EMPLOYEES' RETIREMENT SYSTEM

of the County of Milwaukee

2014 Annual Report of the Pension Board

as of and for the Years Ended December 31, 2014 and 2013

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EMPLOYEES' RETIREMENT SYSTEM (ERS)

Milwaukee County

ERS Members:

We are pleased to present the 2014 Annual Report of your Pension Board. The Employees' Retirement System ("ERS") experienced a positive investment return for the year of 5.5%. Net plan position held in trust for pension benefits decreased $56.6 million. This decrease was mainly due to unrealized investment losses and an increase in pension benefit payments. Total net position at the end of the year was $1.82 billion. The management discussion and analysis, the financial statements, and the footnotes provide detailed information regarding ERS performance. The description of ERS included in this report highlights major plan provisions. County Ordinances, labor agreements, Pension Board Rules, and Governmental Accounting Standards Board pronouncements prevail over the contents of this report. If you have any questions, please call (414) 278-4145.

Members who retire or otherwise leave County service have several options available with respect to pension benefits. To make informed decisions before terminating employment, members should fully understand and carefully consider the various options available.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the Retirement office at (414) 278-4207 for further information regarding these programs. If you would like to meet with a Retirement Specialist to discuss retirement, please schedule an appointment by calling (414) 278-4207.

Remember to keep your beneficiary designations current by informing the Retirement office of any changes. Retired members should notify the Retirement office in writing of any address changes to insure benefit payments and year-end Form 1099-R statements are properly mailed.

Respectfully,

The Pension Board

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BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Pension
Board of the Employees' Retirement System of the County of Milwaukee
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying statements of fiduciary net position of the Employees' Retirement System of the County of Milwaukee (the "Retirement System"), as of December 31, 2014 and 2013, the statements of changes in fiduciary net position for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 2, the Plan adopted the accounting and reporting requirements of Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Changes in Net Pension Liability and Related Ratios, 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 Letter from the Pension Board, Ten-year Historical Trend and related information on pages 26 through 29 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.

BAKER TILLY VIRCHOW KRAUSE, LLP.

Milwaukee, Wisconsin
July 30, 2015

Management is pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee ("ERS", or the "Retirement System") for the year ended December 31, 2014. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

FINANCIAL HIGHLIGHTS

FIDUCIARY NET POSITION

- Fiduciary net position for ERS decreased ($56,650) as of 12/31/14 vs. 12/31/13 following an increase of $110,795 as of 12/31/13 vs. 12/31/12. Fixed Income, Domestic Equity, Long-Short, Real Estate, Infrastructure, and Private Equity all have experienced positive returns in 2014, with Private Equity leading the way. International Equity experienced a negative return in 2014. For the year, the pension fund experienced a positive return of 5.5%.
- The rate of return on total assets of the pension fund, net of fees, was 5.5%, 15.2%, and 11.0% for the years ended December 31, 2014, 2013, and 2012, respectively.
- Receivables decreased by ($11,345) as of 12/31/14 vs. 12/31/13 due primarily to a decrease in receivables from sales of investments, as well as lower pension contributions from the County of Milwaukee due to higher employee contributions. Receivables increased $20,041 as of 12/31/13 vs. 12/31/12, due primarily to an increase in receivables from sales of investments and a higher pension contribution from the County of Milwaukee.
- Other assets increased $505 as of 12/31/14 vs. 12/31/13 and increased $28,086 as of 12/31/13 vs. 12/31/12 due largely to changes in securities lending – collateral of $1,322 and $28,658, respectively.
- Liabilities decreased ($171) from 2014 to 2013. This decrease was due to a slight decrease in payables. Liabilities increased $26,418 from 2013 to 2012, due to an increase in securities lending—collateral.
- ERS buys and sells financial futures contracts to improve the performance of the fund. ERS purchases contracts that approximate the amount of cash held by US equity managers and cash used to pay benefits and expenses.

ADDITIONS AND DEDUCTIONS TO FIDUCIARY NET POSITION

- Total additions decreased ($162,511) in 2014 vs. 2013 and also increased $78,601 in 2013 vs. 2012. The 2014 decrease is primarily the result of decreases in investment income. The 2013 increase was primarily the result of increases in investment income, as well as a decrease in pension expense.
- Benefits payments increased $3,680 in 2014 and decreased ($5,973) in 2013. The increase in 2014 was due to an increase in monthly benefits of $2,745 and an increase of $935 in lump sum payments. The decrease in 2013 was mostly due to a decrease in lump sum payments of $9,513 and an increase in monthly benefits of $3,540.
- 2014 saw a 7.3% decrease in retirements from 2013. As no significant changes to benefits were proposed in 2014, we saw a decrease in the rate of retirements. 2013 saw a 6.3% decrease in retirements from 2012.
- Pursuant to Governmental Accounting Standards Board Statement No. 67, as of December 31, 2014, the ERS funded ratio was 81.37%. The funding ratio gives an indication of how well the liabilities of the pension plan are funded. The higher the funding ratio, the better the plan is funded. The ratio increases due to investment gains and pension contributions, and declines due to investment losses, increases in plan benefits, large pension payouts, and underpayment by the County of pension annual required contributions.

The Board of Trustees of ERS ("The Board") has the responsibility for the overall performance of the Retirement System. The Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide the long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification, (b) selecting an appropriate number of investment managers to manage the assets within an asset class and monitoring the performance of such investment managers relative to specified benchmarks, and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Retirement System's assets. The Board is the fiduciary of the Retirement System and is responsible for carrying out the investment functions solely in the interest of the members and benefit recipients.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Retirement System's financial statements. The financial section is comprised of four components: (1) financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Financial Statements – There are two financial statements presented for the plan. The Statement of Fiduciary Net Position as of December 31, 2014 and 2013 indicates the fiduciary net position available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Fiduciary Net Position for the years ended December 31, 2014 and 2013 provides a view of the additions and deductions to the plan for the years presented.

Notes to financial statements – The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required supplementary information – The required supplementary information consists of a Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Investment Returns, and related notes concerning the funding status of the plan. These schedules provide historical trend information, that contribute to understanding the changes in the funded status of the plan over time.

(In Thousands of Dollars)

Other supplementary schedules – The additional schedules (Ten-Year Historical Trend Information, Fiduciary Net Position at Fair Value, Actual County and Participant Contributions, Active Membership Statistics, Retirements and Survivors Statistics) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Fiduciary Net Position	12/31/2014	12/31/2013	12/31/2012	Difference	% Change
Assets					
Cash and cash equivalents	$76,430	$81,248	$56,934	$19,496	34.2%
Receivables	32,538	43,883	23,842	8,696	36.5%
Investments, at fair value	1,715,304	1,756,467	1,691,695	23,609	1.4%
Other assets	54,164	53,659	25,573	28,591	111.8%
Total Assets	**1,878,436**	**1,935,257**	**1,798,044**	**80,392**	**4.5%**
Liabilities					
Security lending obligations	50,000	48,678	20,020	29,980	149.8%
Other liabilities	5,856	7,349	9,589	(3,733)	(38.9%)
Total Liabilities	55,856	56,027	29,609	26,247	88.6%
Net position restricted for Pensions	**$1,822,580**	**$1,879,230**	**$1,768,435**	**$54,145**	**3.1%**

Retirement System's Changes in Fiduciary Net Position	2014	2013	2012	Difference	%
Additions					
Employer contributions	$19,005	$21,998	$18,411	$595	3.2%
Member contributions	10,052	8,955	9,041	1,011	11.2%
Investment income	96,726	257,341	182,241	(85,515)	(46.9%)
Total Additions	**125,783**	**288,294**	**209,693**	**(83,910)**	**(40.0%)**
Deductions					
Benefit payments	(176,264)	(172,584)	(178,557)	$2,293	(1.3%)
Administrative expenses	(5,067)	(4,470)	(4,596)	($471)	10.2%
Withdrawals	(1,102)	(445)	(212)	($890)	420.1%
Total Deductions	**(182,433)**	**(177,499)**	**(183,365)**	**932**	**(0.5%)**
Net (decrease) increase in net pension	(56,650)	110,795	26,328	(82,978)	(315.2%)
Net position restricted for pensions:					
Beginning of year	**1,879,230**	**1,768,435**	**1,742,107**	**137,123**	**7.9%**
End of year	**$1,822,580**	**$1,879,230**	**$1,768,435**	**$54,145**	**3.1%**

