	58,831,007	-	-	1,474	58,832,481
Miscellaneous:					
Transfer in	-	23,003,252	32,461,435	29,517,000	84,981,687
Other	63,404	19,634	-	9,433	92,471
Total additions	121,749,917	23,022,886	33,497,562	29,527,907	207,798,272
Deductions:					
Benefit payments	-	21,810,071	32,763,230	29,201,972	83,775,273
Dues refunds	-	907,441	376,099	86,412	1,369,952
Transfer out	84,981,687	-	-	-	84,981,687
Administrative expenses	338,622	236,961	385,484	239,839	1,200,906
Total deductions	85,320,309	22,954,473	33,524,813	29,528,223	171,327,818
Net Increase (Decrease) in Plan Net Position	36,429,608	68,413	(27,251)	(316)	36,470,454
Net Position:					
Beginning of year	353,178,849	110,466	566,620	15,304	353,871,239
End of year	\$ 389,608,457	\$ 178,879	\$ 539,369	\$ 14,988	\$ 390,341,693