

**CITY OF PHILADELPHIA  
MUNICIPAL PENSION FUND  
Philadelphia, Pennsylvania**

**FINANCIAL STATEMENTS  
June 30, 2014**

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## INDEPENDENT AUDITORS' REPORT

The Board of Pensions and Retirement  
City of Philadelphia Municipal Pension Fund  
Philadelphia, Pennsylvania

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Philadelphia Municipal Pension Fund (the Fund), which comprise the statement of fiduciary net position as of June 30, 2014 and the statement of changes in fiduciary net position for the year then ended, 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.

### ***Auditors' Responsibility***

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund as of June 30, 2014, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis and Required Supplementary Schedules of Investment Returns, Changes in Net Pension Liability and Related Ratios and Employer Contributions and Related Notes, as listed in the table of contents, 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2015 on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
January 19, 2015

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

Our discussion and analysis of the City of Philadelphia Municipal Pension Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the year ended June 30, 2014 and 2013. Please read it in conjunction with the Fund's financial statements, which begin on page 8.

**USING THIS ANNUAL REPORT**

The discussion and analyses herein are intended to serve as an introduction to the Fund's financial statements. In addition to management's discussion and analysis, the annual report includes:

The Statement of Fiduciary Net Position, which reports the Fund's assets, liabilities, and resultant net position where  $\text{Assets} - \text{Liabilities} = \text{Net Position}$  available at the end of the plan year.

The Statement of Changes in Fiduciary Net Position, which reports Fund transactions that occurred during the fiscal year where  $\text{Additions} - \text{Deductions} = \text{Net Change in Net Position}$ .

The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplemental information following the notes to the financial statements provides information on (a) the annual money-weighted rate of returns, net of investment expenses, (b) changes in net pension liability and related ratios, and (c) employer contributions in relation to the actuarially determined contribution.

**BRIEF DESCRIPTION**

The City of Philadelphia (the City) maintains two defined benefit plans for its employees and employees of its component units. The two plans maintained by the City are the Municipal Pension Fund (the Fund), a multiple employer cost sharing plan; and the Gas Works Plan, which is a single employer plan. Each plan issues separate stand-alone financial statements. The financial statements presented here are only for the Municipal Pension Fund (the Fund).

The City is required by the Philadelphia Home Rule Charter to maintain an actuarially sound pension and retirement system (PERS). The Fund covers all officers and employees of the City and the officers and employees of certain other governmental and quasi-governmental organizations. In addition to the City, the three other quasi-governmental units that participate in the Fund are the Philadelphia Parking Authority, the Philadelphia Municipal Authority, and the Philadelphia Housing Development Corporation.

The Fund has three basic plans, the 1967 Plan, the 1987 Plan, and Plan 10.

For the 1967 Plan, participation is limited to employees hired before January 8, 1987. District Council 47 and 33 members hired between January 8, 1987 and October 1, 1992 were switched from the 1987 Plan to the 1967 Plan effective on their hire dates, provided such employees contributed the difference between the two Plans.

For the 1987 Plan, participation is limited to municipal employees hired on or after January 8, 1987. For uniformed employees, participation is the same as municipal employees, except Police employees hired after January 1, 2010 and Fire employees hired on or after October 15, 2010 must make an election to

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

participate in the 1987 Plan. Any elected employee elected on or after January 8, 1987 participates in this Plan.

Except for elected officials, the 1987 Plan provides for less costly benefits and reduced employee contributions than the 1967 Plan. For elected officials, the 1987 Plan provides for enhanced benefits, with participating elected officials required to pay for the additional normal cost.

For Plan 10, municipal employees of the Register of Wills, and employees of the Sheriff's Office represented by Lodge 5 of the FOP hired on or after January 1, 2012 are members in Plan 10. Employees of the Sheriff's office have the option within 30 days to elect to participate in Plan Y. For uniformed employees, Police hired on or after January 1, 2010 and Fire hired on or after October 15, 2010 are members in Plan 10; and have the option within 30 days to elect to participate in the 1987 Plan.

Plan 10 combines both a defined contribution plan with the traditional defined benefit plan.

The City, under the Home Rule Charter requirement, must make contributions to the pension system sufficient to fund the accrued normal costs, the amortization in level installments (which include interest) over a period of 40 years of certain unfunded prior service costs, and interest on the remaining unfunded accrued liability of the Fund.

Employee contributions are required by City ordinance, and the City is required to contribute the remaining amounts necessary to fund the Fund using an acceptable actuarial basis as specified by the Home Rule Charter, City Ordinance, and State Statutes. For Fund members, employee contribution rates are fixed on a per-employee basis by Council ordinance.

#### **FINANCIAL HIGHLIGHTS**

- The net position of the Fund increased by \$471.5 million, while benefit payments and refunds exceeded employee and employer contributions by \$201.6 million.
- As of July 1, 2013, the latest valuation date, the Fund is actuarially funded at 47.4%, representing an increase from 45.8% as of July 1, 2012, mainly due to the asset losses and changes in actuarial assumptions. While this ratio may appear to reflect lack of progress in funding, at the same time the Systems risk profile is being improved by including funding for the Pension Adjustment Fund (PAF) and lowering of the discount rate.
- The total pension liability was calculated using a July 1, 2013 valuation date and, as required by GASB 67, was measured as of June 30, 2014. The plan fiduciary net position as a percentage of the total pension liability as of June 30, 2014 was 47.1%
- The Fund's return on investments of 15.6% which exceeded the total fund policy benchmark of 13.6%.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

