

**EMPLOYES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE**

**Basic Financial Statements and
Supplementary Information as of and for the
Year Ended December 31, 2015 and
Independent Auditors' Report**

Employees' Retirement System of the City of Milwaukee

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INTRODUCTORY SECTION



City of Milwaukee
Employees' Retirement System

Bernard J. Allen
Executive Director

David M. Silber, CFA, CAIA
Chief Investment Officer

Beth Conradson Cleary
Deputy Director

Executive Director's Letter of Transmittal

June 13, 2016

On behalf of the Annuity and Pension Board of the Employees' Retirement System (ERS) of the City of Milwaukee, I am pleased to present the Basic Financial Statements for the ERS for the year ending December 31, 2015. The ERS provides retirement and disability benefits, counseling and other services to 27,083 members, beneficiaries and annuitants. The ERS was created under Chapter 396 of the Laws of Wisconsin of 1937 and the City of Milwaukee Charter, Chapter 36. This report fulfills the legal reporting requirements of those laws.

It is the responsibility of ERS management to fairly present all financial information in conformity with generally accepted accounting principles. The ERS has internal controls in place that provide reasonable assurance that the financial statements are free from errors. An independent audit of the ERS' books and records allows the independent auditor to reasonably confirm that the statements are free from material misstatement. The independent auditors' report is found within the Financial Section of this report.

As of December 31, 2015, the ERS funded ratio was 91.9%. Pursuant to the Government Accounting Standards Board (GASB) Statement No. 67, the ERS funded status is measured by comparing the market value of plan assets with the ERS actuarial accrued liability using the actuarial method prescribed for GASB Statement No. 67. This actuarial method differs from that employed by the ERS' independent actuary for funding purposes.

Lastly, I would like to acknowledge the staff of the ERS for rising to meet all challenges we have faced and for their continuing dedicated effort in providing superior customer service to all of our members.

A handwritten signature in cursive script that reads "Bernard J. Allen".

Bernard J Allen
Executive Director



List of Principal Officials

Annuity & Pension Board Members as of December 31, 2015

John Barmore - Board Chairman

Milwaukee Fire Department
Elected Representative – Active

Alderman Michael J. Murphy

10th Aldermanic District
Appointed by the President of the Common Council

Martin Matson - City Comptroller

Ex-Officio Member

Mark Nicolini - Budget Director

City of Milwaukee
Appointed by the Mayor

Karen Ellenbecker

Appointed by the President of the Common Council

Gerald Pace

Milwaukee Public Schools
Appointed by the Mayor

Larry Holland

Appointed by the Mayor

Carmelo Patti

Milwaukee Police Department
Elected Representative – Active

Thomas Klusman

Elected Representative – Retirees

Rudolph Konrad

Appointed by the President of the Common Council

Gust Petropoulos - Board Vice Chairman

Milwaukee Police Department
Elected Representative – Active

Employees' Retirement System Administrative Personnel

Bernard J. Allen

Executive Director
and Secretary

G. Spencer Coggs

City Treasurer
Custodian of Funds

Beth Conradson Cleary

Deputy Director

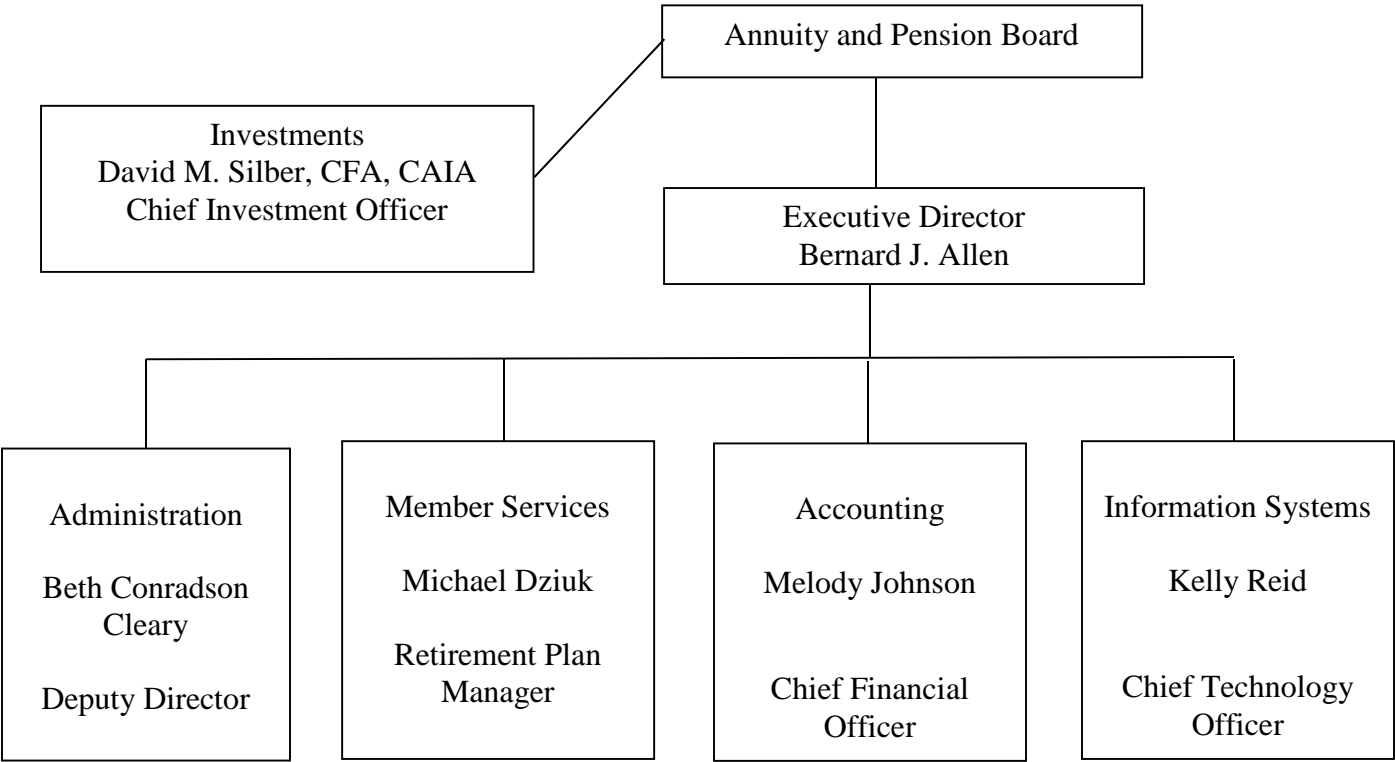
Grant F. Langlely

City Attorney
Legal Advisor

David M. Silber, CFA, CAIA

Chief Investment Officer

Employees' Retirement System Organization Chart



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Annuity and Pension Board of the Employees'
Retirement System of the City of Milwaukee
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Employees' Retirement System of the City of Milwaukee (the "Retirement System"), as of December 31, 2015, the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise the Retirement System's basic 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 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 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 over financial reporting relevant to the Retirement System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Retirement System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 fiduciary net position of the Retirement System as of December 31, 2015, and the changes in fiduciary net position of the Retirement System for the year then ended in conformity 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, the Schedules of Changes in Net Pension Liability, Net Pension Liability, Contributions, and Investment Returns, and the notes to the required supplementary information 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Retirement System's basic financial statements. The Non-Consenter Combining Statement of Fiduciary Net Position and the Combining Non-Consenter Statement of Changes in Fiduciary Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 Non-Consenter Combining Statement of Fiduciary Net Position and the Non-Consenter Combining Statement of Changes in Fiduciary Net Position are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Retirement System's basic financial statements. The Executive Directors Letter of Transmittal, List of Principal Officers, and Organization Chart are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2016 on our consideration of the Retirement System'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 Retirement System's internal control over financial reporting and compliance.

BAKER TILLY VIRCHAW HYRANSE, LLP.

Milwaukee, Wisconsin
June 13, 2016

**MANAGEMENT'S DISCUSSION AND
ANALYSIS SECTION (UNAUDITED)**

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

To help facilitate a better understanding of the Employees' Retirement System of the City of Milwaukee (ERS) financial condition as of December 31, 2015, the results of operations for the year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the audited financial statements and, as such should be read in conjunction with these statements, which are presented later in this document.

The ERS is primarily responsible for administering retirement and disability benefits for employees of the City of Milwaukee, and the following City Agencies (Agencies): Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of Milwaukee Public Schools and some retirees of the Milwaukee Area Technical College. The ERS pension trust fund is a defined benefit pension plan that provides a monthly benefit to retirees after reaching a minimum retirement age depending upon employment history and provides a monthly benefit for those on disability.

The provisions of Chapter 396, laws of Wisconsin 1937, initially created the ERS. Funds have been established to comply with the legislation governing the ERS. In April of 2000, the Common Council of the City of Milwaukee adopted legislation (commonly referred to as the Global Pension Settlement or GPS) increasing benefits to current and future retirees in exchange for allowing for changes in the administration of the ERS including allowing for the use of ERS funds to pay for the cost of plan administration. Members enrolled prior to June 28, 2000, can elect whether to consent to GPS and accept its provisions, while members enrolled on or after that date are automatically subject to the provisions of GPS.

A Discussion of Funds within the Employees' Retirement System Plan

Global Combined Fund

The Global Combined Fund is used to provide retirement and disability benefits to all members who consented to GPS and all members enrolled on or after June 28, 2000. Approximately 98.8% of the total membership is accounted for in the Global Combined Fund.

Employers' Reserve Fund

The City of Milwaukee and Agencies participating in the ERS may voluntarily contribute to the Employers' Reserve Fund. The City of Milwaukee and Agencies with funds on deposit in the Employers' Reserve Fund may use these funds to offset contributions required of them by adopting a formal resolution directing such a transfer.

Securities Lending Fund

Northern Trust, the custodian for the ERS, administers the securities lending program. In this program, the ERS lends out securities and receives collateral from the borrowers in the form of cash and charge the borrowers a fee.

Revenues generated from securities lending are deposited in the Securities Lending Fund and are restricted to pay expenses in connection with the administration and operation of the ERS. Revenues not expended by the close of the calendar year next following the calendar year in which it is deposited are transferred to the Retirement Fund.

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Non-Consenter Funds

The Non-Consenter Funds provide retirement and disability benefits for all members who have not consented to GPS. The benefits paid from these funds do not include enhanced benefits provided by GPS.

- **Retirement Fund:** The Retirement Fund provides for retirement and ordinary disability (non-work related disability) benefits for non-consenting members enrolled prior to February 1, 1996.
- **Combined Retirement Fund:** The Combined Retirement Fund provides for retirement and disability benefits (both ordinary and duty related) for non-consenting members enrolled on or after February 1, 1996.
- **General Employees' Duty Disability Fund:** The General Employees' Duty Disability Fund provides for duty disability benefits for non-consenting general (non-fire and police) members enrolled prior to February 1, 1996.

Dormant Non-Consenter Funds

A dormant fund has no members currently associated with it and as a result, no member balance amounts. Although these funds are not currently disclosed on the financial statements it is remotely possible that current non-consenting members could qualify for these funds in the future. As a result, the Board has not officially closed the following two funds:

- **Firemen and Policemen's Duty Disability Fund:** The Firemen and Policemen's Duty Disability Fund provides for duty disability benefits for non-consenting fire and police members enrolled prior to February 1, 1996. As of December 31, 2004, all former members have consented to the global settlement and all remaining balances were transferred to the Global Combined Fund. This fund, although still active, is not likely to ever be used again.
- **Firemen's Heart and Lung Fund:** Accounts for fire heart and lung duty disability benefits of non-consenters. As of December 31, 2002, all former members have either consented to the global settlement or are deceased. This fund, although still active, is not likely to ever be used again.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee capacity for others and therefore cannot be used to support the primary governments own interests.