Requests for financial information:

The financial report is designed to provide the Board, our membership, taxpayers, investment managers, and creditors with a general overview of ERS' finances and to demonstrate ERS' accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

Milwaukee County ERS
901 N. 9th Street Room 210C
Milwaukee, WI 53233

Email: ers@milwaukeecountywi.gov

(See Independent auditors' report)

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
STATEMENTS OF FIDUCIARY NET POSITION
AS OF:

	December 31, 2014	December 31, 2013
ASSETS		
CASH AND CASH EQUIVALENTS	$ 76,430,193	$ 81,248,096
RECEIVABLES		
Due from sale of investments	9,763,459	18,510,535
Accrued interest and dividends	1,774,308	2,062,966
County of Milwaukee	20,209,996	22,707,938
Miscellaneous receivables	790,721	601,970
TOTAL RECEIVABLES	32,538,484	43,883,409
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	635,015,427	638,670,311
Long/Short hedge funds	186,478,839	193,376,665
Fixed income	331,429,377	368,539,958
International common and preferred stocks	156,474,024	206,675,087
Real estate and REIT's	180,379,035	166,037,664
Infrastructure	151,805,271	134,856,078
Private equity	73,703,610	48,311,010
TOTAL INVESTMENTS	1,715,303,583	1,756,466,773
OTHER ASSETS		
Software development costs, net (See Note 2)	4,163,589	4,980,643
Securities lending - collateral (See Note 5)	50,000,490	48,678,274
TOTAL OTHER ASSETS	54,164,079	53,658,918
TOTAL ASSETS	$ 1,878,436,339	$ 1,935,257,196
LIABILITIES		
Securities lending - collateral (See Note 5)	50,000,490	48,678,274
Miscellaneous payables	4,002,944	4,920,171
Payable for securities purchased	291,752	836,523
Payable to OBRA retirement plan	1,561,458	1,592,289
TOTAL LIABILITIES	55,856,644	56,027,258
NET POSITION RESTRICTED FOR PENSIONS	$ 1,822,579,695	$ 1,879,229,938

The accompanying notes are an integral part of these financial statements

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED:

	December 31, 2014		December 31, 2013	
ADDITIONS:				
CONTRIBUTIONS				
County of Milwaukee	$	19,005,395	$	21,998,256
Plan participants		10,051,605		8,954,525
TOTAL CONTRIBUTIONS		**29,057,000**		**30,952,781**
INVESTMENT INCOME				
Net appreciation (depreciation) in Fair Value		69,266,948		230,755,950
Interest and dividends		18,768,372		20,841,409
Securities lending income		99,956		67,692
Other income		11,542,209		9,146,139
TOTAL INVESTMENT INCOME		99,677,485		260,811,190
Less: Securities lending rebates and fees, net		(21,530)		23,575
Investment expense		(2,930,118)		(3,493,638)
Net investment income		96,725,837		257,341,127
TOTAL ADDITIONS	**$**	**125,782,837**	**$**	**288,293,908**
DEDUCTIONS:				
Benefits paid to retirees & beneficiaries		(176,263,605)		(172,583,835)
Administrative expenses		(5,066,955)		(4,469,915)
Withdrawal of membership accounts		(1,102,520)		(444,848)
TOTAL DEDUCTIONS		**(182,433,080)**		**(177,498,598)**
NET CHANGE IN FIDUCIARY POSITION		**(56,650,243)**		**110,795,310**
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS				
Beginning of year		**1,879,229,938**		**1,768,434,628**
End of year	**$**	**1,822,579,695**	**$**	**1,879,229,938**

The accompanying notes are an integral part of these financial statements

(1) Description of Retirement System –

The following brief description of the provisions of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") is provided for financial statement purposes only. Members should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreements for more complete information.

The Retirement System is a single-employer defined benefit plan that was created to encourage qualified personnel to enter and remain in the service of the County of Milwaukee (the "County") by providing for a system of retirement, disability and death benefits to or on behalf of its employees. Under Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. The County did so by passing Section 201.24 of the General Ordinances of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board of ERS (the "Board"). The Board consists of a maximum of ten members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), three employee members elected by active employee members, two members appointed by the County Board chairperson, one employee member appointed by the Milwaukee Deputy Sheriffs' Association, and one retiree member elected by retirees.

The Board created two (2) committees to assist in the administration of the Board's duties. The Investment Committee reviews the investment portfolio on a periodic basis, endorses strategies, and submits investment recommendations to the full Board. The Audit Committee reviews legal issues, Ordinance adherence, and submits recommendations to the full Board regarding the annual audit and the Annual Report of the Pension Board. The Pension Board, with the assistance of its actuarial professionals, determines and recommends how much the County should contribute to ERS based on what the Pension Board believes is necessary to properly fund the current and future payment of benefits. The Pension Board oversees the tax qualification of ERS and oversees the administration of ERS in accordance with adopted County Ordinances (the "Ordinances"), any amendments to the Ordinances, and ERS Rules. The Pension Board oversees the benefit payment process from ERS to determine whether these payments are made in accordance with the Ordinances and ERS Rules.

Pension Plan membership, which is open to new members, consisted of the following:

	As of December 31
Members -	**2014**
Inactive plan members currently receiving benefits..........................	7,940
Inactive plan members entitled to but not yet receiving benefits	1,411
Current employees	3,911
Total participants	**13,262**

Membership data above is as of January 1, 2014, the date of the actuary report used to determine the total pension liability for each year, and reasonably approximates membership data through December 31, 2014.

Contributions –

The Retirement System had been substantially noncontributory. However, starting in 2011, certain members began making mandatory contributions. Most full-time, regularly-appointed employees were required to make contributions starting in 2012. The employee contributions varied from 5.1% of compensation to 5.2% for 2014. In 2015, the employee contribution percentages will range from 5.0% to 5.3% of compensation. These percentages may change from year to year based on an analysis performed by the Retirement System's actuary.

Employees who terminate County employment and are not eligible for an immediate pension payment may request a refund of all accumulated contributions made, with simple interest at 5% per annum. Effective December 19, 2013, employees, who terminate employment with the County, must request a refund of accumulated contributions within one hundred eighty (180) days of terminating County employment. Prior to December 19, 2013, terminated employees had sixty (60) days to request a refund of their contributions. The Retirement System will send an employee who terminates a written notice of the refund option. Any employee receiving this refund will forfeit his or her service credit and will no longer be a member of ERS.

Contributions due from the County to the Retirement System consist of actuarially determined amounts sufficient to fund the annual service cost and interest on and amortization of the net pension liability less the expected contributions from the participants. A substantial portion of the current year's contribution is historically paid to the Retirement System in the following year.

In 2012, the County of Milwaukee started receiving contributions from the State of Wisconsin for members who were transferred from Milwaukee County to the State of Wisconsin for future service. As a result of the agreement between the State and the County, non-vested members of the Retirement System were able to continue to accrue pension benefits with ERS, while they were employed with the State. Once the member is vested, they are transferred to the state retirement plan. The state employees were required to contribute 5.1% and 4.4% of their wages to ERS in 2014 and 2013, respectively, and the state contributed the same percentages to the County for 2014 and 2013, respectively.

