

**City of Pittsburgh**  
**Combined Pension Trust Funds**

Financial Statements and Required  
Supplementary and Supplementary Information

Year Ended December 31, 2014  
with Independent Auditor's Report

**MaherDuessel**  
Certified Public Accountants

Pittsburgh | Harrisburg | Butler

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**CITY OF PITTSBURGH  
COMBINED PENSION TRUST FUNDS**

YEAR ENDED DECEMBER 31, 2014

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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, 2014, 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, 2014, 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 4, 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, 2014, 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 21 through 25 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 28, 2015

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## COMBINED STATEMENT OF PLAN NET POSITION

DECEMBER 31, 2014

<b>Assets</b>	
Cash and short-term investments, at cost, which approximate fair value	\$ 10,516,702
Investments, at fair value:	
Preferred and common stock	56,903,721
U.S. government and agency obligations	13,051,513
Corporate and other obligations	35,008,036
Mutual funds:	
U.S. equities	91,958,257
Non-U.S. equities	75,717,711
Fixed income	33,105,385
Hedge funds	34,265,364
Real estate funds	31,084,310
Private equity	12,613,223
Accrued interest and dividends receivable	502,471
<b>Total Assets</b>	<b>394,726,693</b>
<b>Liabilities</b>	
Benefits and related withholdings payable	2,633,813
Accrued liabilities and accounts payable	16,358
Due to City of Pittsburgh Trust and Agency Fund	11,059
<b>Total Liabilities</b>	<b>2,661,230</b>
<b>Net Position - Restricted for Pension Benefits</b>	<b>\$ 392,065,463</b>

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, 2014

**Additions:**

<u>Contributions:</u>	
Employer - pension benefits	\$ 33,650,738
Employer - other benefits	3,263,901
Plan members	10,909,251
Commonwealth of Pennsylvania	18,263,559
Total contributions	66,087,449
 <u>Investment income:</u>	
Net increase in fair value of investments	19,411,394
Interest and dividends	5,416,814
Total investment income	24,828,208
Investment expense	(713,002)
Net investment income	24,115,206
 <u>Miscellaneous:</u>	
Other	187,162
Total additions	90,389,817

**Deductions:**

Benefit payments	86,454,559
Dues refunds	939,884
Administrative expenses	1,271,604
Total deductions	88,666,047

<b>Net Increase (Decrease) in Plan Net Position</b>	1,723,770
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**Net Position:**

Beginning of year	390,341,693
End of year	\$ 392,065,463

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, 2014

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### 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.

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# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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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, calculated under Act 205, for the municipal, policemen, and firemen is (\$122,167), (\$191,150), and (\$171,273), respectively. These calculations include 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

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# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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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, 2014, the City did contribute \$55.2 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 are inactive plan members or beneficiaries currently receiving benefits; and 66 are inactive plan members entitled to but not yet receiving benefits.

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

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# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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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 eight years of service, normal retirement. For Emergency Medical Service employees, normal retirement is available at the later of attainment of age 55 or eight 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, 2014

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### **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 are inactive plan members or beneficiaries currently receiving benefits; and 25 are inactive plan members entitled to but 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 Policemen's Fund are 6% of pay plus \$1 per month, until age 65. Those electing the surviving spouse benefit contribute an additional ½% of pay.

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# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### **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 are inactive plan members or beneficiaries currently receiving benefits; and 1 inactive plan member entitled to but 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, 2014

### 2. NET PENSION LIABILITY

The components of the net pension liability of the City at December 31, 2014, were as follows:

	Municipal	Policemen	Firemen	Total
Total pension liability	\$ 337,813,333	\$ 455,283,679	\$ 410,129,176	\$ 1,203,226,188
Plan fiduciary net position	(138,852,263)	(121,197,138)	(132,016,062)	(392,065,463)
Net pension liability	<u>\$ 198,961,070</u>	<u>\$ 334,086,541</u>	<u>\$ 278,113,114</u>	<u>\$ 811,160,725</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>41.10%</u>	<u>26.62%</u>	<u>32.19%</u>	<u>32.58%</u>

*Actuarial assumptions* The total pension liability was determined by an actuarial valuation on January 1, 2013 and rolled forward to December 31, 2014 using the following actuarial assumptions, applied to all periods in the measurement:

	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
Actuarial assumptions:			
Investment rate of return	7.50%	7.50%	7.50%
Projected salary increases	4.00%	4.50%	5.75%
Underlying inflation rate	3.00%	3.00%	3.00%
Merit and longevity	1.00%	1.50%	2.75%

Actuarial assumptions based on the January 1, 2013 actuarial experience study

RP-2000 Healthy Annuitant Mortality Table, with adjustments for mortality improvements based on Scale AA

There were no changes in actuarial assumptions or benefits made in connection with the rollforward of the 1/1/2013 actuarial valuation.