- **Policemen's Annuity and Benefit Fund:** As discussed in Note 11, on December 14, 2005, the Policemen's Annuity and Benefit Fund (PABF) board adopted a resolution to dissolve and to liquidate all assets of the fund and transfer the assets and full administrative control to the ERS. All assets of the PABF were transferred to the system's custodian, Northern Trust, in early 2006 and the ERS board assumed custodial authority and responsibility for the fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund and valuations are prepared by the ERS actuary. The only re-occurring revenues to the fund are in the form of an annual tax levy. The levy for 2015, to be collected in early 2016 amounts to \$188,214. The benefits paid during 2015 were to 36 annuitants and widows. Benefit payments amounted to \$421,971. Due to the materiality level of this fiduciary fund, it has not been included in the Analysis of Financial Position and Results of Operations section of this Management Discussion & Analysis.

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Financial Highlights

- Total assets of the ERS decreased by \$313,812,000 or 5.8% during 2015. Benefit payments exceeded contributions and the gain on investments, causing total assets held for investment to decrease. The decrease in assets is also due to lower securities lending collateral held and a lower receivables balance.
- As members of the plan consent to the Global Pension Settlement, their member balances are transferred from the appropriate "Non-consenter" fund to the Global Combined Fund. Total member balances transferred for 2015 amounted to \$2,028,000.
- Pursuant to GASB Statement No. 67, as of December 31, 2015, the ERS funded ratio 91.9%.
- In 2015, Northern Trust, ERS' custodian, reported a positive return of 0.9% annual gross of fees total fund return while in 2014 the return was 5.4%. As of December 31, 2015, the fund's five-year performance ranks in the 2nd quartile of the Callan Associates database. This database consists of public employee pension funds including both Callan clients and surveyed non-client funds.

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Financial Statements

The Financial Statements of the ERS are comprised of the following components: 1) basic financial statements, 2) notes to basic financial statements, 3) required supplementary information, 4) supplementary information, and 5) other information. Collectively, this information presents the net position restricted for pensions for all funds under ERS administration. It should be noted that currently, the Annuity and Pension Board is responsible for the administration of the plan assets of the ERS and the Policemen's Annuity and Benefit Fund. The latter is disclosed discreetly as a fiduciary fund on these statements.

- 1) Basic Financial Statements.** Basic Financial Statements consist of the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Statement of Fiduciary Net Position contains cash balances, investments itemized by category and accounts receivable and other assets with a total of all assets. Liabilities include benefits payable, reimbursements due to the City for costs to administer the plan and amounts for investment purchases that have been initiated but not settled at year-end to arrive at total liabilities. The total assets minus the total liabilities equals end of year net position restricted for pensions equal to that found on the Statement of Changes in Fiduciary Net Position.

Statement of Changes in Fiduciary Net Position reflects all contributions and net investment performance in the additions section and all expenses and benefit payments in the deductions section. Fund balance transfers are also shown as increases or decreases in fund balance to arrive at the end of year net position restricted for pensions. The Statement of Changes in Fiduciary Net Position explains the reasons why the net position reserved for pensions changed from one year to the next.

- 2) Notes to Basic Financial Statements.** The financial statement notes provide additional information that is essential to understanding the data provided in the basic financial statements. Information in the notes is described below:

- Note 1: Provides a general description of the ERS as well as an overview of some of the common benefits available to various groups of members.
- Note 2: Summarizes significant ERS accounting policies.
- Note 3: Describes consent status changes in relation to the Global Pension Settlement.
- Note 4: Summarizes employer transactions in the Employers' Reserve Fund.
- Note 5: Summarizes the net pension liability of participating retirement plans
- Note 6: References ten-year historical trend information found within the Required Supplementary Information section.

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

2) Notes to Basic Financial Statements (cont.)

- Note 7: Discusses expenses paid as a part of administering the ERS, including manager fees and administrative costs.
- Note 8: Discusses the ERS' income tax status per Internal Revenue Service determination letter.
- Note 9: Discusses ERS' investments and the associated types of risk that the system is exposed to. It also discusses securities lending requirements and amounts on loan.
- Note 10: Describes the contingencies involving the ERS.
- Note 11: Describes the transfer of fiduciary responsibility of the Policemen's Annuity and Benefit Fund to the ERS.
- Note 12: Describes the required actuarial contributions due from the member agencies.
- Note 13: Subsequent Events

3) Required Supplementary Information. The required supplementary information consists of the Schedule of Changes in Net Pension Liability, Schedule of Net Pension Liability, Schedule of Contributions, Schedule of Investment Returns, Schedule of Pension Amounts by Employer, Notes to Required Supplementary Information for the ERS, Management's Discussion and Analysis as well as the Schedule of Changes in Net Pension Liability, Schedule of Net Pension Liability, Schedule of Contributions, Schedule of Investment Returns, and the Notes to Required Supplementary Information for PABF. The schedules give an indication of the actuarial performance of the fund and the health of the system.

4) Supplementary Information. Additional information includes the Combining Statement of Fiduciary Net Position and the Combining Statement of Changes in Fiduciary Net Position for all of the non-consenter retirement and disability funds individually.

5) Other Information. Includes the Executive Directors Letter of Transmittal, List of Principal Officers and the ERS Organizational Chart and the Independent Auditors' Report.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Fiduciary Net Position

Changes in Assets <i>(Dollars in Thousands)</i>	2015	2014	Total Percentage Change
Assets:			
Cash and cash equivalents	\$ 121,387	\$ 123,103	-1.4%
Investments	4,622,443	4,839,637	-4.5%
Receivables	26,292	44,484	-40.9%
Software development and equipment (net of depr)	126	169	-25.4%
Securities lending collateral	334,145	410,812	-18.7%
Total assets:	<u>\$ 5,104,393</u>	<u>\$ 5,418,205</u>	<u>-5.8%</u>
Liabilities:			
Benefits payable	\$ 111	\$ 155	-28.4%
City of Milwaukee	10,765	15,188	-29.1%
Securities lending obligation	334,145	410,812	-18.7%
Derivative liabilities	0	12,486	-100.0%
Investments purchased	7,064	26,414	-73.3%
Total liabilities:	<u>\$ 352,085</u>	<u>\$ 465,055</u>	<u>-24.3%</u>
Net position restricted for pensions:	<u>\$ 4,752,308</u>	<u>\$ 4,953,150</u>	

Presented here are the amounts of total assets for 2015 and 2014 respectively. Benefit payments exceeded contributions and the gain on investments, causing total investments to decrease. The decrease in assets is also due to lower securities lending collateral held and a lower receivables balance.

Receivable decreases are primarily traceable to the decrease in investment sales initiated at the end of 2015, but not settled until the beginning of 2016. The liabilities decrease is primarily traceable to a decrease in the securities lending obligation and investment purchases that were initiated at the end of 2015, but not settled until the beginning of 2016.

In 2003 the ERS began to capitalize its hardware and software development costs for the ERS' new pension payment system, "MERITS." In August of 2006, the system was placed in service. As of December 31, 2014, all capitalized costs associated with the development and implementation of MERITS have been fully depreciated. The current year's computer equipment capitalization was \$62,173. All maintenance expenses will be expensed in the year they are incurred.

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Analysis of Changes in Fiduciary Net Position

Analysis of Operations <i>(Dollars in Thousands)</i>	<u>2015</u>	<u>2014</u>	Total Percentage Change
Additions:			
Employer Contributions	\$ 72,198	\$ 72,844	-0.9%
Member Contributions	49,553	43,663	13.5%
Investment income	(4,939)	182,205	-102.7%
Interest, dividends and other investment income	71,583	82,592	-13.3%
Less: investment expense	(31,662)	(25,812)	22.7%
Total additions:	<u>\$ 156,733</u>	<u>\$ 355,492</u>	<u>-55.9%</u>
Deductions:			
Administrative expenses	\$ (9,686)	\$ (10,831)	-10.6%
Benefits paid	(333,336)	(321,279)	3.8%
Refund of contributions	(14,553)	(21,290)	-31.6%
Total deductions:	<u>\$ (357,575)</u>	<u>\$ (353,400)</u>	<u>1.2%</u>
Net increase (decrease) after net position transfers:	\$ (200,842)	\$ 2,092	
Net position restricted for pensions:			
Beginning of year	<u>4,953,150</u>	<u>4,951,058</u>	
End of year	<u>\$ 4,752,308</u>	<u>\$ 4,953,150</u>	

Actuarially determined employer contributions were required of the City and other participating agencies totaling \$79,838,581 in 2015, compared to \$78,659,448 in 2014. These amounts reflect the amount due as of January 31st of the following year. A discount in the amount of \$7,640,658 and \$5,814,874 was applied for early payments by the City and some of the participating agencies in 2015 and 2014, respectively. Net investments returned a gain of \$34,982,000 in 2015, compared to a gain of \$238,985,000 in 2014. This decrease is primarily due to the less favorable conditions in the financial markets during 2015.

Administrative expenses decreased by \$1,145,000 or 10.6% in 2015 when compared to 2014. This occurred due to decreases in operating expenses of the plan. Benefits paid increased to \$333,336,000 in 2015 from \$321,279,000 in 2014 due in large part to pension escalators and a larger population of retirees.

The January 1, 2015, actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2015, for those individuals who were non-consenters as of January 1, 2015, and who then subsequently consented to GPS during 2015. The amount of \$2,028,000 was transferred to the Global Combined Fund for this reallocation of assets.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Analysis of Investment Position and Strategies

ERS has one strategic asset allocation for all of its funds. Resources of all the ERS funds are pooled together and invested consistent with this strategy. The employer reserve fund for the City of Milwaukee, however, follows investment guidelines approved by the City. The return from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns for 2015 and 2014 categorized by asset class with the corresponding benchmark results. The Townsend Group, ERS' real estate manager in 2015, provided the real estate data and Northern Trust, ERS' custodian, reported the data for the other asset classes and benchmarks listed below. In 2015, the total fund produced a positive return but underperformed its reference benchmark. Within the Fund, public equity asset classes and fixed income produced negative returns. The alternative asset classes - Real Estate, Private Equity, and Absolute Return, produced positive returns. International Equity, Real Estate, Private Equity, and Absolute return outperformed their respective benchmarks. Domestic Equity and Fixed Income underperformed their respective benchmarks, while global equity matched its benchmark.