The County makes contributions to the Retirement System based upon Actuarially Determined Contributions and legal requirements, at the discretion of the County Board. Data used in the determination of the contribution is based upon the prior fiscal year's demographics. The actual contribution made to the pension plan is set during the County's budget process and may differ from the Actuarially Determined Contribution as a result of changes in plan provisions implemented subsequent to establishment of the Actuarially Determined Contribution and budgetary restraints. During the year, the Retirement System accrues those contributions that the County has included in its current year's budget. The County contribution recorded by the Retirement System was $507,925 less than, and $2,682,736 more than, the Actuarially Determined Contribution for 2014 and 2013, respectively.

The Actuarially Determined Contribution is calculated by the Retirement System's actuary, hired by the Pension Board, using census data, following plan guidelines, and compared to current net assets. The objective is to calculate a contribution that allows the Retirement System to fulfill its obligations to its members.

Benefits -

The normal retirement benefit is a monthly pension for the life of the member beginning at normal retirement age. The pension amount is determined by the following formula:

Multiplier x Creditable Service x Final Average Salary

For most members, the normal retirement age is either 60 or 64 depending on ERS enrollment date and collective bargaining agreement. A few labor agreements also require a minimum of 5 years creditable service in addition to the age requirement. For deputy sheriff members, the normal retirement age is 57 or age 55 with 15 years of creditable service. Depending on enrollment date and collective bargaining agreement, some active members are eligible to retire when their age added to their years of creditable service equals 75 (the "Rule of 75"). The multiplier is determined by Ordinance, collective bargaining agreements, and ERS enrollment date. At this time, the multiplier percentage can be 1.5%, 1.6%, 2% or 2.5%. A member's three or five consecutive years of highest earnings are used to calculate their final average salary as defined by the Ordinance and labor agreements. Annually after retirement, the monthly benefit is increased by 2% of the benefit paid for the first full month of retirement, subject to IRS limits. By Ordinance, the maximum benefit (excluding post-retirement increases) payable to a member cannot exceed the sum of 80% of the member's final average monthly salary.

For some members, depending on enrollment date and collective bargaining agreement, the member may elect to receive a backdrop benefit. This benefit permits an employee to receive a lump-sum payment plus a monthly pension benefit upon retirement. The lump-sum payment is the total of the monthly pension amounts, adjusted for post retirement increases that a member would be entitled to from a prior date ("backdrop date") to the date that the member terminates employment plus compounded interest. The backdrop date must be at least one calendar year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a post retirement increase based on the backdrop date once the member terminates employment.

In 2012, the County Board passed an ordinance limiting the amount of backdrop benefit for most eligible employees who choose a backdrop date after April 1, 2013. If the member chooses a backdrop date after April 1, 2013, then the monthly backdrop benefit is calculated using the member's final average salary, service credit, and applicable multipliers as of April 1, 2013. This plan change does not apply to Elected Officials, Skilled Trades, Machinists, Federated Nurses, and Firefighters.

A member who meets the requirements for an accidental disability retirement benefit is entitled to an amount computed in the same manner as a normal pension but not less than 60% of the member's final average salary for accidental disability (75% for a represented deputy sheriff). The ordinary disability pension will not be less than 25% of the member's final average salary. A total of 15 years of creditable service is required to apply for ordinary disability.

Most members are immediately vested upon attaining age 60 or 64. A vested member is eligible for a deferred pension beginning as of the member's normal retirement date.

A member who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The member would be entitled to a benefit equal to the normal retirement benefit with a lifetime reduction of 5% for each year prior to the normal retirement date.

Upon the death of a member (generally after 1 year of service and depending on collective bargaining agreements), a spouse with a dependent child as defined by Ordinance will receive 40% of the deceased member's salary, reduced by Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. Generally, the total benefit, including Social Security benefits, cannot exceed 90% of the prior salary level of the member. At age 60, the spouse will receive 50% of the normal retirement benefit based on the member's projected service to age 60. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased member's final average salary, but not to exceed $2,000.

A member who becomes eligible for normal retirement, but continues to work may elect a Protective Survivorship Option ("PSO") designating a person to receive a pension (100% or 50% option) in the event of their death while in active service. The PSO election must be filed in writing on an approved form. In the absence of an election, a surviving spouse will be paid a 100% survivorship pension.

Currently, members may choose among several benefit payment options when retiring. The available pension options are:

-Maximum Option

Benefit payable for the member's lifetime and ceases upon member's death.

-Option 1 – Membership Account Refund

This option is an actuarially reduced benefit that ceases upon member's death. This option guarantees that the member will receive the total Membership Account balance as of the retirement date. The Membership Account balance is reduced monthly by an actuarially determined amount. Any balance remaining upon the member's death will be paid to the member's beneficiary.

-Option 2 – 50%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 3 – 100%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 4 – 25%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 5 - 75%

This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;

-Option 6 - 10 Year Certain

This option is an actuarially reduced pension benefit payable over the member's life but is guaranteed for a period of 10 years. In the event the member should die within 10 years after the retirement date, the benefit continues to the named beneficiary for the balance of the 10 years.

-Option 7 - Board Discretion

This option is at the Pension Board's discretion and is a payment of a benefit in a form other than those set forth above. The payment in other form must be the actuarial equivalent of the benefit otherwise payable. A member requesting this option is responsible for all expenses incurred in the application for and calculation of the benefit.

Benefits of $176.3 million and $172.6 million were paid in 2014 and 2013, respectively, including periodic pension payments of $163.7 million and $160.9 million, respectively, and backdrop lump sum pension payments of $12.6 million and $11.7 million in 2014 and 2013, respectively.

(2) Summary of Significant Accounting Policies

Basis of Accounting –

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred. Benefits payments to members are recognized in the period in which the payment was due to the member.

Reporting Entity –

As defined by accounting standards generally accepted in the United States of America ("U.S. GAAP"), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon required criteria, the Retirement System has no component units and is not a component unit of any other government. These basic financial statements cover all of the defined benefits and operations administered by the Board for the ERS and the OBRA 1990 Retirement System of the County of Milwaukee.

Contributions –

The Retirement System records employee contributions as earned. Contributions earned but not yet received from the County are reflected as contributions receivable.

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships, real estate, long/short hedge and infrastructure are valued at estimated fair value, as provided by the Retirement System's investment managers. Investment transactions are recorded on the trade date. Dividends and interest are recorded as earned. Realized gains and losses are computed based on the average cost method. Unrealized gains and losses in the fair value of investments represent the net change in the fair value of the investments held during the period.

Investment securities, in general, are exposed to various risks, such as interest, credit, and overall market volatility. 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 amounts reported in the Statements of Fiduciary Net Position.

A summary of cash and investments at cost is as follows:

	As of December 31, 2014	As of December 31, 2013
Fixed income	$ 306,552,949	$ 351,637,187
Domestic common and preferred stocks	490,347,318	492,205,445
International common and preferred stocks	141,242,429	154,272,329
Long/Short hedge funds	144,258,558	163,733,085
Infrastructure	129,487,638	105,179,128
Real estate and REIT's	132,788,941	132,788,941
Private equity	69,891,637	47,188,112
Cash & cash equivalents	76,430,193	81,248,096
Total cash and investments at cost	**$ 1,490,999,663**	**$ 1,528,252,323**

Valuation of International Securities –

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

Software Development Costs –

Capitalized software development costs represent direct costs related to the development and implementation of software programs utilized in the Retirement System. The amounts are being amortized over ten years using the straight-line method. Amortization expense is included in Administrative Expenses in the accompanying Statements of Changes in Fiduciary Net Position.

	As of December 31, (in thousands of dollars) 2014	As of December 31, (in thousands of dollars) 2013
Software development costs		
Beginning balance	$ 8,463	$ 8,211
Acquisitions	7	252
Ending Balance	**$ 8,470**	**$ 8,463**
Accumulated amortization		
Beginning balance	$ 3,482	$ 2,659
Amortization expense.............................	824	823
Ending Balance	**$ 4,306**	**$ 3,482**
Software development costs, net	**$ 4,164**	**$ 4,981**

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,329,904 and $1,291,253 in 2014 and 2013, respectively.