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

*Long-Term Expected Rate of Return* – The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The following was the asset allocation policy and best estimates of arithmetic real rates of return for each major asset class included in the Plans’ target asset allocation as of December 31, 2014:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic equity	40.00%	8.4%
International equity	20.00%	9.3%
Private equity	5.00%	8.3%
Fixed income	30.00%	3.9%
Cash	5.00%	0.0%
	100.00%	

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended December 31, 2014, the annual money-weighted rate of return on the Plan investments, net of investment expense, was 6.48%.

*Discount rate.* The discount rate used to measure the total pension liability for the Municipal, Policemen, and Firemen funds was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the City’s contributions will be made in accordance with the City’s June 24, 2014 Amended Recovery Plan and equal to the yearly MMO calculation. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate* – The following presents the net pension liability of the City calculated using the discount rates described above, as well as what the City’s net pension liabilities would be if they were calculated using a discount rate that is one-percentage-point lower or one-percentage-point higher than the current rates:

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Municipal	\$ 231,788,451	\$ 198,961,070	\$ 170,587,490
Policemen	379,810,146	334,086,541	295,010,399
Firemen	318,611,208	278,113,114	243,194,211
Total	\$ 930,209,805	\$ 811,160,725	\$ 708,792,100

### 3. PRIVATE EQUITY CAPITAL COMMITMENTS

Comprehensive Trust has entered into agreements to commit capital into various private equity funds. The callable capital can be requested at any time by the fund. The remaining capital commitments as of December 31, 2014 are estimated as follows:

	Amount Committed	Amount Drawn	Amount Distributed	Remaining Capital Commitment
Birchmere Ventures III	\$ 1,000,000	\$ 1,000,000	\$ 893,272	\$ -
Draper Triangle Ventures II	1,000,000	1,000,000	699,565	-
Draper Triangle Ventures III	2,000,000	265,431	-	1,734,569
Novitas Capital Partners III	1,000,000	964,904	420,879	- *
Hirtle Callaghan PEP III	8,000,000	7,600,835	11,210,754	- *
Hirtle Callaghan PEP IV	8,000,000	7,418,650	9,221,864	- *
Hirtle Callaghan PEP V	3,000,000	2,481,360	1,474,785	- *
Crescent Mezz Partners VI	10,000,000	6,550,593	270,296	3,711,751 **
	\$ 34,000,000	\$ 27,281,773	\$ 24,191,415	\$ 5,446,320

\* The investment period of this fund has ended. As such, no further capital can be called.

\*\* A portion of this fund's distributions can be recalled.

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### 4. 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the Funds. Employer contributions to the Plans are recognized when due as required by applicable law.

#### 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 31<sup>st</sup> of each year. Hedge funds, real estate funds, and private equity 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.

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# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### Adoption of Pronouncement

The City has adopted Governmental Accounting Standards Board (GASB) Statement No. 67, “*Financial Reporting for Pension Plans*,” effective for periods beginning after June 15, 2013. This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement and addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have certain characteristics.

### Pending Pronouncement

GASB has issued Statement No. 72, “*Fair Value Measurement and Application*,” effective for fiscal years beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurements. The effect of implementation of this Statement has not yet been determined.

## **5. 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 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:

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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### **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, 2014, \$927,262 of the City’s pension cash and short-term investment account deposits of the \$10,809,340 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. \$3,603,488 of cash and cash equivalents was held at December 31, 2014 in the separate pension funds; the remaining \$7,205,852 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, 2014, 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 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, 2014, the Comprehensive Trust had the following cash, cash equivalents, and investments in its pension trust fund:

# CITY OF PITTSBURGH COMBINED PENSION TRUST FUNDS

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

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Investment Type	Fair Value
U.S. government and agency obligations	\$ 13,051,513
Corporate debt	30,945,190
Other	4,062,846
Total debt securities	48,059,549
Cash and cash equivalents	10,516,702
Mutual funds:	
U.S. equities	91,958,257
Non-U.S. equities	75,717,711
Fixed income	33,105,385
Preferred and common stocks	56,903,721
Hedge funds	34,265,364
Real estate funds	31,084,310
Private equity	12,613,223
Total cash, cash equivalents, and other investments	346,164,673
Combined total	\$ 394,224,222