The following are summary comparative statements of the Fund:

***Summary Comparative Statements of Fiduciary Net Position  
(in thousands)***

	<u>June 30, 2014</u>	<u>Increase/ (Decrease)</u>	<u>June 30, 2013</u>
<b>Assets</b>			
Cash equivalents	\$ 187,989	\$ (12,693)	\$ 200,682
Receivables	133,416	(52,315)	185,731
Investments	4,800,194	562,041	4,238,153
Securities lending	<u>524,347</u>	<u>(89,920)</u>	<u>614,267</u>
Total assets	<u>5,645,946</u>	<u>407,113</u>	<u>5,238,833</u>
<b>Liabilities</b>			
Accrued exp & other liabilities	204,569	25,702	178,867
Securities lending	<u>524,672</u>	<u>(90,070)</u>	<u>614,742</u>
Total liabilities	<u>729,241</u>	<u>(64,368)</u>	<u>793,609</u>
<b>Net Position</b>	<u>\$ 4,916,705</u>	<u>\$ 471,481</u>	<u>\$ 4,445,224</u>

***Summary Statements of Changes in Fiduciary Net Position  
(in thousands)***

	<u>June 30, 2014</u>	<u>Increase/ (Decrease)</u>	<u>June 30, 2013</u>
<b>Additions</b>			
Employer's contributions	\$ 553,179	\$ (228,644)	\$ 781,823
Member contributions	53,722	4,108	49,614
Interest and dividends	102,165	(20,728)	122,893
Net appreciation in FV of investmnts	585,406	253,406	332,000
Net securities lending income	3,573	908	2,665
(Less) investment expenses	(10,191)	2,035	(12,226)
Miscellaneous operating revenues	<u>516</u>	<u>47</u>	<u>469</u>
Total additions	<u>1,288,370</u>	<u>11,132</u>	<u>1,277,238</u>
<b>Deductions</b>			
Pension benefits	802,557	61,811	740,746
Refunds of members' contributions	6,040	296	5,744
Administrative expenses	<u>8,292</u>	<u>(49)</u>	<u>8,341</u>
Total deductions	<u>816,889</u>	<u>62,058</u>	<u>754,831</u>
<b>Change In Net Position</b>	<u>\$ 471,481</u>	<u>\$ (50,926)</u>	<u>\$ 522,407</u>

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

Net position for the fiscal year ended June 30, 2014, increased by \$471.5 million. The increase in net position reflects increased investment returns. The receivable decrease is due to a decrease in unsettled trade activity at the end of the year. There was an increase in benefits due to the variable nature of the distributions. The decrease in contributions is due mainly to the repayment of the Act 44 contribution deferral.

**Securities Lending**

At June 30, 2014, the Fund had a cumulative unrealized loss of approximately \$324,495 on securities purchased with the cash collateral received through the security lending program. Management has continued to monitor this loss.

**Contacting the City of Philadelphia Municipal Pension Fund**

If you have any questions about this report or need additional information, please contact us by telephone at 215-496-7400 or you may mail your questions to:

Philadelphia Municipal Pension Fund  
2 Penn Plaza  
Philadelphia, PA 19102



## **FINANCIAL STATEMENTS**

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2014**  
**(In Thousands)**

Cash and cash equivalents	\$	187,989
Contributions receivable from plan members		4,619
Accrued interest and other receivables		128,797
Investments, at fair value:		
Equity investments	\$ 2,420,824	
Fixed income investments	1,016,024	
Private market	497,760	
Real estate	236,528	
Hedge funds	<u>629,058</u>	
Total investments		4,800,194
Collateral on loaned securities	524,672	
Less: allowance on loaned securities	<u>(325)</u>	
Total collateral on loaned securities at fair value		<u>524,347</u>
 Total assets		 <u>5,645,946</u>
 <b>LIABILITIES</b>		
Accrued expenses and other liabilities		204,569
Due on return of securities loaned		<u>524,672</u>
 Total liabilities		 <u>729,241</u>
 <b>NET POSITION HELD IN TRUST FOR PENSION BENEFITS</b>	 <b>\$</b>	 <b><u>4,916,705</u></b>

The accompanying notes are an integral part of the financial statements.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the year ended June 30, 2014**  
**(In Thousands)**

**ADDITIONS**

Contributions:		
Employer	\$ 553,179	
Plan members	<u>53,722</u>	
Total contributions		\$ 606,901
Investment income:		
Interest and dividend income	102,165	
Net appreciation in fair value of investments	<u>585,406</u>	
	687,571	
Less: investment expenses	<u>(10,191)</u>	
Net investment income		677,380
Securities lending income:	4,202	
Less: securities lending expense	<u>(629)</u>	
Net income from securities lending activities		3,573
Miscellaneous operating revenue:		<u>516</u>
Total additions		<u>1,288,370</u>

**DEDUCTIONS**

Benefit payments	802,557	
Refunds of contributions	6,040	
Administrative expenses	<u>8,292</u>	
Total deductions		<u>816,889</u>

**INCREASE IN NET POSITION**

471,481

**NET POSITION HELD IN TRUST FOR PENSION BENEFITS,  
BEGINNING OF YEAR**

4,445,224

**NET POSITION HELD IN TRUST FOR PENSION BENEFITS,  
END OF YEAR**

\$ 4,916,705

The accompanying notes are an integral part of the financial statements.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – PENSION FUND DESCRIPTION**

**General Description**

**Plan administration.** The Philadelphia Board of Pensions and Retirement administers the City of Philadelphia Public Employees Retirement System - a multiple-employer defined benefit pension plan with a small but increasing defined contribution component, which provides pensions for all officers and employees of the City of Philadelphia (the City), as well as those of three quasi-governmental agencies (per applicable enabling legislation and contractual agreements). The Board was established by section 2-308 of the 1952 Philadelphia Home Rule Charter. Its actions in administering the Retirement System are governed by Title 22 of the Philadelphia Code.