Rate of Return –

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Use of Estimates –

The preparation of financial statements in conformity with U.S. GAAP 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.

Contingencies –

Claims and judgments are recorded as liabilities if all conditions of Governmental Accounting Standards Board ("GASB") pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred.

New Accounting Standards –

In June 2012, GASB issued Statement No. 67 ("GASB 67"), "Financial Reporting for Pension Plans", which revises existing guidance for the financial reports of most pension plans.

GASB 67 replaces the requirements of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and GASB Statement No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. This standard was implemented effective January 1, 2014.

(3) Income Taxes –

Management has submitted to the Internal Revenue Service, as part of a Voluntary Compliance Program, any compliance issues that have been discovered through a self-administered review where the provisions contained in the Internal Revenue Code, the County Pension Ordinances or Pension Rules differ from actual practice. Management is waiting for a response from the Internal Revenue Service regarding what action will be required to bring the pension system into compliance in all of its practices in order to maintain its tax-qualified status.

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $19,005,395 and $21,998,256 were recorded in 2014 and 2013, respectively. The 2014 and 2013 contributions were $507,925 below and $2,682,736 above the Funding Contribution Amount ("FCA"), respectively. The County contributions do not include contributions made by the members. Member contributions were $10,051,605 for the year ended December 31, 2014 and $8,954,525 for the year ended December 31, 2013. The small increase was caused by the increase of the employee contribution percentages from 4.4% of pensionable compensation in 2013 to 5.1% in 2014. See the Schedule of Contributions in the Required Supplementary Information.

The 2014 and 2013 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2013 and 2012. These amounts were included in the County's 2014 and 2013 budgets. The Retirement System's financial statements as of December 31, 2014 and 2013 reflect the unpaid portion of the 2015 and 2014 contributions as a contribution receivable.

(5) Deposit and Investment Risk Disclosure –

As provided by state legislative act and County Ordinance, the Board has exclusive control and management responsibility of the Retirement System's funds and full power to invest the funds. In exercising its fiduciary responsibility, the Board is governed by the “prudent person” rule in establishing investment policy. The "prudent person" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds, considering the probable income as well as the probable safety of the principal. The Board has adopted a Statement of Investment Policy to formally document investment objectives and responsibilities. This policy establishes guidelines for permissible investments of the Retirement System. The Retirement System's investments are subject to various risks. Among them are credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each of these risks is discussed in more detail below.

Concentration of Credit Risk –

Concentration of credit risk is a risk of loss that may be attributed to the magnitude of the Retirement System’s investment in a single issuer, generally investments in any one issuer that represents five (5) percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this definition. The Retirement System has no investments in one issuer other than U.S. Government securities and mutual funds that exceed five (5) percent of the total investments.

Credit Risk –

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services ("Moody's"), Standard and Poor's ("S & P") and Fitch Ratings ("Fitch's"). With the exception of the Mellon Capital Management Aggregate Bond portfolio, bonds purchased and owned in each portfolio must have a minimum quality rating of "Baa3" (Moody's) or "BBB-"(S & P or Fitch's). The average quality of each portfolio must be "A" or better. The fixed income securities for the Mellon Capital Management Aggregate Bond portfolio should have a minimum quality rating of "A", with the exception of 15% of the portfolio which may have a minimum quality rating of "BBB". Of the $9.1 million not rated by Moody's as of December 31, 2014, $6.7 million is rated by S & P as investment grade ("BBB-" or higher). Moody's quality rating of "BAA3" or above is considered investment grade. As of December 31, 2014, $1.9 million was not rated by S & P or Moody's. Of the $14.6 million not rated by Moody's as of December 31, 2013, $12.8 million was rated by S & P as investment grade. $1.5 million was also not rated by S & P as of December 31, 2013. The credit quality ratings of investments in fixed income securities by Moody's as of December 31, 2014, and 2013, are as follows: (amounts are in thousands of dollars)

Moody's Quality Ratings	12/31/2014 Fair Value	12/31/2013 Fair Value
AAA	$122,040	$130,668
AA1	1,273	824
AA2	3,680	4,326
AA3	3,903	4,216
A1	6,576	7,886
A2	6,978	8,346
A3	9,078	10,086
BAA1	11,000	11,354
BAA2	11,186	13,533
BAA3	4,456	5,144
BA1	1,339	1,408
BA2	1,192	1,746
BA3	819	437
B1	869	1,020
B2	60	-
B3	278	440
CAA1	65	83
CAA2	181	201
CAA3	160	168
CA	424	474
NR	9,061	14,634
Total Credit Risk Fixed Income Securities	**$194,618**	**$216,994**
U.S. Government and Agencies	68,223	77,442
Units of Participation (Not Rated)	68,588	74,104
Total Investment in Fixed Income	**$331,429**	**$368,540**

Custodial Credit Risk – Deposits and Investments –

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 are held by the counterparty.

No formal policy exists on custodial risk. However, substantially all assets of the Retirement System are held in its name. The Retirement System did not own any repurchase agreements as of December 31, 2014 or December 31, 2013.

As of December 31, 2014 and 2013, all deposits with banks are fully insured by the Federal Depository Insurance Corporation or the State Deposit Guarantee Fund.

The following table presents the Retirement System's total cash, deposits and cash equivalents as of December 31, 2014 and December 31, 2013: (amounts are in thousands of dollars)

Schedule of Cash and Cash Equivalent Investments

	12/31/14		12/31/13	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash held by various investment managers………………………	$63,677	$63,677	$79,642	$81,132
Deposits with banks...	12,753	13,629	1,606	2,549
Total Deposits...	**$76,430**	**$77,306**	**$81,248**	**$83,681**

The difference between the carrying value and bank balances are due to outstanding checks and deposits not yet processed by the bank.

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.

This footnote is a required disclosure when the Retirement System directly owns investments denominated in a foreign currency. As of December 31, 2014, and 2013, the Retirement System directly owned less than $400 and $500 in investments denominated in foreign currencies, respectively.

Interest Rate Risk –

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The Option-Adjusted Duration for a security is the percentage price sensitivity to interest rates changes of 100 basis points (or 1.0%), as of December 31, 2014 and 2013. For example, an Option -Adjusted Duration of 5.20 means that the price of the security should fall approximately 5.20% for a 1.0% rise in the level of interest rates. Conversely, the price of a security should rise approximately 5.20% for a 1.0% fall in the level of interest rates. Interest rate changes will affect securities with negative durations in the opposite direction. The Option-Adjusted Duration method of measuring duration takes into effect the embedded options on cash flows.

The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing exposure to losses arising from increasing interest rates with the exception of the cash equivalent portfolio. The investment policy limits the duration of individual securities held in the cash equivalent portfolio to 2.5 years. In addition, the duration of the entire cash equivalent portfolio should be between 1 and 2 years.