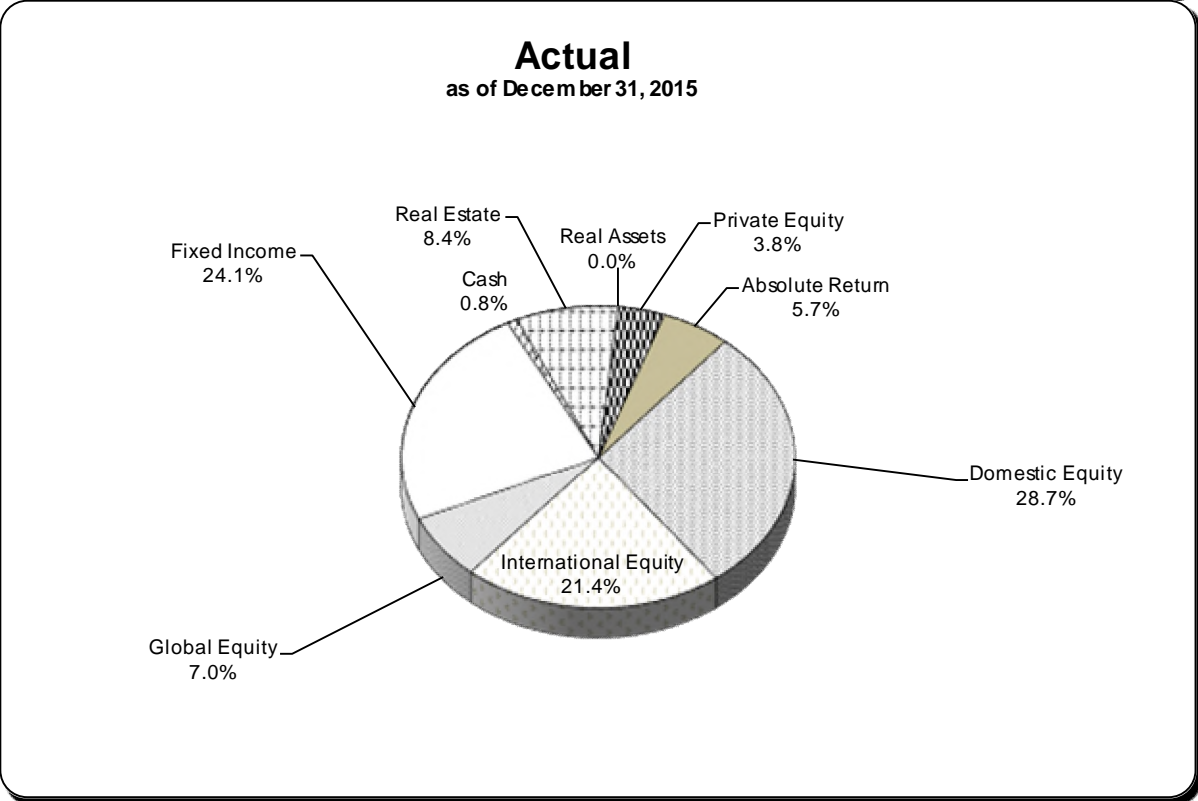
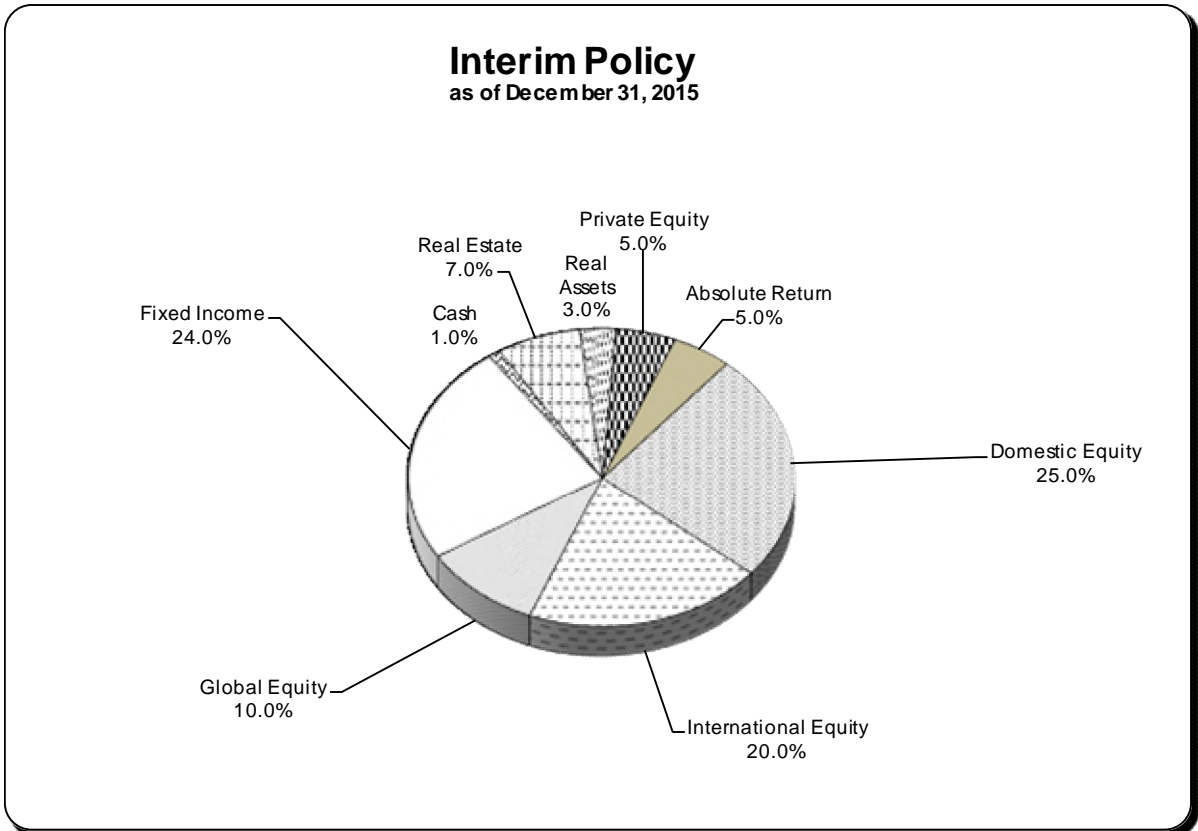
<u>Asset Class</u>	<u>Benchmark</u>	<u>2015 Returns</u>		<u>2014 Returns</u>	
		<u>Net</u>	<u>Benchmark</u>	<u>Net</u>	<u>Benchmark</u>
Domestic Equity	Russell 3000 Index	-0.3%	0.5%	11.2%	12.6%
International Equity	MSCI EAFE Index	-0.7%	-0.8%	-3.9%	-4.9%
Global Equity	MSCI ACWI Index	-2.4%	-2.4%	3.2%	4.2%
Fixed Income	Barclays Capital Aggregate	-2.6%	0.6%	3.9%	6.0%
Real Estate	NCREIF Fund Index ODCE*	14.3%	14.0%	12.4%	11.3%
Private Equity	Cambridge Private Equity Index	12.4%	5.7%	15.4%	11.1%
Absolute Return**	90 Day Treasury Bill + 3%	4.7%	3.1%	-	-
Total Fund	Reference Index	0.5%	1.3%	5.1%	6.0%

*Benchmark was NCREIF Property Index through 2014

**2015 is first full year for absolute return performance

As of December 31, 2015, the Fund's actual asset allocation was within the interim allocation tolerance ranges established by the Board at its December 18, 2014 meeting.

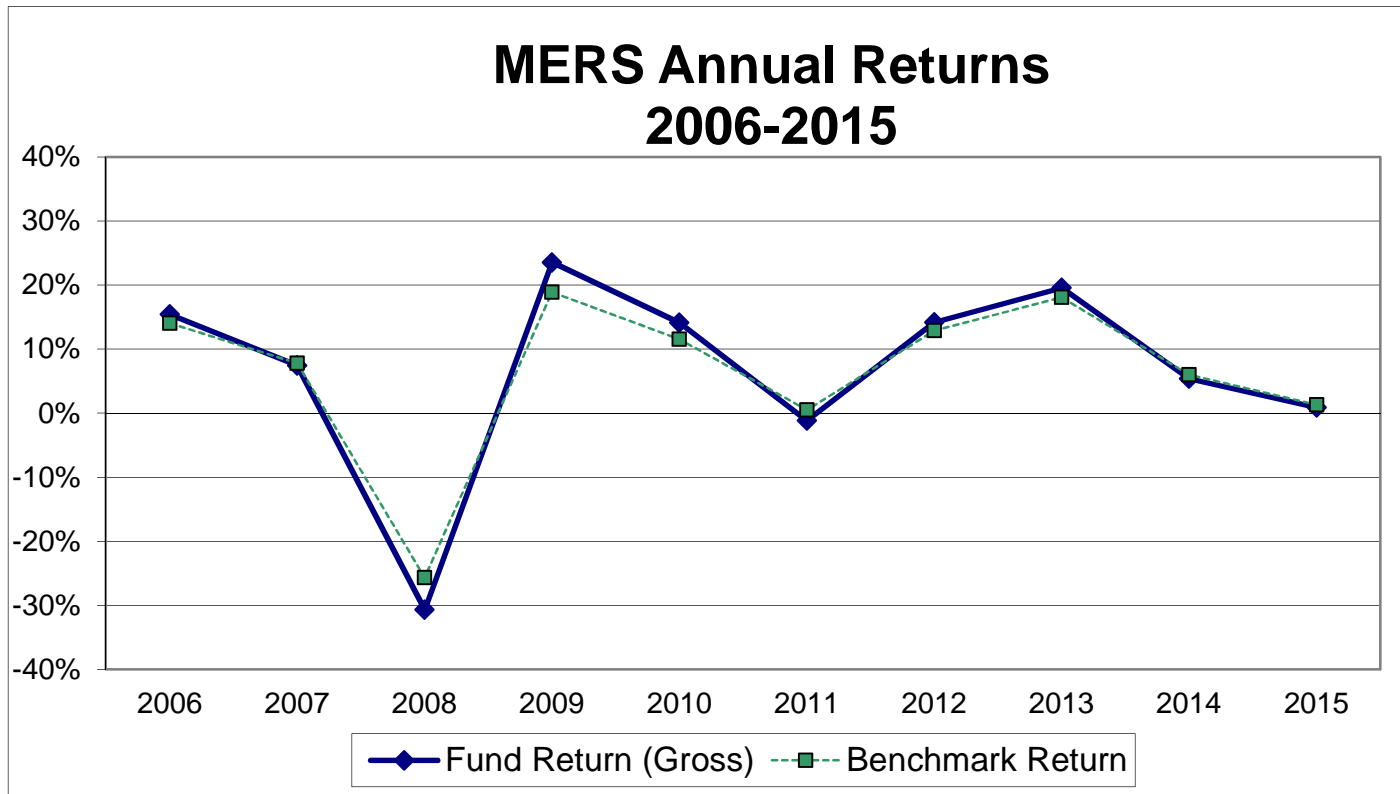
**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**



(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Over the ten-year period ending December 31, 2015, the Fund returned 5.7% annually gross of fees while the benchmark returned 5.7%.