*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, 2014, 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, 2014

Cash or Investment Type	Fair Market Value	Investment Maturities from December 31, 2014			
		Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government and agency obligations	\$ 13,051,513	\$ -	\$ 2,283,569	\$ 309,105	\$ 10,458,839
Corporate debt	30,945,190	882,351	16,426,578	5,977,453	7,658,808
Other	4,062,846	1,560,661	-	-	2,502,185
Total debt securities	<u>\$ 48,059,549</u>	<u>\$ 2,443,012</u>	<u>\$ 18,710,147</u>	<u>\$ 6,286,558</u>	<u>\$ 20,619,832</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, 2014 investments in corporate bonds have received the following ratings from Moody's; the City's remaining investments were unrated:

	<u>Moody's Credit Rating</u>	<u>% of Corporate Debt Portfolio</u>
Corporate debt	Aaa	13.16%
Corporate debt	Aa2	1.74%
Corporate debt	Aa3	2.26%
Corporate debt	A1	2.92%
Corporate debt	Other	79.91%
		<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.

### 6. 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, 2014

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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, 2014, the Policemen's Pension Fund has 15 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, 2014

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### **7. 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, PENNSYLVANIA

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

#### PENSION PLAN

YEAR ENDED DECEMBER 31, 2014

<b>Total Pension Liability:</b>	
Service cost	\$ 22,015,630
Interest	87,049,771
Benefit payments, including refunds of member contributions	<u>(87,394,443)</u>
<b>Net Changes in Total Pension Liability</b>	21,670,958
<b>Total Pension Liability - Beginning</b>	<u>1,181,555,230</u>
<b>Total Pension Liability - Ending (a)</b>	<u><u>\$ 1,203,226,188</u></u>
<b>Plan Fiduciary Net Position:</b>	
Contributions - employer	\$ 51,914,297
Contributions - member	10,909,251
Net investment income	24,302,368
Benefit payments, including refunds of member contributions	(87,394,443)
Administrative expense	(1,271,604)
Other	<u>3,263,901</u>
<b>Net Change in Plan Fiduciary Net Position</b>	1,723,770
<b>Plan Fiduciary Net Position - Beginning</b>	<u>390,341,693</u>
<b>Plan Fiduciary Net Position - Ending (b)</b>	<u><u>\$ 392,065,463</u></u>
<b>Net Pension Liability - Ending (a-b)</b>	<u><u>\$ 811,160,725</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	<u><u>32.58%</u></u>
<b>Covered Employee Payroll</b>	<u><u>\$ 202,853,143</u></u>
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	399.88%

See accompanying notes to required supplementary schedules.

# CITY OF PITTSBURGH, PENNSYLVANIA

## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF THE CITY'S CONTRIBUTIONS AND INVESTMENT RETURNS

YEAR ENDED DECEMBER 31, 2014

#### Schedule of City's Contributions

Actuarially determined contribution	\$ 31,438,297
Contributions in relation to the actuarially determined contribution	<u>51,914,297</u>
Contribution deficiency (excess)	<u>\$ (20,476,000)</u>
Covered employee payroll	<u>\$ 202,853,143</u>
Contributions as a percentage of covered employee payroll	25.59%

#### Investment Returns

Annual money-weighted rate of return, net of investment expense	6.48%
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See accompanying notes to required supplementary schedules.

# CITY OF PITTSBURGH, PENNSYLVANIA

## NOTES TO SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2014

### Actuarial Methods and Assumptions Used in Calculation of Actuarially Determined Contribution

The contribution and contribution rate information presented in the required supplementary schedules 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%
Underlying inflation rate	3.00%	3.00%	3.00%
Merit and longevity increases	1.00%	1.50%	2.75%

The actuarially determined contribution of \$31.4 million is based on the City's actuarially prepared Minimum Municipal Obligation under PA Act 205, as amended, and the contribution excess includes \$13.4 million in payments originating from dedicated parking revenue and \$7.1 million originating from gaming revenue.

There were no benefit changes or changes in actuarial assumptions made in connection with the rollforward of the 1/1/2013 actuarial valuation.