As of December 31, 2014 and 2013, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

	12/31/14		12/31/13	
Fixed Income Sector	**Fair Value***	**Option Adjusted Duration**	**Fair Value***	**Option Adjusted Duration**
ABS-Car Loan	$ 2,465	0.73	$ 6,266	0.79
ABS-Credit Cards	576	3.18	0	0.00
ABS-Equipment	0	0.00	286	0.09
ABS-Home Equity	380	0.04	953	(0.01)
Aerospace & Defense	63	10.26	234	5.89
Agency for Int'l. Devel. Backed Debt	335	9.95	0	0.00
Automobiles & Components	371	7.68	360	8.16
Banking & Finance	15,804	4.44	20,485	4.00
Canadian Government Bonds	-	0.00	240	3.62
Capital Goods	90	8.17	70	6.66
Chemicals	1,322	7.83	1,368	7.33
CMBS - Conduit	6,985	1.42	11,625	1.87
CMO-U.S. Agencies	-	0.00	10,483	3.87
Commercial Services & Supp.	115	6.38	118	7.27
Communications	2,472	7.78	0	0.00
FHLMC Multiclass	20,132	2.37	26,942	1.96
FHLMC Pools	8,927	2.16	10,654	3.07
FNMA Pools	40,791	3.82	34,996	4.10
FNMA REMIC	28,663	1.67	30,872	1.57
Food Beverage & Tobacco	551	4.59	1,041	5.01
Food Products	655	7.71	619	7.94
GNMA Multi Family Pools	949	1.55	1,238	2.52
GNMA REMIC	8,556	1.98	0	0.00
GNMA Single Family Pools	2,027	2.35	613	1.21
Health Care	1,096	9.82	1,029	8.92
Household Products	87	2.99	98	3.51
Industrial	493	4.24	494	4.99
Insurance	1,125	6.33	1,259	5.90
Interest Only US Agencies	319	6.91	0	0.00
MBS PO - Principal Only (US Agencies)	-	0.00	220	17.24
Materials	38	1.66	39	2.54
Mining	684	5.54	938	4.30
News/Media	-	0.00	2,681	6.34
Non-US Government Bonds	819	8.66	420	10.44
Oil & Gas	4,850	7.08	4,542	6.31
Other Corporate Bonds	-	0.00	192	5.51
Principal Only US Agencies	4,984	6.05	926	4.77
Private Placements - ABS	299	0.24	550	0.61
Private Placements - Banking & Finance - Covered	392	0.79	0	0.00
Private Placements - MBS	2,045	1.89	2,538	2.19
Pvt Placements-More than 1 yr	5,827	6.21	8,491	4.74
PVT Placements-Interest Only	189	1.78	246	3.13
REITS	805	4.82	0	0.00
Retail	975	10.00	982	9.70
Supranational Issues	191	1.01	193	1.94
Taxable Municipals	948	16.55	797	14.80
Technology	1,886	5.08	2,300	5.39
Transportation	1,702	8.14	1,559	6.82
U.S. Agencies	983	14.75	8,748	5.01
U.S. Governments Interest Only	31,694	6.78	26,791	5.87
U.S. Governments	35,183	6.50	41,903	7.16
Utility-Electric	4,924	6.91	4,472	6.94
Utility-Gas	660	4.61	751	6.63
Utility-Telephone	2,866	9.75	3,789	7.83
Whole Loan - CMO	8,395	0.09	11,695	0.11
Whole Loan - Re-securitization	416	0.01	463	0.02
Yankee Bonds	2,024	7.47	1,756	6.92
Other*	72,301		78,215	
Total	**$ 331,429**		**$ 368,540**	

* For 2014, this represents $68,588 in units of participation, $2,340 in FHLMC Multiclass, $162 in FNMA REMIC, $316 in Private Placements, $74 in REITS, and $820 in Whole Loans. For 2013, this represents $74,104 units of participation, $2,541 in FHLMC Multiclass, $358 in Private Placements, $80 in Transportation, $405 in Utility - Electric, and $727 in Whole Loans.

Securities Lending –

Section 201.24 (9.1) of the General Ordinances of Milwaukee County and Board policies permit ERS to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. ERS participates in such a securities lending program through its custodian, the Bank of New York Mellon, acting as ERS's securities lending agent. ERS requires collateral from the borrower in the form of cash or securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The securities lending program guidelines attempt to preserve capital while earning a moderate rate of return. Earnings from securities lending, after all fees are paid, are split on a percentage basis with the custodian. For 2014 and 2013, the net investment income realized from security lending was $78,427 and $91,267 respectively.

ERS also invested in several commingled funds managed by Mellon Capital Management that participated in securities lending programs. The earnings and losses attributable to the commingled funds' securities lending programs are combined with the commingled funds' performance and are not reported separately in ERS's financial statements.

Securities loaned and the collateral held were as follows: (amounts are in thousands of dollars)

	As of December 31			
	2014		2013	
Securities Lent for Cash Collateral	Securities Lent	Collateral	Securities Lent	Collateral
Fixed income	$ 16,516	$ 16,863	$ 20,893	$ 21,350
Domestic stocks	32,395	33,137	26,727	27,328
Subtotal	**48,911**	**50,000**	**47,620**	**48,678**
Securities Lent for Securities Collateral				
Fixed income	4,751	4,848	7,366	7,516
Domestic stocks	2,049	2,090	1,011	1,031
Subtotal	**6,800**	**6,938**	**8,377**	**8,547**
Grand Total	**$ 55,711**	**$ 56,938**	**$ 55,997**	**$ 57,225**
Percent Collateral to Securities Loaned		**102.20%**		**102.19%**

The collateral received from securities lending transactions are recorded as assets at quoted fair value as of the financial statement date. The Retirement System records an identical amount as a liability, representing the obligation of the Retirement System to return the collateral at the time the borrower of the Retirement System's securities return those securities.

The collateral received from securities lending transactions includes cash of approximately $50,000,000 and $48,678,000 and U.S. Treasury securities, Domestic stocks, and REIT's of approximately $6,938,000 and $8,547,000 for the years ended December 31, 2014 and 2013, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. The non-cash collateral in the amounts of approximately $6,938,000 and $8,547,000 for the years ended December 31, 2014 and 2013, respectively, is controlled by the custodian and, correspondingly, not reflected in the Statement of Fiduciary Net Position.

At year-end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. The contract with the Retirement System's custodian requires it to indemnify the Retirement System if a borrower fails to return the securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

(6) Financial Instruments with Off-Balance Sheet Risks –

A 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. Forward commitments are entered into with the foreign exchange department of a bank located in a major money market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuations. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Retirement System records the amount receivable or payable at fair value, with the unrealized gain or loss reported as a component of net appreciation in fair value. All contracts are short-term in duration and mature within 90 days.

The Retirement System did not hold any financial instruments with off-balance sheet risk as of December 31, 2014 and December 31, 2013.

ERS invests in financial futures contracts in order to improve the performance of the fund. The Retirement System purchases contracts that approximate the amount of cash held by US equity investment managers and cash used to pay benefits and expenses. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price.

The market values of the futures contracts vary from the original contract price. A gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio. All contracts are short-term in duration and mature within 90 days.

ERS is subject to credit risk in the event of non-performance by counter parties to financial futures and forward contracts. ERS generally only enters into transactions with credit-worthy institutions. The Retirement System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by ERS management and by buying or selling futures or forward contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The futures contracts held by the Retirement System are as follows: (amounts are in thousands of dollars)

	As of December 31	
	2014	**2013**
US Equity Managers		
Cash Held		
US Equity Investment Managers	$ 28,119	$ 22,528
Futures Purchased		
S&P 500 (US Equity)	23,808	19,332
Futures Above\(Below) Cash	(4,311)	(3,196)
Market Value	$ 1,518	$ 638

	As of December 31	
	2014	**2013**
Cash Used to Pay Benefits and Expenses		
Cash Held	$ 35,535	$ 21,376
Futures Purchased		
Barclays AGG (Fixed Income)	19,984	6,089
S&P 500 (US Equity)	14,162	5,523
MSCI EAFE (International Equity)	8,350	2,589
TotalFutures Purchased	42,496	14,201
Futures Above\(Below) Cash	6,961	(7,175)
Market Value	-	234
Total Market Value	$ 1,518	$ 872

(7) Commitments and Contingencies –

The Retirement System is involved in litigation and certain other 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 financial statements.

(8) OBRA 1990 Retirement System of the County of Milwaukee –

The County established the OBRA 1990 Retirement System of the County of Milwaukee ("OBRA") to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA system are commingled for investment purposes with the assets of the Retirement System. The assets of the Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled. The Retirement System and OBRA are considered a single plan for financial reporting purposes.