Requests for Information

Members of the Annuity and Pension Board and the senior management of the ERS are fiduciaries of the pension fund and, as such, are charged with the responsibility of ensuring that the system's assets are used exclusively for the benefit of the plan participants and their beneficiaries. This financial report is designed to provide an overview of ERS finances and to demonstrate accountability for resources entrusted to the system for the benefit of the stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Bernard J. Allen
Executive Director
Employees' Retirement System - City of Milwaukee
789 North Water Street, Suite 300
Milwaukee, WI 53202

(See Independent Auditors' Report)

BASIC FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**Statement of Fiduciary Net Position
As of December 31, 2015
(in thousands)**

	Employees' Retirement System Funds					Fiduciary Fund	Total 2015
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Total Employees' Retirement System Fund	Total Policemen's Annuity & Benefit Fund	
ASSETS:							
CASH AND CASH EQUIVALENTS	\$ 128,166	\$ 1,311	\$ (9,422)	\$ 1,332	\$ 121,387	\$ (142)	\$ 121,245
INVESTMENTS (notes 2 and 9):							
Bonds and collateralized mortgage obligations	821,317	2,922	24,608	-	848,847	25	848,872
Common and preferred stocks	1,397,889	4,970	-	-	1,402,859	42	1,402,901
Barclay Bond Index Funds	253,808	902	-	-	254,710	8	254,718
Blackrock Index and Emerging Funds	320,715	1,140	-	-	321,855	10	321,865
Blair William Emerging	34,271	122	-	-	34,393	1	34,394
DFA US and International Small Cap Funds	299,541	1,065	-	-	300,606	9	300,615
Northern Trust Company Collective Equity Index Fund	477,975	1,700	-	-	479,675	14	479,689
Blackrock Russell 1000 Alpha Fund	121,923	434	-	-	122,357	4	122,361
Derivative investments	512	2	-	-	514	-	514
Newton	64,008	228	-	-	64,236	2	64,238
Hedge equity	202,007	718	-	-	202,725	6	202,731
Real estate investments	405,315	1,441	-	-	406,756	12	406,768
Private equity	182,262	648	-	-	182,910	6	182,916
Total investments:	4,581,543	16,292	24,608	-	4,622,443	139	4,622,582
RECEIVABLES AND OTHER ASSETS:							
Employer (note 2)	21	-	-	-	21	-	21
Member (note 2)	931	-	-	-	931	-	931
Actuarially determined contributions (note 12)	9,689	-	-	-	9,689	-	9,689
Interest, dividends and foreign tax recoverable (note 2)	11,665	41	106	-	11,812	-	11,812
Investments sold	3,825	14	-	-	3,839	-	3,839
Tax levy (note 11)	-	-	-	-	-	188	188
Software development and equipment, net of depreciation (note 2)	126	-	-	-	126	-	126
Securities lending collateral (note 9)	-	-	7,388	326,757	334,145	-	334,145
Total receivables and other assets:	26,257	55	7,494	326,757	360,563	188	360,751
Total assets:	4,735,966	17,658	22,680	328,089	5,104,393	185	5,104,578
LIABILITIES:							
Benefits payable	111	-	-	-	111	-	111
City of Milwaukee (notes 4 and 7)	10,765	-	-	-	10,765	-	10,765
Securities lending obligation (note 9)	-	-	7,388	326,757	334,145	-	334,145
Investments purchased	7,037	27	-	-	7,064	-	7,064
Total liabilities	17,913	27	7,388	326,757	352,085	-	352,085
NET POSITION RESTRICTED FOR PENSIONS	\$ 4,718,053	\$ 17,631	\$ 15,292	\$ 1,332	\$ 4,752,308	\$ 185	\$ 4,752,493

See independent auditors' report.

The footnotes are an integral part of the basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2015
(in thousands)**

	Employees' Retirement System Funds				Fiduciary Fund		Total 2015
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Total Employees' Retirement System Fund	Total Policemen's Annuity & Benefit Fund	
ADDITIONS:							
Contributions:							
Employer (note 5)	\$ 72,061	\$ 137	\$ -	\$ -	\$ 72,198	\$ 353	\$ 72,551
Member	49,520	33	-	-	49,553	-	49,553
Tax levy	-	-	-	-	-	188	188
Total contributions:	<u>121,581</u>	<u>170</u>	<u>-</u>	<u>-</u>	<u>121,751</u>	<u>541</u>	<u>122,292</u>
Investment income (loss):							
Net appreciation (devaluation) in fair value of investments	(4,570)	(15)	(354)	-	(4,939)	-	(4,939)
Interest, dividends and other investment income	69,138	246	533	1,666	71,583	2	71,585
Total investment income (loss):	<u>64,568</u>	<u>231</u>	<u>179</u>	<u>1,666</u>	<u>66,644</u>	<u>2</u>	<u>66,646</u>
Less: investment expense (note 7)	<u>(31,329)</u>	<u>-</u>	<u>-</u>	<u>(333)</u>	<u>(31,662)</u>	<u>(1)</u>	<u>(31,663)</u>
Net investment income (loss):	<u>33,239</u>	<u>231</u>	<u>179</u>	<u>1,333</u>	<u>34,982</u>	<u>1</u>	<u>34,983</u>
Total additions:	<u>154,820</u>	<u>401</u>	<u>179</u>	<u>1,333</u>	<u>156,733</u>	<u>542</u>	<u>157,275</u>
DEDUCTIONS:							
Administrative expenses (note 7)	(8,089)	-	-	(1,597)	(9,686)	(82)	(9,768)
Benefits paid	(333,196)	(140)	-	-	(333,336)	(421)	(333,757)
Refunds of contributions	<u>(4,071)</u>	<u>(82)</u>	<u>(10,400)</u>	<u>-</u>	<u>(14,553)</u>	<u>-</u>	<u>(14,553)</u>
Total deductions:	<u>(345,356)</u>	<u>(222)</u>	<u>(10,400)</u>	<u>(1,597)</u>	<u>(357,575)</u>	<u>(503)</u>	<u>(358,078)</u>
NET POSITION CHANGES:							
Net increase (decrease) in net position before transfers	(190,536)	179	(10,221)	(264)	(200,842)	39	(200,803)
Net position transfers (notes 3, 4 and 11)	<u>2,028</u>	<u>(2,028)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in net position	<u>(188,508)</u>	<u>(1,849)</u>	<u>(10,221)</u>	<u>(264)</u>	<u>(200,842)</u>	<u>39</u>	<u>(200,803)</u>
Net position restricted for pensions:							
Beginning of year	4,906,561	19,480	25,513	1,596	4,953,150	146	4,953,296
End of year	<u>\$ 4,718,053</u>	<u>\$ 17,631</u>	<u>\$ 15,292</u>	<u>\$ 1,332</u>	<u>\$ 4,752,308</u>	<u>\$ 185</u>	<u>\$ 4,752,493</u>

See independent auditors' report.

The footnotes are an integral part of the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF RETIREMENT SYSTEM

The following brief description of the more common provisions of the Employees' Retirement System of the City of Milwaukee (the "Retirement System" or "ERS") is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement ("GPS"). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the System. Over 98.8% of the existing members have consented to GPS and are accounted for in the Global Combined Fund. Members who have not consented are accounted for in one or more of the non-consenter funds. Participants should refer to (Chapter 36 of the City of Milwaukee Charter) for more complete information.

The GPS provides that members enrolled through June 28, 2000, must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000, are automatically participants in the Combined Fund.

Since the January 1, 2015, actuarial valuation was completed, 18 individuals who were eligible for ERS benefits as of June 28, 2000, and who had not consented to GPS, have now consented. The January 1, 2016, valuation reflects the impact of this change.

Plan Administration

The Retirement System was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin of 1937) to provide the payment of retirement and other benefits to employees of the City of Milwaukee (the "City"). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The Retirement System is a cost-sharing, multi-employer plan, which also provides benefits to employees of the Milwaukee Metropolitan Sewerage District, Wisconsin Center District, Veolia Water Milwaukee LLC, Milwaukee Housing and Redevelopment Authorities, non-certified staff of Milwaukee Public Schools and some employees of the Milwaukee Area Technical College (the "Agencies"). City employees comprise approximately 55.8% of the active participants in the Retirement System.

Member contributions to the ERS are required under Chapter 36-08-7. The City of Milwaukee in its legislative capacity has the sole authority to make changes to Chapter 36 and to set contribution requirements and benefit terms. Contributions are the following percentages of earnable compensation:

- (a) General Employees 5.5% (tier 1 – enrolled prior to January 1, 2014)
 4.0% (tier 2 – enrolled on or after January 1, 2014)
- (b) Firemen and Policemen 7.0%
- (c) Elected Officials 7.0% (tier 1 – enrolled prior to January 1, 2014 and elected to an office prior to January 1, 2014; if enrolled prior to January 1, 2014, and elected for the first time to an office on or after January 1, 2014, and employee was paying contributions prior to being elected, employee pays contributions at the rate they were paying prior to becoming an elected official; if enrolled prior to January 1, 2014, and elected for the first time to an office on or after January 1, 2014, and employer was picking up contributions on behalf of the employee prior to being elected, employer pays 7.0%)
 4.0% (tier 2 – enrolled on or after January 1, 2014)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)

Commencing in 1990, contributions of one dollar of each police officer's longevity pay per year, excluding sergeant of police, detective lieutenant and ranks above same, are made by police officers on their own behalf.

In addition to the above percentage contributions, additional contributions were required of general city employees who were enrolled as active members after January 1, 2000. To participate in the Global Combined Fund, each new member was required to contribute 1.6% of his or her pensionable earnings for a period of eight years; however, the 1.6% required contributions does not apply to members required to make member contributions under 36-08-7-a or c.

The Annuity and Pension Board ("Board"), consisting of eleven (11) members, administers the Retirement System. The Board consists of three representatives appointed by the President of the Common Council; three representatives appointed by the Mayor; three representatives elected by the active members of the ERS: one from the Fire Department, one from the Police Department, and one from the General City, each elected by the employees from that particular group of employees; one member elected by retired participants of the ERS; and the City Comptroller, who serves as an ex-officio voting member.

Full-time employees, part-time employees who are eligible under adopted rules and regulations, and elected officials who have evidenced their intent to join are members of the Retirement System.

The 2011 Wisconsin Act 10, also known as the governor's Budget Repair Bill, created Wis. Stat. 62.623 (Payment of contributions in an employee retirement system of a first class city), which requires certain members to pay employee required contributions and prohibits their employer from making the contributions on their behalf.

Effective February 1, 2015, General City employees now contribute either 5.5% or 4% of their earnable compensation through payroll deductions; pursuant to Wisconsin Act 10, neither the City of Milwaukee nor the Agencies now contribute towards the member contributions on behalf of the members.

Effective December 20, 2015 (PP1-2016), Police employees contribute 7.0% of their earnable compensation as member contributions each pay period. The City no longer pays the member contributions on behalf of these employees.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)

Benefits Provided

The normal retirement benefit is a monthly pension for the life of the member. A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age 60, or age 65 if enrolled on or after January 1, 2014, for General City employees and age 57 for police officers and firefighters. General City employees who have attained age 55, or age 60 if enrolled on or after January 1, 2014, and completed 30 years of creditable service are eligible for service retirement. Police officers of any age with 25 years of fire and police creditable service and firefighters who have attained age 49 and completed 22 years of fire and police creditable service are eligible for service retirement. Effective December 20, 2015, service retirement eligibility criteria for the Police employees in the Milwaukee Police Association and the Milwaukee Police Supervisors Organization enrolled on or after December 20, 2015 has changed. Affected members of the Police will now be eligible for a service retirement with 25 years of police qualifying time and attaining age 50.

For General City employees, the amount of a member's service retirement allowance is equal to 2%, or 1.6% for members enrolled on or after January 1, 2014, of final average salary (the highest average of earnable compensation during any 3 years preceding retirement, death or termination) for each year of creditable service. The service retirement allowance for general city employees who retire after January 1, 1989, cannot exceed 70% of final average salary. For police officers and firefighters, the retirement allowance is 2.5% of the final average salary (computed on the year of creditable service during which earnable compensation was highest) for each year of creditable service.

The retirement allowance for firefighters hired after March 1, 1989, and police officers hired after July 1, 1989, is limited to 90% of final average salary (excluding any imputed service credit provided under the GPS).

For elected officials enrolled prior to January 1, 2014, the retirement allowance is 2.6% of final average salary for each year of creditable service as an elected official for years before 1996, limited to 70% of the final average salary; from 1996 forward the rate of accrual for creditable service, imputed military service, or seasonal service is 2.5% except for the mayor, who has an accrual rate of 2.0%, limited to 70% of the final average salary, except for elected officials who were enrolled prior to 2014 and are first elected to office on or after January 1, 2014, in which case their accrual rate is 2% for each year if they contribute 5.5% of their earnable compensation, or 2.5% for each year if they contribute 7% of their earnable compensation. For elected officials enrolled on or after January 1, 2014, the accrual rate is 1.6% of final average salary for each year of creditable service as an elected official limited to 70% of the final average salary.