The Board consists of nine voting members - four elected by the active members within the civil service, and the City’s Controller, Solicitor, Managing Director, Personnel Director, and Director of Finance, who serves as the Chair.

**Plan Membership.** At July 1, 2013, the date of the most recent actuarial valuation, pension plan membership consisted of the following:

Actives	26,788
Terminated Vested	1,281
Disabled	4,152
Retirees	21,696
Beneficiaries	8,614
DROP	<u>2,427</u>
Total City Members	<u>64,958</u>
Annual Salaries	\$1,429,723,436
Average Salary per Active Member	\$53,372
Annual Retirement Allowances	\$676,634,789
Average Retirement Allowance	\$19,634

**Contributions**

Per Title 22 of the Philadelphia Code, members contribute to the System at various rates based on bargaining unit, uniform/non-uniform status, and entry date into the System. As of July 1, 2013, uniform employees will be contributing either 5.00%, 5.50%, or 6.00% of pensionable earnings; non-uniform employees will be contributing either 1.93%, 2.03%, 2.55%, or 6.00% of pensionable earnings; and elected employees will be contributing either 8.16% or 9.60% of pensionable earnings.

Employer contributions are made by the City throughout each fiscal year (which ends June 30) and by three (3) quasi-governmental agencies on a quarterly basis. These contributions, determined by an annual actuarial valuation report (AVR), when combined with plan member contributions, are expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)**

**Contributions** (continued)

Within the AVR, two contribution amounts are determined based upon two different sets of rules for determining the way the unfunded actuarial liability is funded.

The first method is defined in accordance with Act 205 and defines the Minimum Municipal Obligation (MMO), which is the City's minimum required contribution under Pennsylvania state law.

The second method is in accordance with the City's Funding Policy which predates the Act 205 rules and calls for contributions that are greater than the MMO until the initial unfunded liability determined in 1984 is fully funded.

Under both funding methods there are two components: the normal cost and the amortized unfunded actuarial liability. The actuarial unfunded liability is the amount of the unfunded actuarial liability that is paid each year based upon the given or defined amortization periods. The amortization periods are different under the MMO and City's Funding Policy.

**City's Funding Policy:**

The initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over 34 year ending June 30, 2019 with payments increasing at 3.3% per year, the assumed payroll growth. Other changes in the actuarial liability are amortized in level-dollar payments as follows:

- \* Actuarial gains and losses – 20 years beginning July 1, 2009. Prior gains and losses were amortized over 15 years.
- \* Assumptions changes – 15 years beginning July 1, 2010. Prior changes were amortized over 20 years.
- \* Plan changes for active members – 10 years.
- \* Plan changes for inactive members – 1 year.
- \* Plan changes mandated by the State – 20 years.

In fiscal year 2014, the City and other employers' contributions of \$553.2 million was less than the actuarially determined employer contribution (ADEC) of \$823.9 million. In the event that the City contributes less than the funding policy, an experience loss will be created that will be amortized in accordance with funding policy over 20 years.

The Schedule of Employer Contributions (based on the City's Funding Policy) is included as Required Supplemental Information (page 29) and provides a 10-year presentation of the employer contributions.

**MMO:**

For the purposes of the MMO under Act 205 reflecting the fresh start amortization schedule, the July 1, 2009 UAL was "fresh started" to be amortized over 30 years ending June 30, 2039. This is a level dollar amortization of the UAL. All future amortization periods will follow the City's Funding Policies as outlined above.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)**

**Contributions** (continued)

In fiscal year 2014, the City and other employers' contributions of \$553.2 million exceeded the Minimum Municipal Obligation of \$523.4 million.

The Schedule of Employer Contributions (based on the MMO Funding Policy) is included as Required Supplemental Information (page 29) and provides a 10-year presentation of the employer contributions.

**Benefits**

The Public Employees Retirement System provides retirement, disability, and death benefits according to the provisions of Title 22 of the Philadelphia Code. These provisions prescribe retirement benefit calculations, vesting thresholds, and minimum retirement ages, that vary based on bargaining unit, uniform/non-uniform status, and entry date into the System.

Non-uniform employees may retire at either age 55 with up to 80% of average final compensation (AFC) or age 60 with up to either 100% or 25% of AFC, depending on entry date into the System. Uniform employees may retire at either age 45 with up to 100% of AFC or age 50 with up to either 100% or 35% of AFC, depending on entry date into the System. Survivorship selections may result in an actuarial reduction to the calculated benefit.

Members may qualify for service-connected disability benefits regardless of length of service. Service-connected disability benefits are equal to 70% of a member's final rate of pay, and are payable immediately without an actuarial reduction. These applications require approval by the Board.

Eligibility to apply for non-service-connected disability benefits varies by bargaining unit and uniform/non-uniform status. Non-service-connected disability benefits are determined in the same manner as retirement benefits, and are payable immediately.