Net assets identified for OBRA benefits as of December 31, 2014 and 2013, were as follows:

Statement of Fiduciary Net Position

		(Unaudited)
Assets	**2014**	**2013**
Cash	$ (9,149)	$ 2,622
Assets held by Retirement System	1,561,458	1,592,289
Other Assets	8,083	8,083
Total assets	**1,560,392**	**1,602,994**
Liabilities		
Taxes Payable	(3,135)	-
Net position restricted for pension benefits	**$ 1,563,527**	**$ 1,602,994**

Changes in plan net position available for benefits for OBRA for the years ended December 31, 2014 and 2013, were as follows:

Statements of Change in Fiduciary Net Position

		(Unaudited)
	2014	**2013**
Contributions from the County	$ 440,000	$ 360,000
Investment income	101,921	223,162
Investment and administrative expenses	(454,751)	(507,799)
Benefits paid	(126,636)	(133,976)
Net decrease in net position restricted for pensions	**$ (39,466)**	**$ (58,613)**

As of December 31, 2014 and 2013, respectively, there were 5,224 and 4,799 participants with vested benefits in OBRA. The total pension liability of OBRA at December 31, 2014 and 2013, was $3,483,712 and $3,410,663, respectively, leaving net assets available less than the total pension liability of ($1,641,336) and ($1,807,669), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

(9) Net Pension Liability

The components of the net pension liability of the Retirement System and OBRA at December 31, 2014 were as follows:

	ERS	**OBRA**
Total pension liability	$ 2,239,951,560	$ 3,954,736
Plan fiduciary net position	(1,822,579,695)	(1,560,392)
Net pension liability	**$ 417,371,865**	**$ 2,394,344**
Plan fiduciary net pension as a percentage of the total pension liability	**81.37%**	**39.46%**

Actuarial assumptions—The last actuarial valuation was performed as of January 1, 2014, and the amounts were used to roll-forward the total pension liability to the plan's year-end December 31, 2014, and was determined using the following actuarial assumptions, applied to all prior periods included in the measurement:

Valuation date	1/1/2014
Actuarial cost method	Entry Age Normal—Level Percentage of Pay
Asset valuation method	10-year smoothed market
Amortization methods	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 difference between projected and actual earnings is amortized over a closed period of five years.
Inflation Assumption	3.00%
Mortality Table	Healthy pensioners: The sex-distinct UP-1994 Mortality Table with Projection scale AA to 2012 and then fully generational thereafter using scale AA. Active members: 70% of the rates applicable to healthy pensioners.
Experience study	The actuarial assumptions used for ERS were based on the results of an actuarial experience study for the period January 1, 2007 through December 31, 2011. The actuarial assumptions used for OBRA were based on the results of an actuarial experience study for the period January 1, 2006 through December 31, 2011.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of position plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Policy	Long-term Expected Rate of Return
Fixed income	**22.0%**	**2.4%**
Domestic common and preferred stocks	**25.0%**	**7.3%**
International common and preferred stocks	**20.0%**	**8.0%**
Long/Short hedge funds	**10.0%**	**5.8%**
Infrastructure	**8.5%**	**8.1%**
Real estate and REIT's	**8.5%**	**8.3%**
Private equity	**6.0%**	**13.3%**
Cash & cash equivalents	**0.0%**	**0.2%**
	100.0%	

Discount rate — The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that the Retirement System's contributions will continue to follow the current funding policy. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Sensitivity of the net pension liability to changes in the discount rate — The following presents the net pension liability of the Retirement System, calculated using the discount rate of 8.0 percent, as well as what the Retirement System and OBRA's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	Current Discount (8.0%)	1% Increase (9.0%)
ERS' net pension liability..	$ 638,609,811	$ 417,371,865	$ 229,353,095
OBRA's net pension liability..	$ 3,231,215	$ 2,394,344	$ 1,769,404

10) Subsequent Events

The Retirement System has evaluated subsequent events occurring through July 30, 2015, the date the financial statements were available to be issued for events requiring recording or disclosure in the Retirement System's financial statements. Management feels that no material events occurred that would require disclosure, except for the following.

In April 2015, the Pension Board adopted the following changes:

- Immediately recognize expected administrative expenses for the coming year, rather than amortizing them over 10 years.
- Reduce future increases in amortization payments from the current policy (3.50% for ERS and 3.00% for OBRA) to 1.75% annually, in order to better align with expected revenue growth.
- Update the actuarial cost method from aggregate Entry Age Normal to Individual Entry Age Normal (applies to ERS only).

The Pension Board further recommended that the County Board reduce the current 30-year amortization period for the Unfunded Actuarial Accrued Liability ("UAAL") to 20 years.

Subsequent to the Pension Board's April 2015 adoption of the funding policy changes, the actuary reported in June of 2015 that it had failed to include in its 1/1/13 and 1/1/14 valuation reports all of the previously included liabilities for cost of living adjustments for certain ERS members ("COLA liabilities"). For the valuation report for this year, 1/1/15, the actuary has re-included those existing COLA liabilities. As noted above, as a result of the effect of the Pension Board's adoption of the funding policy changes in April, the 2016 contribution increased by approximately $4.3M. The subsequent re-inclusion of those COLA liabilities in the total ERS liabilities resulted in a further increase in the 2016 contribution by approximately an additional $16.7 million.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

As of December 31, 2014

	ERS	OBRA
Total pension liability		
Service cost	$ 15,299,451	$ 97,190
Interest	172,040,282	297,724
Changes in benefit terms	-	-
Differences between expected and actual experience	-	-
Changes in assumptions	-	-
Benefit payments including refunds of member contributions	(177,366,124)	(126,636)
Net change in total pension liability	9,973,609	268,278
Total pension liability—beginning	2,229,977,951	3,686,458
Total pension liability—ending	$ 2,239,951,560	$ 3,954,736
Plan fiduciary net position		
Contributions—employer	$ 19,005,395	$ 440,000
Contributions—member	10,051,605	-
Net investment income	96,725,837	98,786
Benefit payments, including refunds of member contributions	(177,366,124)	(126,636)
Administrative expenses	(5,066,956)	(454,752)
Other	-	-
Net change in plan fiduciary net pension	(56,650,243)	(42,602)
Total plan fiduciary net position—beginning	1,879,229,938	1,602,994
Total plan fiduciary net position—ending	$ 1,822,579,695	$ 1,560,392
Net pension liability—ending	$ 417,371,865	$ 2,394,344
Plan fiduciary net position as a percentage of total pension liability	81.37%	39.46%
Covered-employee payroll	$188,605,492	$3,477,968
Net pension liability as a percentage of covered-employee payroll	15.41%	12.65%

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.

* The OBRA amounts are also included in the ERS numbers disclosed above.

(See independent auditor’s report and notes to required supplemental information)

SCHEDULE OF COUNTY CONTRIBUTIONS
Last 10 Fiscal Years

ERS

FYE December 31	2014	2013	2012	2011	2010
Actuarially Determined Contribution (ADC)	$ 29,564,925	$ 32,136,934	$ 28,406,232	$ 29,621,216	$ 29,529,322
Contributions related to ADC	29,057,000	30,952,781	27,407,519	31,494,090	31,290,863
Contribution deficiency/(excess)	507,925	1,184,153	998,713	(1,872,874)	(1,761,541)
Covered Employee Payroll	188,605,492	189,131,711	190,747,973	221,647,443	237,040,117
Contributions as a percentage of Covered Employee Payroll	15.41%	16.37%	14.37%	14.21%	13.20%

FYE December 31	2009	2008	2007	2006	2005
Actuarially Determined Contribution (ADC)	$ 30,355,535	$ 53,063,610	$ 52,395,263	$ 52,638,196	$37,607,940
Contributions related to ADC	457,789,154	34,840,886	49,291,072	27,435,154	35,415,185
Contribution deficiency/(excess)	(427,433,619)	18,222,724	3,104,191	25,203,042	2,192,755
Covered Employee Payroll	233,820,179	227,364,398	223,005,093	225,721,691	209,795,576
Contributions as a percentage of Covered Employee Payroll	195.79%	15.32%	22.10%	12.15%	16.88%