Chapter 36 of the Milwaukee City Charter provides for escalators to nearly all retirees. General City employees participating in the Global Combined Fund and enrolled prior to January 1, 2014, retiring on a service retirement allowance on or after January 1, 2000, are eligible for a pension escalator of 1.5% on the second, third and fourth anniversaries of their retirement and 2% on each anniversary thereafter. Police officers and firefighters participating in the Global Combined Fund retiring on a service retirement allowance on or after January 1, 2000, are eligible for a pension escalator based upon the percentage increase in the prior year's Consumer Price Index-All Urban Consumers (CPI-U) effective with their first anniversary and each anniversary thereafter. The percentage increase is determined annually by measuring the change in the Index from November of one year to November of the following year. This escalator is guaranteed to be at least two percent but is capped at three percent.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)

General City employees enrolled on or after January 1, 2014, retiring on a service retirement allowance are eligible for a pension escalator of 2% on their fifth anniversary of retirement and each anniversary thereafter.

Rules governing escalators provided to retirees retiring prior to January 1, 2000 (before the Global Pension Settlement), differ from those described herein. In addition, a one-time "catch up" adjustment was provided in January of 1996 to employees who retired on a service retirement allowance on or before September 30, 1987, to partially offset the increase in inflation. For a complete description of the escalator rules, see Chapter 36 of the Milwaukee City Charter. The Retirement System also provides for ordinary and duty disability benefits as well as ordinary and duty death benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. *Basis of Accounting* - The financial statements are prepared using the accrual basis of accounting. Retirement and other contributions are recorded when due. Investment income is recognized when earned and expenditures are recorded when incurred.
- b. *Reporting Entity* - This report includes all of the funds of the ERS and the PABF. The reporting entity for the ERS consists of the primary government and its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable or other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if (1) it appoints a voting majority of the organization's governing body and it is able to impose its will on that organization; (2) it appoints a voting majority of the organization's governing body and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government; or (3) the organization is fiscally dependent on and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Certain legally separate, tax exempt organization should also be reported as a component unit entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Component units are reported using one of two methods, discrete presentation or blending. Generally, component units should be discretely presented in a separate column in the financial statements. A component unit should be reported as part of the primary government using the blending method if it meets any one of the following criteria: (1) the primary government and the component unit have substantively the same governing body and a financial benefit or burden relationship exists, (2) the primary government and the component unit have substantively the same governing body and management of the primary government has operational responsibility for the component unit, (3) the component unit serves or benefits, exclusively or almost exclusively, the primary government rather than its citizens, or (4) the total debt of the component unit will be paid entirely or almost entirely from resources of the primary government.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Blended Component Units

CMERS Low Beta, LLC, was created by the ERS to serve as a hedge fund of funds investment vehicle for the Retirement System. CMERS Low Beta, LLC, is a legally separate entity governed by a board of directors that is appointed by the Annuity and Pension Board of the ERS. The ERS hired UBS Hedge Fund Solutions as investment manager for the hedge fund of funds portfolio. Although it is legally separate from the ERS, CMERS Low Beta, LLC, is reported as if it were a part of the ERS because its sole purpose is as a vehicle for a hedge fund of funds portfolio for the benefit of the Retirement System. The ERS has hired MUFG Alternative Fund Services (Cayman) Limited as Administrator and Ernst and Young as Auditor for CMERS Low Beta, LLC, and will prepare financial statements for the entity for the year ended December 31, 2015.

One Oakbrook Investors, LLC, a Delaware limited liability company, was created by the ERS to serve as a private real estate investment vehicle for the retirement system. One Oakbrook Investors, LLC, is a legally separate entity. The ERS hired UBS Realty Investors LLC as investment manager for One Oakbrook Investors. Although it is legally separate from the ERS, One Oakbrook Investors, LLC, is reported as if it were a part of the ERS because its sole purpose is as a vehicle for direct real estate investing for the benefit of the retirement system. Properties in One Oakbrook Investors, LLC, are valued on a quarterly basis and independently appraised on an annual basis. Financial statements were prepared as of December 31, 2015, by PricewaterhouseCoopers LLP.

- c. *Contributions* - The Retirement System records employee contributions as earned. Contributions earned but not yet received from the City, participating city agencies and members are reflected as contributions receivable.

At January 1, 2015 the measurement date, membership of the plan was as follows:

Plan members currently receiving benefits	12,597
Inactive plan members entitled to but not yet receiving benefits	3,279
Current employees	
Vested	8,356
Non-vested	2,608
	26,840
Total	26,840

This membership data is as of January 1, 2015, and reasonably approximates membership data through December 31, 2015.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- d. *Investments* - Investments of the Retirement System are recorded at fair value as determined by quoted prices in active markets. Short-term investments are reported at cost, which approximates fair value. Receivables and payables relating to investment transactions entered into prior to year-end, but not completed until after year-end, are recorded as assets or liabilities.

Real estate consists of equity and debt participation in diversified real estate investments. The majority of properties in the portfolio are offices, industrial warehouses, multi-family and retail. The real estate investments are carried at market value, which approximates fair value, as of December 31, 2015. An annual review performed by independent professional appraisers is used to assess the market value.

Private equity consists of equity and debt participation in diversified private equity investments. The majority of investments in the portfolio consist of buyouts and venture capital. The private equity investments are carried at market value, which approximates fair value, as of December 31, 2015.

The Retirement System has investments in certain derivatives, including interest rate, credit, index volatility, and currency futures; bond futures; deliverable and non-deliverable forward contracts; bond forwards; currency forwards; currency options; options on bond futures, U.S. equity indices, U.S. equity index futures, volatility indices, volatility futures, and ETFs; total return swaps; and to-be-announced (TBA) securities. The Retirement System also allows UBS Hedge Fund Solutions to allocate funds within CMERS Low Beta, LLC, to hedge fund managers that employ strategies that may utilize derivatives including, but not limited to, the derivative types listed earlier. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. Additional information on the Retirement System's derivative use, including the Notional and Contractual Amounts, Market Value and Unrealized Gains and Losses of the holdings, can be found in Note 9.

All investments are made in accordance with the provisions of Section 36-09 of Chapter 36 of the Milwaukee City Charter. In accordance with these provisions, several funds of the Retirement System are invested within the requirements of ss. 40.03(1) (n) and 62.63 (3) Wisconsin Statutes. The Retirement System did not invest more than 54.1% of the total assets, as measured by their cost, in stocks of corporations in 2015.

The Retirement System has investments in certain financial instruments such as U.S. Treasury Strips, collateralized mortgage obligations and asset backed securities. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. The Retirement System's investment managers may temporarily invest small amounts of available cash in short-term investments prior to purchasing securities consistent with their investment strategy.

The Retirement System's international equity managers may invest in warrants and foreign exchange forward contracts as a hedge to foreign currency fluctuations. The gain/ (loss) on these positions on December 31, 2015, are detailed in Note 9.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Due to the level of risk associated with certain investment securities, it is 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.

- e. *Investment Income* - Dividends and interest are recorded as earned. All dividend and interest income, and all realized investment gains and losses, are allocated to the individual funds based on fund balances at the beginning of the year.
- f. *Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- g. *Capitalization* – The Retirement System capitalizes hardware and software development costs to better allocate these costs over their useful lives. Amounts spent for hardware (including, but not necessarily limited to servers, printers, monitors, disk drives, network infrastructure, switches) are capitalized in a yearly hardware pool and depreciated over a life of three years. One half a year's depreciation is expensed in the year of acquisition. Amounts spent toward the development of a Pension Management Information System have been capitalized as Software Development costs. The system went live in 2006 and as of December 31, 2014, all capitalized costs associated with the development and implementation of MERITS have been fully depreciated. As of December 31, 2015, the total cost of the Retirement System's hardware and software development costs totaled \$17,258,000. The total accumulated depreciation totaled \$17,132,000 with \$105,000 of depreciation being recognized during 2015, which is included in Administrative Expenses in the accompanying Statement of Changes in Fiduciary Net Position.
- h. *Contingencies* - Claims and judgments are recorded as liabilities if all the conditions of Government Accounting Standards Board (GASB) pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are probable and management can reasonably estimate the amounts.
- i. *New Pronouncements* - GASB has approved GASB Statement No. 72, *Fair Value Measure and Application*, Statement No. 79, *Certain External Investment Pools and Pool Participants*, and Statement No. 82, *Pension Issues*. When they become effective, application of these standards may restate portions of these financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

3. CONSENT STATUS CHANGES

Members who have not consented to the GPS are comprised of those who have objected to the settlement as well as those who never responded at all. The previous deadline to consent of April 24, 2004, has been extended indefinitely to those who have not responded. Often, non-responders are members with vested rights who separated from service years ago. These members often express an interest in consenting to GPS at the time they are applying for benefits. As of the January 1, 2015, actuarial valuation, 322 Retirement System members were identified as being non-consenting. Of this number, 97 were active members, 208 were inactive members, and 17 were benefit recipients. During 2015, 18 of these members elected to consent to the GPS resulting in a transfer of \$2,028,000 to the Global Combined Fund from the non-consenter funds.

4. EMPLOYERS' RESERVE FUND

The City of Milwaukee and other Agencies (employers) participating in the Retirement System may voluntarily contribute to the Employers' Reserve Fund established in Section 36-08-8 of Chapter 36. Employers having such funds on deposit may use them to offset required contributions by adopting a formal resolution directing such a transfer. In 2015, the City of Milwaukee utilized \$10.4 million from the Reserve Fund to offset required contributions. The balance of reserve fund has been reduced by this amount to reflect the City's utilization of the monies. As of December 31, 2015, the City of Milwaukee is the only employer choosing to participate in this fund and investing according to City of Milwaukee investment policies.

5. NET PENSION LIABILITY OF PARTICIPATING PLANS

The components of the pension liability of the ERS at December 31, 2015, were as follows (in thousands):

Total pension liability	\$	5,172,865
Plan fiduciary net position		<u>(4,752,308)</u>
ERS's net pension liability	\$	<u><u>420,557</u></u>

Plan fiduciary net position as a percentage of the total pension liability	91.87%
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EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

5. NET PENSION LIABILITY OF PARTICIPATING PLANS (cont.)

Actuarial assumptions. The last actuarial valuation was performed as of January 1, 2015, and the amounts were used to roll-forward the total pension liability to the plan's year-end December 31, 2015, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal – Level Percentage of Pay
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are amortized over the average of the expected remaining service lives of all members. The differences between projected and actual earnings are amortized over a closed period of five years.
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.25% for calendar years through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	General City 3.0% - 7.5% Police & Fire 3.0% - 14.4%
Inflation Assumption	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table projected nine years using Scale AA. Future generational rates are projected from 2009 based on Scale AA. For duty and ordinary disability retirees, use the RP-2000 Disability Mortality Table. For death in active service, the rates are similar to those used for regular retirees and survivors with a 6-year setback.
Experience Study	The actuarial assumptions used in December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2007-December 31, 2011.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
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5. NET PENSION LIABILITY OF PARTICIPATING PLANS (cont.)

The long-term expected rate of return on the pension plan investments was determined based on the results of an experience review performed by Buck Consultants. The results of the experience review were presented to the Board by Buck Consultants at the Board's December, 2012 Meeting and adopted at the same meeting. The rate of return assumption was based on the Retirement System's target asset allocation. In the experience review, Buck Consultants developed best estimate ranges of expected future real rates of return (net of inflation) for the portfolio, based on the expected returns of each major asset class and their weights in the portfolio. Buck used an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Expected investment expenses were subtracted and expected inflation was added to arrive at the long term expected nominal return. A value for the expected long term expected return was selected for the portfolio such that there was a better than 50% likelihood of the emerging returns exceeding the expected return.