Service-connected death benefits are payable to:

- 1) surviving spouse/life partner at 60% of final rate of pay plus up to 2 children under age 18 at 10% each of final rate of pay (maximum payout: 80%);
- 2) if no surviving spouse/life partner, up to 3 children under age 18 at 25% each of final rate of pay (maximum payout 75%); or
- 3) if no surviving spouse/life partner or children under age 18, up to 2 surviving parents at 15% each of final rate of pay (maximum payout 30%).

Non-service-connected deaths are payable as a lump sum payment, unless the deceased was either vested or had reached minimum retirement age for their plan, in which case the beneficiary(s) may instead select a lifetime monthly benefit, payable immediately with an actuarial reduction.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)**

**Benefits** (continued)

A Pension Adjustment Fund (PAF) is funded with 50% of the excess earnings that are between 1% and 6% above the actuarial assumed earnings rate. Each year within sixty days of the end of the fiscal year, by majority vote of its members, the Board of Directors of the Fund (the Board) shall consider whether sufficient funds have accumulated in the PAF to support an enhanced benefit distribution (which may include, but is not limited to, a lump sum bonus payment, monthly pension payment increases, ad-hoc cost-of-living adjustments, continuous cost-of-living adjustments, or some other form of increase in benefits as determined by the Board) to retirees, their beneficiaries and their survivors. As of July 1, 2013, the date of the most recent actuarial valuation, there was \$1,096,608 in the PAF and the Board voted to make distributions of \$0 during the fiscal year ended June 30, 2014.

The Fund includes a Deferred Retirement Option Plan (DROP Plan). The DROP Plan allows a participant to declare that they will retire within 4 years. During the 4-year period, the City will make no further contributions for the participant. The participant would continue to work and to receive their salary; however, any increases would not be counted towards their pension benefit. During the 4-year period the individual participates in the DROP Plan, their pension benefits will be paid into an escrow account in the participant's name. After the 4-year period, the participant would begin to receive their pension benefits and the amount that has been accumulated in the escrow account in a lump sum payment. The balance in the DROP Plan as of June 30, 2014 is \$216.9 million.

**Investments**

Investment Policy. The Pension Board's Investment Policy Statement provides, in part:

The overall investment objectives and goals should be achieved by use of a diversified portfolio, with safety of principal a primary emphasis. The portfolio policy should employ flexibility by prudent diversification into various asset classes based upon the relative expected risk-reward relationship of the asset classes and the expected correlation of their returns.

The Fund seeks an annual total rate of return of not less than 7.85% over a full market cycle. It is anticipated that this return standard should enable the Fund to meet its actuarially assumed earnings projection (currently 7.85%) over a market cycle. Accordingly, the Fund's investment program will pursue its aforesaid total rate of return by a combination of income and appreciation, relying upon neither exclusively in evaluating a prospective investment for the Fund.

All investments are made only upon recommendation of the Fund's Investment Committee and approval by a majority of the Pension Board.

In order to document and communicate the objective, restrictions, and guidelines for the Fund's investment staff and investments, a continuously updated Investment Policy Statement will be maintained. The Investment Policy Statement will be updated (and re-affirmed) each year at the January Board meeting.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – PENSION FUND DESCRIPTION (CONTINUED)**

**Investments** (continued)

The following was the Board’s approved asset allocation policy as of June 30, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>
US Equity	20%
Non-US Equity - Developed	13%
Non-US Equity - Emerging	7%
Fixed Income – Investment Grade	6%
Fixed Income – Non-Invest. Grade	15%
Real Assets - REITS	1%
Real Assets – Private Real Estate	2%
Real Assets – MLP’s	3%
Real Assets – Private Energy	2%
Private Equity	17%
Hedge Funds	12%
Cash & Other	<u>2%</u>
Total	100%

There were no changes to the Board's approved asset allocation during the 2013-2014 fiscal year.

Rate of Return. For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.8%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for changing amounts actually invested.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

Financial statements of the Fund are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Fund.

**New GASB Pronouncement**

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures*. The statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach for measuring a participating employer’s pension liability. In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards; however, the statements do require additional note disclosures including new schedules of required supplementary information.



**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Method Used to Value Investments**

The Fund's investments are reported at fair value. Fair value is the amount that the Fund can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have published market prices or quotations from national security exchanges or securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and for properties not appraised, the present value of the projected future net income stream is used.

For private market investments which include private equity, private debt, venture capital, hedge funds and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Investment expenses consist of investment manager fees and investment consultant fees. Unsettled investment sales are reported as Accrued Interest and Other Receivable and unsettled investment purchases are included in Accrued Expenses and Other Liabilities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

**Income Taxes**

The Fund qualifies under Section 401(a) of the Internal Revenue Code (IRC) and is exempt from income taxation as allowed by Section 501(a) of the IRC.

**Related Parties**

The Board of Pensions and Retirement (the Board) is the custodian of the investments of the Fund. The City's Department of Finance provides cash receipt and cash disbursement services to the Fund. The City's Solicitor's office provides legal services to the Fund. Other administrative services are also provided by the City.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates in Preparing Financial Statements**

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

**Commitments**

At June 30, 2014, the Fund had unfunded private market and real estate commitments of approximately \$184.7 million and \$43.8 million, respectively.

**Risk and Uncertainties**

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

Contributions are prepared based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these statements and assumptions in the near term would be material to the financial statements.

**Administrative Expenses**

Administrative expenses of the Fund are paid for by the Fund.