OBRA

FYE December 31	2014	2013	2012	2011	2010
Actuarially Determined Contribution (ADC)	$ 373,500	$ 388,625	$ 446,452	$ 807,028	$ 716,439
Contributions related to ADC	440,000	360,000	880,000	2,022,000	786,000
Contribution deficiency/(excess)	(66,500)	28,625	(433,548)	(1,214,972)	(69,561)
Covered Employee Payroll	3,477,968	7,735,644	8,939,076	8,936,146	6,901,021
Contributions as a percentage of Covered Employee Payroll	12.65%	4.65%	9.84%	22.63%	11.39%

FYE December 31	2009	2008	2007	2006	2005
Actuarially Determined Contribution (ADC)	$ 660,925	$ 557,813	$ 485,553	$ 499,137	$ 386,222
Contributions related to ADC	660,925	522,000	529,000	462,000	365,000
Contribution deficiency/(excess)	-	35,815	(43,447)	37,137	21,222
Covered Employee Payroll	8,498,484	8,284,312	7,057,342	8,352,834	8,405,836
Contributions as a percentage of Covered Employee Payroll	7.78%	6.30%	7.50%	5.53%	4.34%

Notes to Schedules

Valuation date: Actuarially Determined Contributions (ADC) are calculated as of the January 1 of the fiscal year in which the contribution is made. That is, the contribution calculated for fiscal year ending December 31, 2014 is from the January 1, 2014 actuarial valuation. The contributions related to the ADC are a combination of employee contributions made during the fiscal year and the lump sum employer contribution made for the year.

The methods and assumptions used to calculate the Actuarially Determined Contributions are in the respective January 1 actuarial valuation reports. Prior to fiscal year ending December 31, 2014 the ADC shown is calculated based upon GASB No 25.

(See independent auditor's report and notes to required supplemental information)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
As of December 31, 2014

Fiscal Year	Total Investment Plan Assets	Annual Money-Weighted Rate of Return, Net of Investment Expense
2014	$ 1,715,303,583	5.3% *

* Calculated by Marquette Associates, Inc.
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.

1. This information presented is 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	1/1/2014
Actuarial cost method	Aggregate Entry Age Normal
Asset valuation method	10-year smoothed market
Amortization methods:	
Contribution variance	Level dollar, closed
Administrative expenses	Level dollar, closed
All other unfunded liability	Level percent of payroll, closed
Remaining amortization periods:	
Contribution variance	5 years
Administrative expenses	10 years
All other unfunded liability	30 years
Actuarial Assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.50%
Post-retirement benefit increases	2%, simple

2. The total pension liability contained in the Schedule of Net Pension Liability and Related Ratios was provided by the Retirement System and OBRA'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 and OBRA.

3. The required employer contributions and percent of those contributions actually made are presented in the Schedule of Contributions.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE

(UNAUDITED)

Revenues by Source

Fiscal Year	Participant Contributions(1a)	County Contributions (1b)	Investment Income (Loss)(2)	Total
2014	$10,051,605	$19,005,395	$99,655,955	$128,712,955
2013	8,954,525	21,998,256	260,834,765	291,787,546
2012	9,040,652	18,410,496	186,091,377	213,542,525
2011	3,313,807	28,275,594	11,186,780	42,776,181
2010	75,584	32,893,562	210,905,464	243,874,610
2009	131,766	457,789,154	319,997,171	777,918,091
2008	140,209	34,840,886	(352,108,625)	(317,127,530)
2007	344,782	49,291,072	106,442,068	156,077,922
2006	545,258	27,435,154	207,804,929	235,785,341
2005	360,283	35,415,185	128,528,748	164,304,216

Expenses by Type

Fiscal Year	Benefits(3)	Investment and Administrative Expenses (4)	Withdrawals	Total
2014	$176,263,605	$7,997,073	$1,102,520	$185,363,198
2013	172,583,835	7,963,552	444,848	180,992,235
2012	178,557,030	8,445,509	212,245	187,214,784
2011	187,460,030	8,305,984	70,123	195,836,137
2010	162,664,454	8,445,062	138,136	171,247,652
2009	145,306,937	7,846,655	38,583	153,192,175
2008	144,160,665	7,385,443	23,557	151,569,665
2007	139,990,962	7,715,976	56,626	147,763,564
2006	130,730,539	6,622,923	13,571	137,367,033
2005	148,307,335	6,294,816	36,963	154,639,114

FOOTNOTES ARE IN THOUSANDS OF DOLLARS

(1a) Participant contributions are calculated by the actuary and are a percentage of the employees' pensionable compensation.

(1b) County contributions are set during the County's budget process and are made at the discretion of the County Board.

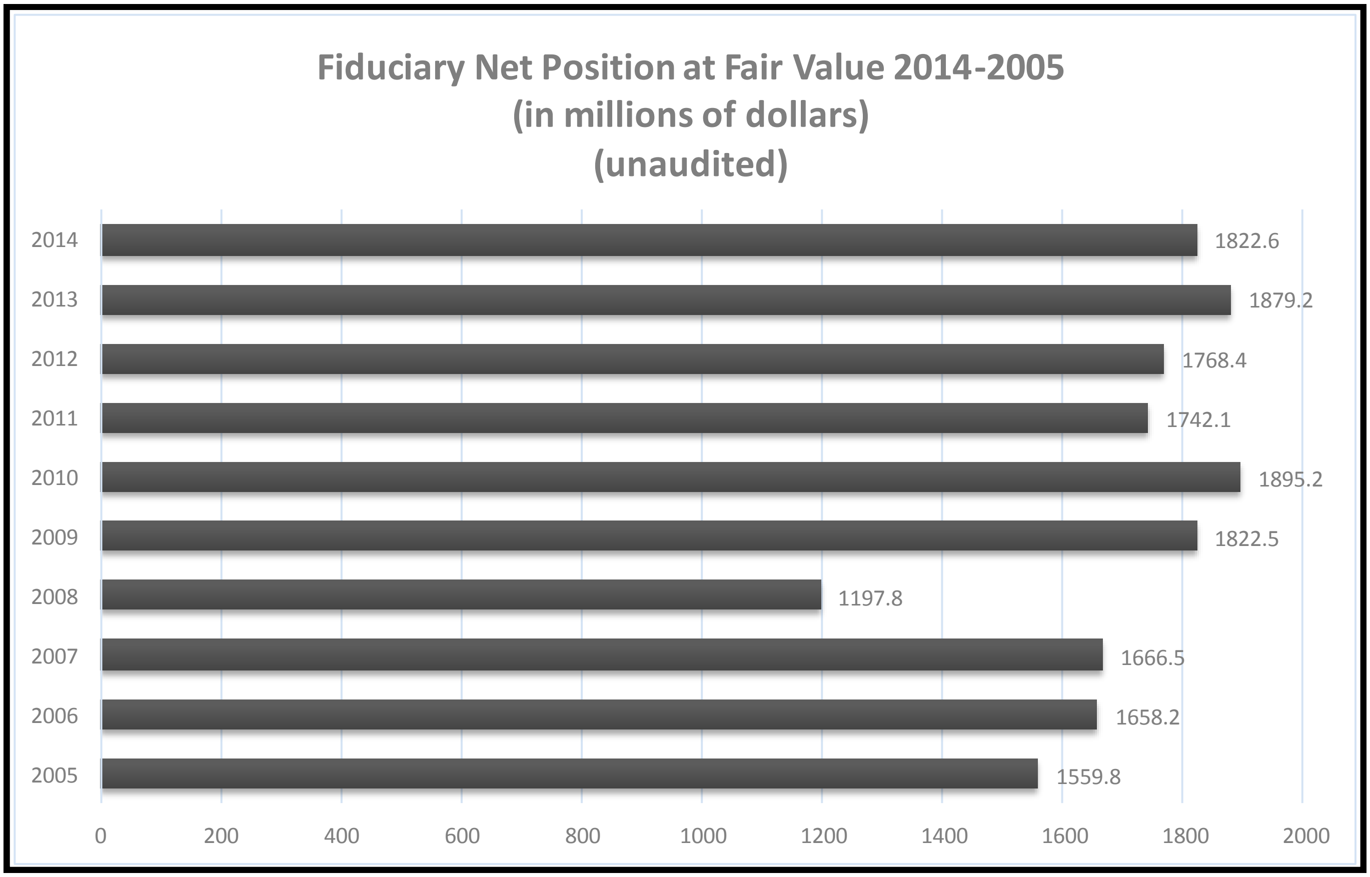
(2) Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income and other income.