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System's target asset allocation as of December 31, 2015 are listed in the table below:

Asset Class	Policy	Actual	Long-term Expected Real Rate of Return
Domestic Equity	25.00%	28.70%	9.22%
International Equity	20.00%	21.40%	7.14%
Global Equity	10.00%	7.03%	8.00%
Fixed Income	24.00%	24.14%	1.41%
Cash	1.00%	0.84%	0.87%
Real Estate	7.00%	8.38%	6.91%
Real Assets	3.00%	0.00%	5.45%
Private Equity	5.00%	3.84%	12.40%
Absolute Return	5.00%	5.67%	4.68%
	100.00%	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 8.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from ERS agencies will be made at contractually required rates, actuarially determined. Based on those assumptions, the ERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. The cross over analysis produces a single rate of 8.50 percent, which reflects the long-term expected rate of return on ERS investments. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTES TO BASIC FINANCIAL STATEMENTS
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5. NET PENSION LIABILITY OF PARTICIPATING PLANS (cont.)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the ERS calculated using the discount rate of 8.50 percent, as well as what the ERS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50 percent) or 1-percentage-point higher (9.50 percent) than the current rate (in thousands):

	1% Decrease	Current Discount	1% Increase
	(7.50%)	(8.50%)	(9.50%)
ERS' net pension liability (asset) \$	988,536	\$ 420,557	\$ (58,335)

The components of the net pension liability of the PABF at December 31, 2015, were as follows (in thousands):

Total pension liability	\$	1,233
Plan fiduciary net position		<u>(185)</u>
PABF's net pension liability	\$	<u><u>1,048</u></u>
 Plan fiduciary net position as a percentage of the total pension liability		 15.00%

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5. NET PENSION LIABILITY OF PARTICIPATING PLANS (cont.)

Actuarial assumptions. The last actuarial valuation was performed as the January 1, 2015, and the amounts were used to roll-forward the total pension liability to the plan's year-end December 31, 2015, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal – Level dollar amount
Amortization Method	For pension expense; the difference between expected and actual liability experience and changes of assumptions are recognized immediately. The differences between projected and actual earnings are amortized over a closed period of five years.
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.25% for calendar years through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	None - The Plan is Closed
Inflation Assumption	3.00%
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with nine years of projected improvements for males and females, include full generational projection using mortality improvement Scale AA.
Experience Study	The actuarial assumptions used in December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2007-December 31, 2011.

The long-term expected rate of return on the pension plan investments was determined based on the results of an experience review performed by Buck Consultants. The results of the experience review were presented to the Board by Buck Consultants at the Board's December, 2012 Meeting and adopted at the same meeting. The rate of return assumption was based on the Retirement System's target asset allocation. In the experience review, Buck Consultants developed best estimate ranges of expected future real rates of return (net of inflation) for the portfolio, based on the expected returns of each major asset class and their weights in the portfolio. Buck used an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Expected Investment expenses were subtracted and expected inflation was added to arrive at the long term expected nominal return. A value for the expected long term expected return was selected for the portfolio such that there was a better than 50% likelihood of the emerging returns exceeding the expected return.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
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5. NET PENSION LIABILITY OF PARTICIPATING PLANS (cont.)

Best estimates of arithmetic real rates of return (net of inflation) for each major asset class included in the Retirement System's target asset allocation as of December 31, 2015 are listed in the table below:

Asset Class	Policy	Actual	Long-term Expected
			Real Rate of Return
Domestic Equity	25.00%	28.70%	9.22%
International Equity	20.00%	21.40%	7.14%
Global Equity	10.00%	7.03%	8.00%
Fixed Income	24.00%	24.14%	1.41%
Cash	1.00%	0.84%	0.87%
Real Estate	7.00%	8.38%	6.91%
Real Assets	3.00%	0.00%	5.45%
Private Equity	5.00%	3.84%	12.40%
Absolute Return	5.00%	5.67%	4.68%
	100.00%	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 3.20 percent. Since the PABF is closed to new members and PABF's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current annuitants. Therefore, the 20 year Municipal Bond Rate 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 ERS calculated using the discount rate of 3.20 percent, as well as what the PABF's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.20 percent) or 1-percentage-point higher (4.20 percent) than the current rate (in thousands):

	1% Decrease (2.20%)	Current Discount (3.20%)	1% Increase (4.20%)
PABF's net pension liability \$	1,089	1,048	1,010

6. TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information is designed to provide information about progress made in accumulating sufficient assets to pay benefits when due. With the implementation of GASB 67, the only schedule that has ten years of historical information available is the Schedule of Contributions. See the Required Supplementary Information section of these financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
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7. EXPENSES

Under the Milwaukee City Charter, as provided in the GPS, all administrative and investment expenses of the Retirement System are the direct obligation of the Global Combined Fund. Expenses are normally paid through the City of Milwaukee accounting system and reimbursed by the Retirement System to the City. Investment manager fees of \$31,329,145 and administrative expenses of \$8,088,774 were charged to the Global Combined Fund in 2015.

In addition, the Annuity and Pension Board authorized the payment of \$1,597,000 of administrative costs from the Securities Lending Fund during 2015. This reduced the amounts needed from the Global Combined Fund to fund the costs to administer the Retirement System (see Note 9).

8. INCOME TAX STATUS

The Retirement System obtained its latest determination letter on January 29, 2015, in which the Internal Revenue Service ("IRS") stated that the Retirement System, as then designed and in conjunction with the proposed amendments required by the IRS, was in compliance with the applicable requirements of the Internal Revenue Code. The Retirement System's management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been reflected in the accompanying basic financial statements.

9. INVESTMENTS

Deposits and Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the Retirement System will not be able to recover the value of its deposits, investments, or securities. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Retirement System's name, and held by the counterparty. As of December 31, 2015, no investments or securities were exposed to custodial credit risk. The Retirement System is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. This amount was zero as of December 31, 2015.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
NOTES TO BASIC FINANCIAL STATEMENTS
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9. INVESTMENTS (cont.)

Investment Policies

The Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the ERS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the Retirement System. The following was the ERS Board's adopted asset allocation policy as of December 31, 2015:

Asset Class	Policy
Domestic Equity	25.00%
International Equity	20.00%
Global Equity	10.00%
Fixed Income	24.00%
Cash	1.00%
Real Estate	7.00%
Real Assets	3.00%
Private Equity	5.00%
Absolute Return	5.00%
	100.00%

Rate of return. For the year ended December 31, 2015, the annual money-weighted rate of return on ERS investments, net of pension plan investment expense, was 0.63 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
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9. INVESTMENTS (cont.)

The Retirement System was established to provide for the present and future retirement, disability, and death and survivor benefit payments for all city and city agency employees. All of the funds of the Retirement System taken in the aggregate constitute a special trust subject to applicable local, state, and federal laws, including but not limited to sections 36-15, 36-09-1, and 36-09-6 of the Milwaukee City Charter. As of December 31, 2015, the fair market carrying value of the investments are as follows (in thousands):

<u>Investment Type</u>	<u>Carrying Value</u> <u>2015</u>
Common Stock	\$ 1,361,859
Preferred Stock	15,931
Convertible Equity	2,278
Corporate Convertible Bonds	22,604
Barclay Bond Index Fund	254,718
COLTV Stock Index Fund	479,688
Blackrock Index Canadian	12,981
Blackrock EAFE Index	170,448
Blackrock MSCI Emerging	46,773
Blair William Emerging	34,394
DFA Small Cap Fund	159,991
DFA Invt Dimensions	140,624
Blackrock ACWI Value	91,663
Blackrock Russell 1000 Fund	122,361
Newton	64,238
Rights & Warrants	229
Government Bonds	349,657
Government Agencies	16,082
Municipal/Provincial Bonds	23,197
Corporate Bonds	396,124
Gov Mortgage Backed Sec	20,418
Gov Issued Comm Mort	16,173
Comm Mortgage Backed Sec	12,347
Asset Backed Securities	4,687
Other Fixed Income	10,187
Real Estate Investments	406,768
Private Equities	182,916
Derivative investments	514
Hedge-Equity	202,731
 Total Investments	 \$ <u><u>4,622,582</u></u>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**NOTES TO BASIC FINANCIAL STATEMENTS
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9. INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's investment guidelines limit how much each fixed income manager may deviate duration from their respective benchmarks. Duration is the approximate percentage change in price for a 100-basis-point change in yield. Depending on the investment manager, the duration of the Retirement Systems active fixed income managers must either be between 80% and 250% of the duration of the Barclays Capital Aggregate Index, +/- 2 years of the Barclays Capital Aggregate Index, or +/- 2 years of the Citigroup World Government Bond Index. As of December 31, 2015, the segmented time distribution of the various investment types of debt securities for the Retirement System is as follows (in thousands):

<u>Investment</u>	<u>2015</u>					
	<u>Fair Market Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10+Years</u>	
Government Bonds	\$ 466,459	\$ 33,478	\$ 252,520	\$ 105,075	\$ 75,386	
Government Agencies	75,231	59,524	15,707	-	-	
Municipal/Provincial Bonds	23,197	1,942	12,985	-	8,270	
Corporate Bonds	449,505	16,110	192,678	107,728	132,989	
Gov Mortgage Backed Sec	107,656	1	92,686	6,856	8,113	
Gov Issued Comm Mort	16,173	-	12,499	3,674	-	
Comm Mortgage Backed Sec	18,254	-	5,907	-	12,347	
Asset Backed Securities	6,263	1	5,731	-	531	
Corporate Convertible Bonds	22,604	-	6,485	-	16,119	
Totals	\$ <u>1,185,343</u>	\$ <u>111,055</u>	\$ <u>597,198</u>	\$ <u>223,333</u>	\$ <u>253,756</u>	

*Assets held in commingled funds have been allocated based on each respective commingled fund's characteristics as of 12/31/2015. As a result, Fair Market Values for individual Investment Types on this table may differ from the Carrying Values for individual Investment Types provided on page 39.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

9. INVESTMENTS (cont.)

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or deposit. ERS investment guidelines allow foreign currency contracts for defensive hedging purposes. One manager's guidelines also allow for active investment in currency futures, currency forwards, and currency options. In addition, the guidelines recommend adequate diversification by country and currency. As of December 31, 2015, the Retirement System's exposure to foreign currency risk, expressed in U.S. Dollars, is as follows (in thousands):

<u>Foreign Currency</u>	<u>2015 Fair Market Value</u>
Australian dollar	\$ 12,803
Brazilian real	10,672
British pound sterling	165,018
Canadian dollar	46,015
Chinese yuan renminbi	(772)
Czech Koruna	397
Danish krone	9,448
Euro	241,676
Hong Kong dollar	21,341
Indian rupee	(10)
Indonesian rupiah	1,854
Japanese yen	181,276
Malaysian ringgit	711
Mexican peso	16,825
New Israeli shekel	45
New Zealand dollar	21,971
Norwegian krone	5,013
Peruvian nuevo sol	(64)
Polish zloty	2,029
Singapore dollar	1,507
South African rand	658
South Korean won	22,431
Swedish krona	13,682
Swiss franc	49,813
Turkish lira	20
Total	\$ <u>824,359</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**NOTES TO BASIC FINANCIAL STATEMENTS
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9. INVESTMENTS (cont.)