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING**

**Legal Provisions**

The Fund is authorized to invest in "prudent investments," including obligations of the U.S. Treasury, agencies and instrumentalities of the United States, investment grade corporate bonds, common stock, real estate, private market, etc. City ordinances contain provisions which preclude the Fund from investing in organizations that conduct business in certain countries and also impose limitations on the amounts invested in certain types of securities.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

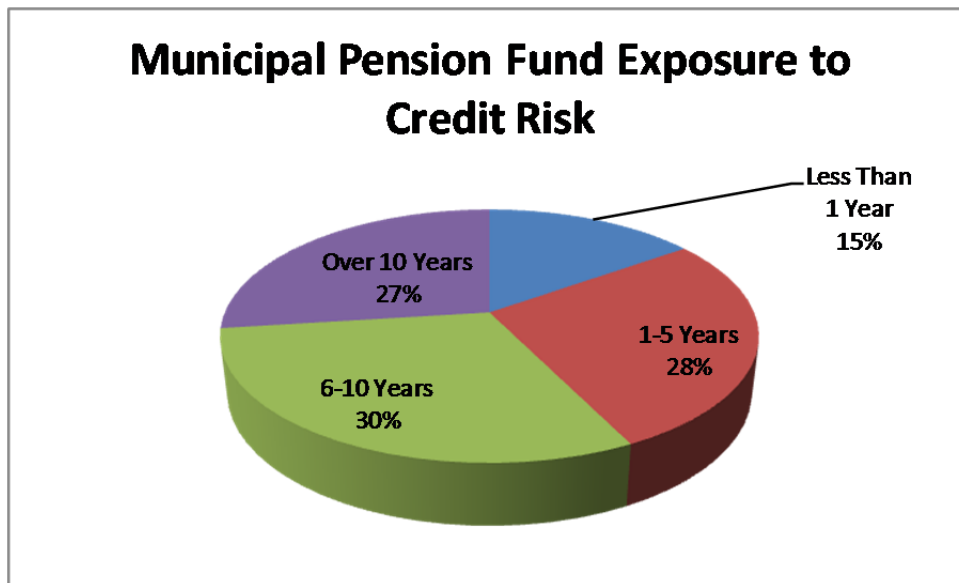
**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Interest Rate Risk**

Interest rate risk is the largest risk faced by an investor in the fixed income market. The price of a fixed income security generally moves in the opposite direction of the change in interest rates. Securities with long maturities are highly sensitive to interest rate changes.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. The Fund measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

The chart below details the exposure to interest rate changes based upon maturity dates of the fixed income securities at June 30, 2014:



**Custodial Credit Risk**

In the event of counter-party failure, the Fund may not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities held by the counterparty or counterparty's trust department, are uninsured and are not registered in the name of the Fund. The Fund requires that all investments be clearly marked as to ownership, and to the extent possible, be registered in the name of the Fund. Certain investments may be held by the managers in the Fund's name.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Concentration of Credit Risk**

Concentration of credit risk is the risk of substantial loss if investments are concentrated in one issuer. As of June 30, 2014, the Fund has no single issuer that exceeds 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded.

**Credit Risk**

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund has credit risk on \$607.5 million of directly owned fixed income securities and on \$408.5 million invested in commingled fixed income funds for which credit risk was not available. The Fund's directly owned rated debt investments as of June 30, 2014 were rated by Standard & Poor's, a nationally recognized statistical rating agency and are presented below using Standard and Poor's rating scale:

2014 (in thousands)	Total Fair Value	Credit Rating								
		AAA	AA	A	BBB	BB	B	CCC	D	NR
Asset Backed Securities	\$ 3,265	\$ -	\$ -	\$ -	\$ 1,865	\$ -	\$ 988	\$ -	\$ -	\$ 412
CMO/REMIC	1,111	-	-	-	-	-	89	596	426	-
Commercial Mortgage Backed Securities	2,878	1,662	-	1,216	-	-	-	-	-	-
Corporate Bonds	262,357	716	7,208	29,343	50,305	46,526	59,350	21,701	-	47,208
Government Bonds	276,587	15,554	151,680	45,000	41,794	15,064	-	-	-	7,494
Mortgage Backed Securities	58,060	-	58,060	-	-	-	-	-	-	-
Municipal Bonds	3,222	-	1,170	2,052	-	-	-	-	-	-
Total Credit Risk of Debt Securities	\$ 607,480	\$ 17,932	\$218,118	\$ 77,611	\$ 93,964	\$ 61,590	\$ 60,427	\$ 22,297	\$ 426	\$ 55,114

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Foreign Currency Risk**

The Fund's exposure to foreign currency risk derives from its position in foreign currency-denominated cash, equity, private market and fixed income investments. The foreign currency investment in equity securities is 39% of the total investment in equities.

The Fund's exposure to foreign currency risk at June 30, 2014 was as follows:

<b>Municipal Pension Fund</b>						
<b>Assets subject to foreign currency risk:</b>						
<i>(thousands of USD)</i>						
<b>Currency</b>	<b>Cash</b>	<b>Fixed Income</b>	<b>Equities</b>	<b>Private Equity</b>	<b>Mutual Funds</b>	<b>Total</b>
Euro	\$ 2,285	\$ 23,340	\$ 246,589	\$ 31,358	\$ 6,125	\$ 309,697
British Pound Sterling	733	12,026	160,555	-	-	173,314
Japanese Yen	595	-	99,667	-	-	100,262
Swiss Franc	445	-	84,430	-	-	84,875
Hong Kong Dollar	293	-	65,460	-	-	65,753
South Korean Won	-	9,435	47,395	-	-	56,830
Australian Dollar	84	21,624	25,751	-	-	47,459
Mexican Peso	520	30,916	10,710	-	-	42,146
Canadian Dollar	104	-	36,126	-	-	36,230
Brazilian Real	9	9,875	22,469	-	-	32,352
South African Rand	2	7,192	15,885	-	-	23,080
Swedish Krona	49	-	16,539	-	-	16,587
Polish Zloty	9	9,632	3,718	-	-	13,359
Indonesian Rupiah	84	7,476	5,674	-	-	13,234
Malaysian Ringgit	1	4,291	8,449	-	-	12,741
Singapore Dollar	153	-	9,061	-	-	9,214
Hungarian Forint	-	8,059	355	-	-	8,414
Danish Krone	73	-	7,985	-	-	8,058
New Zealand Dollar	2	6,642	468	-	-	7,112
Turkish Lira	-	2,984	3,820	-	-	6,804
Thai Baht	27	-	5,456	-	-	5,483
All Others	2,981	-	17,294	-	-	20,274
	<b>\$ 8,449</b>	<b>\$ 153,492</b>	<b>\$ 893,856</b>	<b>\$ 31,358</b>	<b>\$ 6,125</b>	<b>\$ 1,093,278</b>

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Derivatives**

The Fund may invest in derivatives as permitted by guidelines established by the Board of Pensions. Pursuant to such authority, the Fund may invest in foreign currency forward contracts, options, futures (S&P Fund) and swaps. No derivatives were purchased with borrowed funds.

Derivatives are generally used to provide market exposure in the equity portfolio and to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of the Fund's fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by the Fund, which is the risk that the counterparty might be unable to meet its obligations.

Derivative instruments such as swaps, options, futures and forwards are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities.

The Fund enters into a variety of financial contracts, which include options, futures, forwards and swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. treasury strips. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The Fund is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The Fund generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The Fund is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions. The notional or contractual amounts of derivatives indicate the extent of the Fund's involvement in the various types and uses of derivative financial instruments and do not measure the Fund's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Derivative Instruments**

The following table summarizes the unrealized gain and loss for aggregate notional or contractual amounts for the Fund’s derivative financial instruments at June 30, 2014 in addition to fair value and change in fair value of derivatives.

**List of Derivatives Aggregated by Investment Type**

<u>Classification</u>	<u>Changes in Fair Value</u>	<u>Fair Value at June 30, 2014</u>		<u>Notional</u>
<b>Investment Derivatives</b>				
<b>Forwards Currency Contracts</b>	Net appreciation/(depreciation) in Investments	\$ (1,981,432)	Accrued expenses and other liabilities	\$ (238,578) \$ 150,909,330
<b>Futures</b>	Net appreciation/(depreciation) in Investments	24,249	Accrued expenses and other liabilities	(3,524) 101
<b>Grand Totals</b>		\$ (1,957,183)		\$ (242,102) \$ 150,909,431

A Derivatives Policy Statement identifies and allows common derivative investments and strategies, which are consistent with the Investment Policy Statement of the City of Philadelphia Municipal Pension Fund. The guidelines identify transaction-level and portfolio-level risk control procedures and documentation requirements. Managers are required to measure and monitor exposure to counterparty credit risk. All counterparties must have credit ratings available from nationally recognized rating institutions such as Moody, Fitch, and S&P. The details of other risks and financial instruments in which the Fund involves are described below:

**Credit risk.** The Fund is exposed to credit risk on hedging derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Fund’s policy to require counterparty collateral posting provisions in its non-exchange-traded hedging derivative instruments. These terms require full collateralization of the fair value of hedging derivative instruments in asset positions (net of the effect of applicable netting arrangements) should the counterparty’s credit rating fall below **AA** as issued by Fitch Ratings and Standard & Poor’s or **Aa** as issued by Moody’s Investors Service. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The City has never failed to access collateral when required.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

It is the Fund's policy to enter into netting arrangements whenever it has entered into more than one derivative instrument transaction with counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

**Swap agreements.** These derivative instruments provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2012 the Fund entered into interest rate swaps. Under the receive fixed interest rate type swap arrangements, the Fund receives the fixed interest rate on certain equity or debt securities or indexes in exchange for a fixed charge. There were not any total receive fixed interest Swaps this year. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the Fund's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the Fund's net payment on the swap increases. The net payment on the swap increases.

**Futures contracts.** These derivative instruments are types of contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the Fund enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the Fund has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The realized gain from Futures contracts was \$749,289.

**Forward contracts.** The Fund is exposed to basis risk on its forward contracts because the expected funds purchase being hedged will price based on a pricing point different than the pricing point at which the forward contract is expected to settle. The realized loss from Forward contracts was \$ (1,913,361).

**Termination risk.** The Fund or its counterparties may terminate a derivative instrument if the other party fails to perform under the terms of the contract. In addition, the Fund is exposed to termination risk on its receive-fixed interest rate swap. The Fund is exposed to termination risk on its rate cap because the counterparty has the option to terminate the contract if the SIFMA swap index exceeds 12 percent. If at the time of termination, a hedging derivative instrument is in a liability position, the city would be liable to the counterparty for a payment equal to the liability, subject to netting arrangements.

**Rollover risk.** The Fund is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, or in the case of a termination option, if the counterparty exercises its option, the Fund will be re-exposed to the risks being hedged by the hedging derivative instrument.