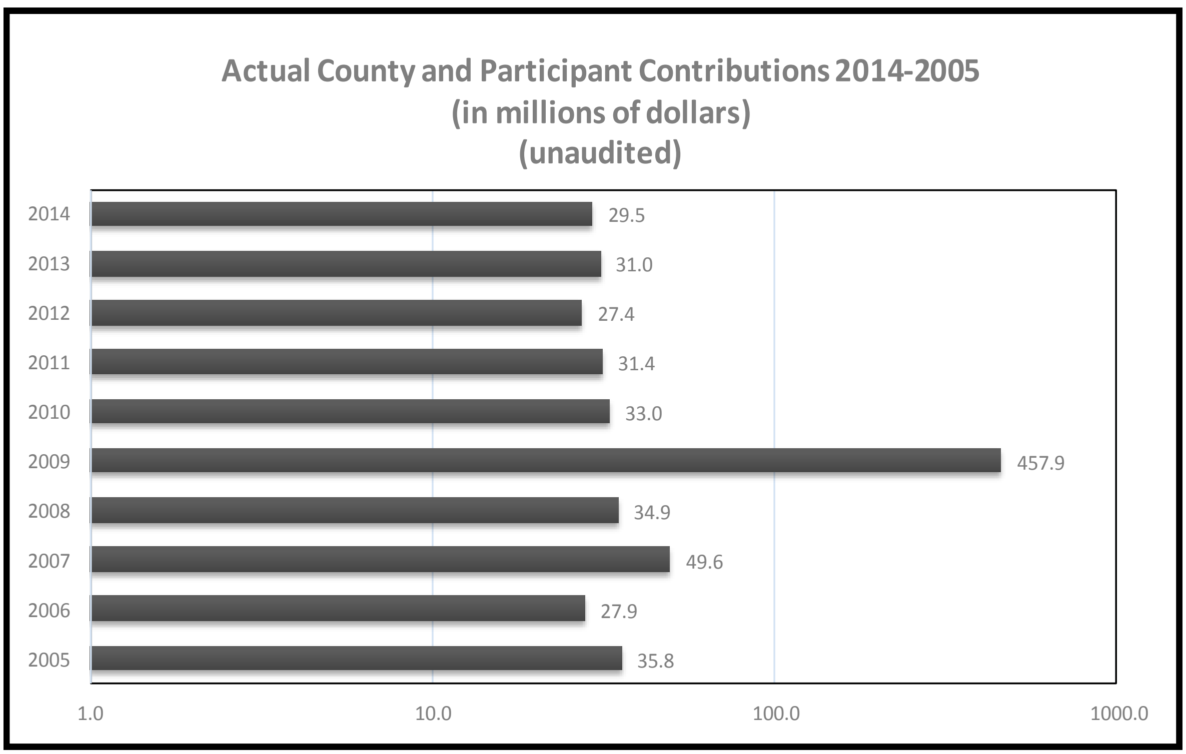
(3) Included in the benefits for 2014, 2013, 2012, 2011, 2010, 2009, 2008, 2007, 2006, and 2005 are back drop lump-sum payments of $12.6, $11.7, $21.7, $38.8, $20.3, $8.7, $11.2, $10.5, $5.5, and $25.7 million, respectively.

(4) The increase in investment and administrative expenses of $1,702 in the past ten years was due to increases in the following expenses:

- outside consultants of $747, with most of this increase occurring in 2008 and 2009, to support retirement systems;
- outside legal fees of $689, due to buyback/buyin issues, RFP preparation, tax issues, and various other legal matters;
- salaries and wages of $466 due primarily to the increase in benefits and staff;
- computer system expenses of $1,261. The plan started using its new computer system as of 1/1/09. Amortization of $824 and hosting expenses of $295, and maintenance costs of $295 caused most of this increase.

(See independent auditor's report and notes to required supplemental information)





(See independent auditor's report)

ACTIVE MEMBERSHIP STATISTICS
(unaudited)

	2014	2013
Members as of January 1	5,322 *	5,130 *
Changes During the Year:		
New enrollments.................................	350	420
Rehires..	0	0
Non-vested terminations.......................	(365)	(262)
Retirements...	(235)	(238)
Deaths in active service.......................	(4)	(1)
New deferred beneficiaries.................	0	0
Data adjustments................................	(18)	273
Members as of December 31.....................	**5,050** *	**5,322** *

* The total includes vested inactive members of 1,411 and 1,370 as of beginning of the year and end of the year, respectively.

RETIREMENTS AND SURVIVORS STATISTICS (unaudited)

	Retirements Granted								Survivors & Benefic -iaries	Total
		Option								
	Maximum Pension	Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2014	3,284	366	1,418	252	1,052	465	213	49	841	7,940
Changes During the Year:										
Adjustments (actuary)*	12	-	2	-	1	1	1	-	-	17
Retirements	130	-	46	8	18	18	15	-	93	328
Pensioner deaths	(123)	(33)	(30)	(2)	(59)	(6)	(2)	(4)	(47)	(306)
December 31, 2014	**3,303**	**333**	**1,436**	**258**	**1,012**	**478**	**227**	**45**	**887**	**7,979**

*Adjustments as a result of reclassifications made to beginning balances by the actuary

(See independent auditor's report and notes to required supplemental information)

CONSULTANTS
as of December 31, 2014

Legal Advisors
Milwaukee County
Corporation Counsel
Paul Bargren

Reinhart, Boerner, Van Deuren S.C.
Steven D. Huff, Secretary of the Pension Board
Milwaukee, Wisconsin

Actuary
Buck Consultants
Chicago, Illinois

Disbursing Agent
County Treasurer

Custodian/Securities Agent
BNY Mellon Asset Servicing
Pittsburgh, Pennsylvania

Medical Board
Columbia St. Mary's
Milwaukee, Wisconsin

Investment Consultant
Marquette Associates, Inc.
Chicago, Illinois

Cash Equitization Manager
BNY Mellon BETA Management
San Francisco, California

Infrastructure Managers
IFM Investment Advisor
New York, New York

JP Morgan Investment Management
New York, New York

Long/Short Managers
ABS Investment Management
Greenwich, Connecticut

K2 Advisors
Stamford, Connecticut

Fixed-Income Investment Managers
JP Morgan Investment Management
Columbus, Ohio

Mellon Capital Management
Pittsburgh, Pennsylvania

U.S. Equity Investment Managers
Artisan Partners
Milwaukee, Wisconsin

Fiduciary Management Associates, LLC
Chicago, Illinois

Geneva Capital Management Ltd.
Milwaukee, Wisconsin

Robeco Investment Management
Boston, Massachusetts

Silvercrest Asset Management Group
New York, New York

Mellon Capital Management
Pittsburgh, Pennsylvania

State Street Global Advidors
Boston, Massachusetts

International Investment Managers
Grantham, Mayo, Van Otterloo & Co.
Boston, Massachusetts

Northern Trust Investments
Chicago, Illinois

OFI Global Asset Management
New York, New York

Vontobel Asset Management
New York, New York

Real Estate Investment Managers
American Realty Advisors
Glendale, California

Morgan Stanley Real Estate
New York, New York

UBS Realty Investors, LLC
Hartford, Connecticut

Private Equity Managers
Adams Street Partners
Chicago, Illinois

Progress Investment Management Company
San Francisco, California

Siguler Guff & Company, LLC
New York, New York

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