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement System's investment guidelines require its fixed income managers to have an Investment Grade average portfolio. The Retirement System's active fixed income managers are allowed to hold a maximum of 20% of their respective portfolio's market value in issues rated B- or B3, and an additional 5% may be invested in non-rated issues. The quality ratings of investments in fixed income securities of the Retirement System as described by Standard & Poor's as of December 31, 2015, are as follows (in thousands):

<u>Investment Type</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>C</u>	<u>US Government Guaranteed</u>	<u>Not Rated Quality Rating Not Available</u>
Asset Backed Securities	\$ 1,577	\$ 434	\$ 659	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,593
Comm Mortgage Backed Sec	-	5,907	2,036	5,038	-	-	-	-	-	5,273
Corporate Bonds	502	21,506	104,110	170,553	82,141	53,818	15,205	212	-	1,458
Corporate Convertible Bonds	-	-	10,436	2,703	4,346	2,490	1,666	-	-	963
Government Agencies	59,524	15,707	-	-	-	-	-	-	-	-
Government Bonds	137,882	7,243	19,557	8,363	2,293	-	-	-	180,293	110,827 **
Gov Mortgage Backed Sec	-	87,433	-	-	-	-	-	-	20,222	-
Gov Issued Comm Mort	-	-	-	-	-	-	-	-	16,173	-
Municipal/Provincial Bonds	3,338	1,282	9,807	-	-	8,270	-	-	-	500
Total Value by Rating	\$ <u>202,823</u>	\$ <u>139,512</u>	\$ <u>146,605</u>	\$ <u>186,657</u>	\$ <u>88,780</u>	\$ <u>64,578</u>	\$ <u>16,871</u>	<u>212</u>	\$ <u>216,688</u>	\$ <u>122,614</u>

Note: The Retirement System held no investments in the C or D quality rating at the end of 2015.

**\$110,827 of the amount listed on the table as Government Bonds Not Rated is Rated Investment Grade by Moody's.

***Assets held in commingled funds have been allocated based on each respective commingled fund's characteristics as of 12/31/2015. As a result, Fair Market Values for individual Investment Types on this table may differ from the Carrying Values for individual Investment Types provided on page 39.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

9. INVESTMENTS (cont.)

Derivatives

The ERS' Statement of Investment Policy written objectives and guidelines governing the investment of Fund assets allows separate account investment managers to use forward contracts and derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes if the Board approves their use within the individual manager's written guidelines. No assets shall be committed to futures, options, options on futures, forwards and other derivatives unless approved by the Board.

Prohibited investments in separate accounts include mortgage interest only, principal only, inverse floaters or other CMO derivatives that have uncertain or volatile duration or price movement.

In 2015, the Retirement System's separate account investment managers utilized currency forwards, bond forwards, bond futures, currency options, interest rate futures and options on a bond futures contract. Currency forwards are necessary to purchase or sell non-U.S. securities. Bond forwards and futures are sometimes more liquid and easier to trade than the respective underlying security and can allow an investment manager to reduce the costs of constructing an efficient portfolio. A long position in an options contract can result in a more efficiently constructed portfolio because it can provide exposures, for example currency or duration exposure, with substantially reduced downside risk because the maximum loss possible is equal to the price of the option premium.

Currency Forwards

A foreign currency forward is a contractual agreement between two parties to pay or receive amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. The Retirement System's International Equity and Global Equity managers entered into foreign exchange positions, such as forward and spot contracts, to hedge foreign currency exposure or obtain a currency for a pending cash transaction. The ERS has two Fixed Income managers who are allowed to invest globally. One of them only enters into spot contracts to obtain a currency for a pending cash transaction. The other global fixed income manager enters into currency forward and spot contracts for the purposes of achieving a positive return in addition to the reasons stated above. The majority of the contracts are short-term in duration and mature within 90 days. However, as of December 31, 2015, some contract positions had longer durations that did not exceed 3 years.

Bond Forwards

A bond forward is a non-standardized contractual agreement between two parties to buy or sell a pre-determined amount of a bond at a future date in exchange for a price agreed upon today. The Retirement System's Global Fixed Income manager entered into bond forward contracts for the purposes of hedging and achieving a positive return. The ERS' bond forward contracts held as of December 31, 2015, had maturities of up to 30 years.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

9. INVESTMENTS (cont.)

Bond and Interest Rate Futures

A futures contract is a standardized contractual agreement between two parties, made through an organized exchange, to buy or sell a pre-determined amount of a bond at a future date in exchange for a price agreed upon today. The counterparty credit risk for a futures contract is generally less than privately negotiated forward contracts because the organized exchange acts as a clearinghouse that typically settles net changes to futures contract values daily. The ERS' Global Fixed Income manager entered into bond and interest rate futures contracts for the purposes of hedging and achieving a positive return. All of the ERS' futures contracts held as of December 31, 2015, were short-term in duration with maturities less than 90 days.

Currency Options

An option contract provides one party the right, but not the obligation, to buy or sell a specific amount of a specific security or index at a fixed price within a predetermined time period for a nonrefundable fee. The ERS' Global Fixed Income manager uses currency options to employ currency hedging strategies. All of the ERS' currency options contracts held as of December 31, 2015, had expiration dates of less than one year.

Option on a Bond Futures

An option contract on a bond future provides one party the right, but not the obligation, to buy or sell a pre-determined amount of a bond futures contract (defined above) within a predetermined time period for a nonrefundable fee. The ERS' Global Fixed Income manager uses options on bond futures to adjust duration exposure. The ERS did not hold any options on bond futures as of December 31, 2015.

The following table summarizes the aggregate notional or contractual amounts for the ERS' separate account managers as of December 31, 2015 (in thousands):

	Notational/ Contractual <u>amounts</u>	Market <u>Value</u>	<u>Gain/(Loss)</u>
Futures contracts – long	\$ 28,726	\$ 28,806	\$ 80
Futures contracts – short	(18,802)	(18,670)	132
Foreign exchange forward spot contracts receivable	1,213	1,207	(6)
Foreign exchange forward spot contracts payable	(1,213)	(1,213)	-
Currency options - long	143	111	(32)
Currency options - short	(54)	(37)	17
Foreign exchange forward long-term receivable	42,057	42,085	28
Foreign exchange forward long-term payable	(42,057)	(41,900)	157

The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited.

The ERS is also exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed through the limits placed on an investment manager within the Statement of Investment Policy.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**NOTES TO BASIC FINANCIAL STATEMENTS
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9. INVESTMENTS (cont.)

The ERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. Typical counterparties for ERS are major financial institutions and broker-dealers. A counterparty's financial condition, cash on hand, and general credit worthiness is evaluated prior to entering into a transaction. In addition, ratings agencies' evaluations are reviewed.

The following table summarizes the counterparty credit risk amounts for the ERS' for derivatives as of December 31, 2015 (in thousands):

<u>Investment Type</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>Exchange Traded</u>	<u>Not Rated Quality Rating Not Available</u>
Assets					
Options					
Foreign Exchange Contracts	\$ 22	\$ 76	13	\$ -	\$ -
Forwards					
Interest Rate Contracts	-	175	-	-	-
Foreign Exchange Contracts	-	-	-	-	274
Warrants					
Equity Contracts	-	-	-	-	229
Swaps					
Credit Contracts	-	-	-	-	272
Liabilities					
Options					
Foreign Exchange Contracts	-	(37)	-	-	-
Forwards					
Foreign Exchange Contracts	-	-	-	-	(89)
Swaps					
Credit Contracts	-	-	-	-	(146)
Total Value by Rating	<u>\$ 22</u>	<u>\$ 214</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 540</u>

Securities Lending

In November 1993, the Retirement System began generating revenue through securities lending. Eligible securities are loaned out through the Retirement System's custodian, The Northern Trust Company. The Retirement System earns a daily fee for all securities out on loan. The Retirement System incurs a reduction in earnings for an indemnification agreement with the custodian. Each security loan is initially collateralized by securities or cash for at least 102% of its market value (105% for international securities). All collateral is held by the custodian. Revenue earned from securities lending is to be used to offset expenses of the Retirement System. If the revenues are not expended within one calendar year following receipt, all remaining amounts are distributed to the Non-Consenter Retirement Fund. For the year ended December 31, 2015, the Retirement System earned revenue from securities lending of \$1,666,000, and paid custodian fees of \$333,000. The ERS also disbursed \$1,597,000 to offset some of the Retirement System's administrative costs. As of December 31, 2015, the fair value of securities on loan was \$324,932,126. The value of collateral held for securities on loan was \$334,145,067 as of December 31, 2015, which consisted of approximately 50.2% U.S. Equities, 33.3% U.S. Government Fixed obligations, 6.1% Global Equities, 9.1% U.S. Corporate Fixed securities and 1.3% other securities.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

9. INVESTMENTS (cont.)

The two main risks in securities lending are counterparty risk and collateral investment risk. Counterparty risk is the risk that the borrower defaults on a loan and is unable to return a security. ERS' contracts with Northern Trust indemnify ERS of any losses it suffers from its securities lending program due to counterparty default. Collateral investment risk is the risk that an investment in a collateral option becomes impaired or decreases in value. ERS is responsible to refund any losses to the borrower as a result of losses in the collateral pool. As of December 31, 2015, the ERS' collateral pool was trading at or near fair market value with no impairments.

10. COMMITMENTS AND CONTINGENCIES

The Retirement System is involved in certain litigation and disputes arising during the normal course of operations. Management does not believe the settlement of such matters will have a material impact on the Retirement System's basic financial statements.

11. FIDUCIARY RESPONSIBILITY OF THE POLICEMEN'S ANNUITY & BENEFIT FUND

On December 14, 2005, the Policemen's Annuity and Benefit Fund (PABF) board adopted a resolution to dissolve and to liquidate all assets of the fund and transfer the assets and full administrative control to the ERS. Charter Ordinances ss. 35-01-3-b and 36-15-1-e, enacted under common council file #050744, and transferred the administrative and managerial responsibilities of the PABF to the ERS authorizing the ERS Annuity and Pension Board to invest the assets of the PABF and to manage its operations. All assets of the PABF were transferred to the systems custodian, Northern Trust, in early 2006 and the ERS board assumed custodial authority and responsibility for the fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund and valuations are prepared by the ERS actuary.

The plan's funding policy is specified in the Milwaukee City Charter, Chapter 35, as amended by Charter Ordinances, Numbers 356 and 357. The annual requirement consists of an amount sufficient to amortize the present value of benefits to all active and retired employees less the value of actuarial assets in the Fund by a series of level payments over the remainder of the funding period. File numbers 950930 and 970052 provide that the Board shall adopt the assumptions which the actuary uses in the annual valuation and tax levy certification. This contribution will comply with GASB, which requires that the annual required contributions (ARC) of the employer should be actuarially determined and have a provision for amortizing the unfunded liability. In general, GASB allows an amortization period of up to 30 years, but 10 years is appropriate for this Fund. The tax levy for 2015 (to be collected in early 2016) would amount to \$188,214 plus budgeted administrative expenses.

As of December 31, 2015, the composition of the fund consisted of 6 annuitants and 30 widows. Once all annuitants and widows are deceased the fund is to be closed and any remaining monies are to be remitted back to the City of Milwaukee.

During 2016, the Policemen's Annuity and Benefit Fund may become insolvent on an actuarial basis. Because of this, the City of Milwaukee will begin funding the benefits and administrative expenses on a monthly basis.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**NOTES TO BASIC FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015**

12. ACTUARIALY DETERMINED CONTRIBUTIONS FROM MEMBER AGENCIES

The Retirement System requires regular payroll contributions from its agencies and members for all active employees covered by the plan on an ongoing biweekly basis. In order to provide for disciplined, predictable and stable funding of pension obligations as a percentage of covered compensation, the City amended its charter to revise the method used to determine employer contributions to the ERS Combined Fund (referred to as the "Stable Employer Contribution Policy"); additionally, this amendment repealed the full-funding limit. The amendment achieves stable and predictable contribution levels and anticipates the implementation of Government Accounting Standards Board (GASB) Statement Number 68, which mandates financial disclosure standards for public pension funds that are independent from funding requirements adopted by the City of Milwaukee pursuant to actuarial standards of practice.