**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING (CONTINUED)**

**Security Lending Program**

The Fund, pursuant to a Securities Lending Authorization Agreement, has authorized J.P. Morgan Bank and Trust Company (“J.P. Morgan”) to act as the Fund’s agent in lending the Fund’s securities to approved borrowers. J.P. Morgan, as agent, enters into Securities Loan Agreements with borrowers.

During the fiscal year, J.P. Morgan lent, on behalf of the Fund, certain securities of the Fund held by J.P. Morgan as custodian and received cash or other collateral including securities issued or guaranteed by the United States government. J.P. Morgan does not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100% of the market value of the loaned securities.

Pursuant to the Securities Lending Authorization Agreement, J.P. Morgan had an obligation to indemnify the Fund in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year that resulted in a declaration or notice of default of the borrower.

During the fiscal year, the Fund and the borrowers maintained the right to terminate securities lending transactions upon notice. The cash collateral received on each loan was invested in a separately managed account based upon the investment guidelines established by the Pension Fund. As of June 30, 2014, the weighted average maturity was 48 days and the final maturity was 351 days. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower.

On June 30, 2014 the Fund had no credit risk exposure to borrowers.

As of June 30, 2014, the fair value of securities on loan was \$511.9 million. Associated collateral totaling \$524.7 million was comprised of cash which was invested in the J.P. Morgan Global Securities Lending Euro Trust liquidity pool. As of June 30, 2014, the invested cash collateral had a fair value of \$524.3 million.

**NOTE 4 – INVESTMENT ADVISORS**

The Fund utilizes investment advisors to manage long-term debt, real estate, private market, and equity portfolios. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

**NOTE 5 – NET PENSION LIABILITY**

The components of the net pension liability as of June 30, 2014 were as follows:

Total Pension Liability	\$10,442,220,266
Plan Fiduciary Net Position	<u>4,916,705,397</u>
Net Pension Liability	\$ 5,525,514,869

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.1%
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**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 – NET PENSION LIABILITY (CONTINUED)**

**Actuarial assumptions**

The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods including the measurement period:

Investment Rate of Return:               7.85% compounded annually, net of expenses  
Salary Increases       :                               Age based table

- \* The mortality rates were based on the RP 2000 Healthy Annuitant Mortality Table for males and females with adjustments for mortality improvements using Scale AA.
- \* The investment return assumption was changed from 7.95% from the prior year valuation to 7.85% for the current year valuation.
- \* The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2004 through June 30, 2009.
- \* To recognize the expense of the benefits payable under the Pension Adjustment Fund, the actuarial liabilities have been increased 0.54%. This estimate is based on the statistical average expected value of benefits.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment 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.

Best estimates of geometric real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2014 (see discussion of pension plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	5.00%
Non-US Equity - Developed	5.00%
Non-US Equity - Emerging	6.00%
Fixed Income – Investment Grade	0.15%
Fixed Income – Non-Investment Grade	3.40%
Real Assets - REITS	4.10%
Real Assets – Private Real Estate	5.60%
Real Assets – MLP’s	5.20%
Real Assets – Private Energy	8.00%
Private Equity	8.00%
Hedge Funds	4.80%
Cash & Other	(0.45%)

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 – NET PENSION LIABILITY (CONTINUED)**

The above table reflects the expected (7-10 year) real rate of return for each major asset class. The expected inflation rate is projected at 2.2% for the same time period.

Discount Rate. The discount rate used to measure the total pension liability was 7.85%. 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 the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the discount rate of 7.85%, as well as what the System’s net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

<b>Sensitivity of Net Pension Liability to Changes in Discount Rate</b>			
	<b>1% Decrease 6.85%</b>	<b>Discount Rate 7.85%</b>	<b>1% Increase 8.85%</b>
Total Pension Liability	\$ 11,450,769,195	\$ 10,442,220,266	\$ 9,579,091,917
Plan Fiduciary Net Position	<u>4,916,705,397</u>	<u>4,916,705,397</u>	<u>4,916,705,397</u>
Net Pension Liability	<u>\$ 6,534,063,798</u>	<u>\$ 5,525,514,869</u>	<u>\$ 4,662,386,520</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	42.9%	47.1%	51.3%

**NOTE 6 – GUARANTEE OF BENEFITS**

Benefits under the Fund are guaranteed by statute. In the event that employee contributions do not equal required benefits, the City's General Fund must provide any shortfall.

**NOTE 7 – PARTICIPATION IN THE PENSION FUND**

The trustees for the Fund are also members of the Fund and as such, are subject to the provisions of the Fund as described in the notes to these financial statements.

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 8 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through January 19, 2015, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to January 19, 2015 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2014.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
REQUIRED SUPPLEMENTAL INFORMATION  
Year Ended June 30, 2014**

<b>Schedule of Investment Returns</b>	
<b>2014</b>	
<b>Annual money-weighted rate of return, net of investment expenses</b>	<b>15.77%</b>