## **Supplementary Information**

**CITY OF PITTSBURGH**  
**COMBINED PENSION TRUST FUNDS**

COMBINING STATEMENT OF PLAN NET POSITION

DECEMBER 31, 2014

<u>Assets</u>	<u>Comprehensive Trust</u>	<u>Municipal Fund</u>	<u>Policemen's Fund</u>	<u>Firemen's Fund</u>	<u>Total</u>
Cash and short-term investments, at cost, which approximates fair value	\$ 7,205,852	\$ 150,871	\$ 3,139,796	\$ 20,183	\$ 10,516,702
Investments, at fair value:					
Preferred and common stock	56,903,721	-	-	-	56,903,721
U.S. government and agency obligations	13,051,513	-	-	-	13,051,513
Corporate and other obligations	35,008,036	-	-	-	35,008,036
Mutual funds:					
U.S. equities	91,958,257	-	-	-	91,958,257
Non-U.S. equities	75,717,711	-	-	-	75,717,711
Fixed income	33,105,385	-	-	-	33,105,385
Hedge funds	34,265,364	-	-	-	34,265,364
Real estate funds	31,084,310	-	-	-	31,084,310
Private equity	12,613,223	-	-	-	12,613,223
Due from (to) other fund	(435,783)	-	435,783	-	-
Accrued interest and dividends receivable	502,471	-	-	-	502,471
<b>Total Assets</b>	<u>390,980,060</u>	<u>150,871</u>	<u>3,575,579</u>	<u>20,183</u>	<u>394,726,693</u>
<b>Liabilities</b>					
Benefits and related withholdings payable	-	-	2,633,813	-	2,633,813
Accrued liabilities and accounts payable	-	16,358	-	-	16,358
Due to City of Pittsburgh Trust and Agency Fund	-	-	6,640	4,419	11,059
<b>Total Liabilities</b>	<u>-</u>	<u>16,358</u>	<u>2,640,453</u>	<u>4,419</u>	<u>2,661,230</u>
<b>Net Position - Restricted for Pension Benefits</b>	<u>\$ 390,980,060</u>	<u>\$ 134,513</u>	<u>\$ 935,126</u>	<u>\$ 15,764</u>	<u>\$ 392,065,463</u>

**CITY OF PITTSBURGH**  
**COMBINED PENSION TRUST FUNDS**

COMBINING STATEMENT OF CHANGES IN PLAN NET POSITION

YEAR ENDED DECEMBER 31, 2014

	Comprehensive Trust	Municipal Fund	Policemen's Fund	Firemen's Fund	Total
<b>Additions:</b>					
Contributions:					
Employer - pension benefits	\$ 33,650,738	\$ -	\$ -	\$ -	\$ 33,650,738
Employer - other benefits	2,235,506	-	1,028,395	-	3,263,901
Plan members	10,909,251	-	-	-	10,909,251
Commonwealth of Pennsylvania	18,263,559	-	-	-	18,263,559
Total contributions	65,059,054	-	1,028,395	-	66,087,449
Investment income:					
Net increase in fair value of investments	19,411,394	-	-	-	19,411,394
Interest and dividends	5,415,225	-	-	1,589	5,416,814
Total investment income	24,826,619	-	-	1,589	24,828,208
Investment expense	(713,002)	-	-	-	(713,002)
Net investment income	24,113,617	-	-	1,589	24,115,206
Miscellaneous:					
Transfer in	-	24,369,681	32,979,798	30,204,000	87,553,479
Other	159,705	18,051	-	9,406	187,162
Total additions	89,332,376	24,387,732	34,008,193	30,214,995	177,943,296
<b>Deductions:</b>					
Benefit payments	-	23,627,122	32,994,914	29,832,523	86,454,559
Dues refunds	-	555,816	254,730	129,338	939,884
Transfer out	87,553,479	-	-	-	87,553,479
Administrative expenses	407,294	249,160	362,792	252,358	1,271,604
Total deductions	87,960,773	24,432,098	33,612,436	30,214,219	176,219,526
<b>Net Increase (Decrease) in Plan Net Position</b>	1,371,603	(44,366)	395,757	776	1,723,770
<b>Net Position:</b>					
Beginning of year	389,608,457	178,879	539,369	14,988	390,341,693
End of year	\$ 390,980,060	\$ 134,513	\$ 935,126	\$ 15,764	\$ 392,065,463