13. SUBSEQUENT EVENTS

The Retirement System has evaluated subsequent events occurring through June 13, 2016, the date the financial statements were available to be issued for events requiring recording or disclosure in the Plan's financial statements. Management feels no material events occurred.

REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Changes in the Net Pension Liability
Last 2 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 70,500	\$ 69,693
Interest	418,874	409,899
Changes in benefit items	-	-
Differences between expected and actual experience	(30,035)	-
Changes of assumptions	(5,206)	-
Benefit payments including refunds of member contributions	<u>(347,889)</u>	<u>(342,569)</u>
Net change in total pension liability	106,244	137,023
Total pension liability - beginning	<u>5,066,621</u>	<u>4,929,598</u>
Total pension liability - ending	<u>\$ 5,172,865</u>	<u>\$ 5,066,621</u>
Plan fiduciary net position		
Contributions - employer	\$ 72,198	\$ 72,844
Contributions - member	49,553	43,663
Net investment income	34,982	238,985
Benefit payments, including refunds of member contributions	(347,889)	(342,569)
Administrative expense	(9,686)	(10,831)
Other	<u>-</u>	<u>-</u>
Net change in plan fiduciary net pension	(200,842)	2,092
Plan fiduciary net position - beginning	<u>4,953,150</u>	<u>4,951,058</u>
Plan fiduciary net position - ending	<u>\$ 4,752,308</u>	<u>\$ 4,953,150</u>
Net pension liability - ending	<u>\$ 420,557</u>	<u>\$ 113,471</u>

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Net Pension Liability
Last 2 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 5,172,865	\$ 5,066,621
Plan fiduciary net position	<u>(4,752,308)</u>	<u>(4,953,150)</u>
Net pension liability	<u>\$ 420,557</u>	<u>\$ 113,471</u>
Plan fiduciary net position as a percentage of total pension liability	91.87%	97.76%
Covered employee payroll	\$ 535,802	\$ 529,939
Net pension liability as a percentage of covered employee payroll	78.49%	21.41%

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Contributions
Last 10 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially Determined Contributions	\$ 72,198	\$ 72,844	\$ 79,533	\$ 73,159	\$ -	\$ -	\$ 60,098	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	72,198	72,844	79,533	73,159	-	-	60,098	-	-	-
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered employee payroll	\$ 535,802	\$ 529,939	\$ 521,651	523,738	\$ 525,181	\$ 538,218	\$ 553,846	\$ 536,558	\$ 532,412	\$ 528,854
Contributions as a percentage of covered-employee payroll	13.47%	13.75%	15.25%	13.97%	0.00%	0.00%	10.85%	0.00%	0.00%	0.00%

See independent auditors' report and notes to required supplementary information.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Investment Returns
Last 2 Fiscal Years

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.63%	5.17%

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Notes to Required Supplementary Information
As of and for the year ended December 31, 2015

1. This information presented in the required supplementary schedules, for pension funding purposes, was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Level Percent of Pay
	Pay assumed to grow 3% per year
Remaining Amortization Period	19 years as of January 1, 2015
Asset Valuation Method	5-year smoothed market, 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.50% return for calendar years 2000 through 2012, 8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	General City 3.0% - 6.9% Police & Fire 3.0% - 10.5%
Inflation Assumption	3.00%
Cost of Living Adjustments	Vary by Employee Group as explained in summary of plan provisions
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with mortality improvements projected to the year 2009 for males and females, include full generational projection using mortality improvement Scale AA.
Experience Study	The actuarial assumptions used in December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2007- December 31, 2011.

2. The total pension liability contained in the Schedule of Net Pension Liability was provided by the Retirement Systems actuary, Buck Consultants. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.
3. The required employer contributions and percent of those contributions actually made are presented in the Schedule of Contributions.

See independent auditors' report and notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFITS FUND – THE CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Changes in the Net Pension Liability
Last 2 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 0	0
Interest	45	61
Changes in benefit items	0	0
Differences between expected and actual experience	(29)	0
Changes of assumptions	7	0
Benefit payments including refunds of member contributions	(421)	(493)
Net change in total pension liability	(398)	(432)
Total pension liability - beginning	1,631	2,063
Total pension liability - ending	\$ 1,233	1,631
Plan fiduciary net position		
Contributions - employer	\$ 541	241
Contributions - member	0	0
Net investment income	1	20
Benefit payments, including refunds of member contributions	(421)	(493)
Administrative expense	(82)	(34)
Other	0	0
Net change in plan fiduciary net pension	39	(266)
Plan fiduciary net position - beginning	146	412
Plan fiduciary net position - ending	\$ 185	146
Net pension liability (asset) - ending	\$ 1,048	1,485

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFITS FUND – CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Net Pension Liability
Last 2 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 1,233	\$ 1,631
Plan fiduciary net position	<u>(185)</u>	<u>(146)</u>
Net pension liability (asset)	<u>\$ 1,048</u>	<u>\$ 1,485</u>
Plan fiduciary net position as a percentage of total pension liability	15.00%	8.95%
Covered employee payroll (Plan Closed)	\$ -	\$ -
Net pension liability (asset) as a percentage of covered employee payroll	N/A	N/A

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFITS FUND – CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Contributions
Last 10 Fiscal Years
(in thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially Determined Contributions	\$ 188	\$ 207	\$ 228	\$ 222	\$ 209	\$ 269	\$ 330	\$ 41	\$ 57	\$ 308
Contributions in relation to the actuarially determined contribution	188	207	228	222	209	269	330	41	57	308
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Covered employee payroll	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	-	-	-	-	-	-	-	-	-	-

See independent auditors' report and notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFITS FUND – CITY OF MILWAUKEE
Required Supplementary Information
Schedule of Investment Returns
Last 2 Fiscal Years

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.63%	5.17%

The plan implemented GASB Statement No. 67 in the fiscal year 2014. Information calculated utilizing GASB 67 prior to fiscal year 2014 is not available.

See independent auditors' report and notes to required supplementary information.

POLICEMEN’S ANNUITY AND BENEFITS FUND – THE CITY OF MILWAUKEE
Notes to Required Supplementary Information
As of and for the year ended December 31, 2015

1. This information presented in the required supplementary schedules, for pension funding purposes, was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.50% return for calendar years 2000 through 2012, 8.25% for calendar years 2013 through 2017, and 8.50% beginning with calendar year 2018
Projected Salary Increases	None - The Plan is Closed
Inflation Assumption	3.00%
Mortality Table	For regular retirees and for survivors, the RP-2000 Combined Mortality Table with nine years of projected improvements for males and females, include full generational projection using mortality improvement Scale AA.
Experience Study	The actuarial assumptions used in December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2007- December 31, 2011.

2. The total pension liability contained in the Schedule of Net Pension Liability was provided by the Retirement System’s actuary, Buck Consultants. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the Retirement System.
3. The required employer contributions and percent of those contributions actually made are presented in the Schedule of Contributions.

See independent auditors' report and notes to required supplementary information.

SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Combining Statement of Fiduciary Net Position
Non-Consenter Funds
As of December 31, 2015
(in thousands)

	Retirement Fund	Combined Retirement Fund	General Employes' Duty Disability Fund	Firemen's and Policemen's Duty Disability Fund	Firemen's Heart and Lung Fund	Firemen's and Policemen's Survivorship Fund	Total 2015
ASSETS:							
CASH AND CASH EQUIVALENTS	\$ 914	\$ 389	\$ 8	\$ -	\$ -	\$ -	\$ 1,311
INVESTMENTS (notes 2 and 9):							
Bonds and collateralized mortgage obligations	2,262	640	20	-	-	-	2,922
Common and preferred stocks	3,851	1,087	32	-	-	-	4,970
Barclay Bond Index Funds	699	197	6	-	-	-	902
Blackrock Index and Emerging Funds	884	249	7	-	-	-	1,140
Blair William Emerging	94	27	1	-	-	-	122
DFA US and International Small Cap Funds	825	233	7	-	-	-	1,065
Northern Trust Company Collective Equity Index Fund	1,317	372	11	-	-	-	1,700
Blackrock Russell 1000 Alpha Fund	336	95	3	-	-	-	434
Derivative investments	2	-	-	-	-	-	2
Newton	177	50	1	-	-	-	228
Hedge equity	556	157	5	-	-	-	718
Real estate investments	1,117	315	9	-	-	-	1,441
Private equity	502	142	4	-	-	-	648
Total investments:	<u>12,622</u>	<u>3,564</u>	<u>106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,292</u>
RECEIVABLES AND OTHER ASSETS:							
Employer (note 2)	-	-	-	-	-	-	-
Member (note 2)	-	-	-	-	-	-	-
Interest, dividends and foreign tax recoverable (note 2)	32	9	-	-	-	-	41
Investments sold	11	3	-	-	-	-	14
Total receivables and other assets:	<u>43</u>	<u>12</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55</u>
Total assets:	<u>13,579</u>	<u>3,965</u>	<u>114</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,658</u>
LIABILITIES:							
Benefits payable	-	-	-	-	-	-	-
City of Milwaukee (notes 4 and 7)	-	-	-	-	-	-	-
Securities lending obligation (note 9)	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
Investments purchased	21	6	-	-	-	-	27
Total liabilities	<u>21</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27</u>
NET POSITION RESTRICTED FOR PENSIONS	<u>\$ 13,558</u>	<u>\$ 3,959</u>	<u>\$ 114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,631</u>

See independent auditors' report.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE
Combining Statement of Changes in Fiduciary Net Position
Non-Consenter Funds
For the Year Ended December 31, 2015
(in thousands)

	Retirement Fund	Combined Retirement Fund	General Employees' Duty Disability Fund	Firemen's and Policemen's Duty Disability Fund	Firemen's Heart and Lung Fund	Firemen's and Policemen's Survivorship Fund	Total 2015
ADDITIONS:							
Contributions:							
Employer (note 5)	\$ -	\$ 137	\$ -	\$ -	\$ -	\$ -	\$ 137
Member	20	13	-	-	-	-	33
Total contributions:	20	150	-	-	-	-	170
Investment income (loss):							
Net appreciation (devaluation) in fair value of investments	(12)	(3)	-	-	-	-	(15)
Interest, dividends and other investment income	190	54	2	-	-	-	246
Total investment income (loss):	178	51	2	-	-	-	231
Less: investment expense (note 7)	-	-	-	-	-	-	-
Net investment income (loss):	178	51	2	-	-	-	231
Total additions:	198	201	2	-	-	-	401
DEDUCTIONS:							
Benefits paid	(109)	(31)	-	-	-	-	(140)
Refunds of contributions	(54)	(28)	-	-	-	-	(82)
Total deductions:	(163)	(59)	-	-	-	-	(222)
NET POSITION CHANGES:							
Net increase (decrease) in net position before transfers	35	142	2	-	-	-	179
Net position transfers (notes 3, 4 and 11)	(1,824)	(190)	(14)	-	-	-	(2,028)
Net increase (decrease) in net position	(1,789)	(48)	(12)	-	-	-	(1,849)
Net position restricted for pensions:							
Beginning of year	15,347	4,007	126	-	-	-	19,480
End of year	\$ 13,558	\$ 3,959	\$ 114	\$ -	\$ -	\$ -	\$ 17,631

See independent auditors' report.