<b>Schedule of Changes in Net Pension Liability and Related Ratios</b>	
<b>FYE 2014</b>	
<b><u>Total Pension Liability</u></b>	
Service cost	\$ 136,986,515
Interest (includes interest on service cost)	774,518,750
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes of assumptions	213,156,725
Benefit payments, including refunds of member contributions	<u>(808,597,357)</u>
<b>Net change in total pension liability</b>	<b>316,064,633</b>
<b>Total pension liability - beginning</b>	<b><u>10,126,155,633</u></b>
<b>Total pension liability - ending</b>	<b><u>\$ 10,442,220,266</u></b>
<b><u>Plan fiduciary net position</u></b>	
Contributions - employer	\$ 553,178,927
Contributions - member	53,722,275
Net investment income	681,469,584
Benefit payments, including refunds of member contributions	(808,597,357)
Administrative expense	<u>(8,291,820)</u>
<b>Net change in plan fiduciary net position</b>	<b>\$ 471,481,608</b>
<b>Plan fiduciary net position - beginning</b>	<b><u>4,445,223,788</u></b>
<b>Plan fiduciary net position - ending</b>	<b><u>\$ 4,916,705,397</u></b>
<b>Net pension liability - ending</b>	<b><u>\$ 5,525,514,869</u></b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>47.08%</b>
<b>Covered employee payroll</b>	<b>\$ 1,429,723,436</b>
<b>Net pension liability as a percentage of covered employee payroll</b>	<b>386.47%</b>

**CITY OF PHILADELPHIA MUNICIPAL PENSION FUND  
REQUIRED SUPPLEMENTAL INFORMATION  
Year Ended June 30, 2014**

**Schedule of Employer Contributions (Based on Funding Policy Contributions)**

Last 10 Fiscal Years  
Dollar Amounts in Thousands

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Contribution	\$ 823,885	\$ 738,010	\$ 722,491	\$ 715,544	\$ 581,123	\$ 539,464	\$ 536,874	\$ 527,925	\$ 394,950	\$ 358,141
Contributions in Relation to the										
Actuarially Determined Contribution	<u>553,179</u>	<u>781,823</u>	<u>555,690</u>	<u>470,155</u>	<u>312,556</u>	<u>455,389</u>	<u>426,934</u>	<u>432,267</u>	<u>331,765</u>	<u>299,266</u>
Contribution Deficiency/(Excess)	<u>\$ 270,706</u>	<u>\$ (43,813)</u>	<u>\$ 166,801</u>	<u>\$ 245,389</u>	<u>\$ 268,567</u>	<u>\$ 84,075</u>	<u>\$ 109,940</u>	<u>\$ 95,658</u>	<u>\$ 63,185</u>	<u>\$ 58,875</u>
Covered-Employee Payroll	\$ 1,556,660	\$ 1,423,417	\$ 1,387,086	\$ 1,410,207	\$ 1,422,987	\$ 1,462,451	\$ 1,461,640	\$ 1,351,826	\$ 1,319,400	\$ 1,270,700
Contributions as a Percentage of Covered-Employee Payroll	35.54%	54.93%	40.06%	33.34%	21.96%	31.14%	29.21%	31.98%	25.15%	23.55%

*Covered-Employee payroll is the total payroll reported by the City for the applicable year except for years 2005 through 2007 where it is the valuation payroll in the respective years*

**Schedule of Employer Contributions (Based on Minimum Municipal Obligation)**

Last 10 Fiscal Years  
Dollar Amounts in Thousands

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially Determined Contribution	\$ 523,368	\$ 491,990	\$ 507,021	\$ 511,000	\$ 447,446	\$ 438,522	\$ 412,449	\$ 400,256	\$ 306,873	\$ 293,990
Contributions in Relation to the										
Actuarially Determined Contribution	<u>553,179</u>	<u>781,823</u>	<u>555,690</u>	<u>470,155</u>	<u>312,556</u>	<u>455,389</u>	<u>426,934</u>	<u>432,267</u>	<u>331,765</u>	<u>299,266</u>
Contribution Deficiency/(Excess)	<u>\$ (29,811)</u>	<u>\$ (289,833)</u>	<u>\$ (48,669)</u>	<u>\$ 40,845</u>	<u>\$ 134,890</u>	<u>\$ (16,867)</u>	<u>\$ (14,485)</u>	<u>\$ (32,011)</u>	<u>\$ (24,892)</u>	<u>\$ (5,276)</u>
Covered-Employee Payroll	\$ 1,556,660	\$ 1,423,417	\$ 1,387,086	\$ 1,410,207	\$ 1,422,987	\$ 1,462,451	\$ 1,461,640	\$ 1,351,826	\$ 1,319,400	\$ 1,270,700
Contributions as a Percentage of Covered-Employee Payroll	35.54%	54.93%	40.06%	33.34%	21.96%	31.14%	29.21%	31.98%	25.15%	23.55%

*Covered-Employee payroll is the total payroll reported by the City for the applicable year except for years 2005 through 2007 where it is the valuation payroll in the respective years*

**Notes to Schedules**

Valuation Date June 30, 2012  
Timing Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the beginning of the plan year

**Key Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method Entry Age  
Asset valuation method 10-year smoothed market  
Amortization method Gain/Losses are amortized over closed 20-year periods, assumption changes over 15 years, benefit changes for actives over 10 year and benefit changes for inactive members over 1 year, plan changes mandated by state over 20 years  
Under the City's Funding Policy, the initial July 1, 1985 unfunded actuarial liability (UAL) is amortized over 34 years ending June 30, 2019, with payments increasing 3.3% per year, the assumed payroll growth.  
Under the MMO Funding Policy, the July 1, 2009 unfunded actuarial liability (UAL) was "fresh started"; to be amortized over 30 years, ending June 30, 2039. This is a level dollar amortization of the UAL.

Discount rate 7.85%  
Payroll Growth 3.30%  
Salary increases Age based salary scale  
Mortality Sex distinct RP-2000 Combined Mortality with adjustments and improvements using Scale AA

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2014 can be found in the July 1, 2013 actuarial valuation report.