

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN**

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

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INDEPENDENT AUDITORS' REPORT

Deferred Compensation Board
City of Milwaukee Deferred Compensation Plan
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of City of Milwaukee Deferred Compensation Plan (the "Plan"), which comprise the statements of fiduciary net position as of December 31, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of December 31, 2016 and 2015, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
January 10, 2018

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2016

This discussion and analysis of the City of Milwaukee Deferred Compensation Plan (the Plan) financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2016, 2015 and 2014. It is presented as required supplementary information to the financial statements.

Overview of Financial Statements

The Statements of Fiduciary Net Position provides the financial position of the Plan at December 31, 2016, including comparative amounts for the year ended December 31, 2015.

The Statements of Changes in Fiduciary Net Position summarizes the Plan's financial activities that occurred during the years ended December 31, 2016 and 2015.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The analysis below focuses on Fiduciary Net Position (Table 1) and Changes in Fiduciary Net Position (Table 2).

Table 1
Fiduciary Net Position

	<u>2016</u>	<u>2015</u>	<u>(Unadjusted) 2014</u>
FIDUCIARY NET POSITION	<u>\$835,701,331</u>	<u>\$795,577,220</u>	<u>\$799,911,331</u>

Table 2
Changes in Fiduciary Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
ADDITIONS TO NET POSITION	\$ 83,915,904	\$ 34,830,773	\$ 71,729,632
DEDUCTIONS FROM NET POSITION	<u>43,791,793</u>	<u>40,651,735</u>	<u>40,609,493</u>
NET INCREASE (DECREASE)	<u>\$ 40,124,111</u>	<u>\$ (5,820,962)</u>	<u>\$ 31,120,139</u>

Financial Analysis of the Plan

The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position reports general information about the Plan's asset size over time. Numerous factors impact the asset size of the Plan including participation rates, employee saving rates, economic conditions, and governmental legislation and policy, particularly that which directly or indirectly impacts employee compensation and/or benefits. Therefore, while the Plan's net position shows trends in Plan asset size, it is not a direct reflection of the financial strength of the Plan absent an analysis of the underlying reasons for changes in Plan asset size.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2016

2016 Financial Highlights

- > Total fiduciary net position increased by approximately \$40.1 million during 2016 from \$795,577,220 at December 31, 2015 to \$835,701,331 at December 31, 2016. The increase is due to a number of factors, including increasing participant contributions as well as favorable market results throughout 2016.
- > Participant contributions, including rollovers, increased from \$34,058,628 for the year ended December 31, 2015 to \$36,056,127 for the year ended December 31, 2016, likely due to Plan's new automatic enrollment feature. Effective October 1, 2016, an annual account elections and enrollment period will occur in the October time frame, and eligible employees not contributing or contributing less than 3% of pay will be default enrolled at 3% on a pre-tax basis if no action is taken at that time.
- > The Plan's 2016 participant rollover contributions, totaling approximately \$4 million come from plan to plan transfers from IRA, 401(k), 403(b) and 457 plans.
- > Benefits paid to participants increased from \$36,614,944 for the year ended December 31, 2015 to \$43,549,584 for the year ended December 31, 2016. Distributions tend to fluctuate from year to year depending upon participant elections and retirement dates.
- > Administrative expenses decreased approximately 15% during 2016 from \$284,844 for the year ended December 31, 2015 to \$242,209 for the year ended December 31, 2016. The decrease is likely due to largely offsetting revenues collected in the form of loan fees charged to participants.
- > The Plan decreased 12b-1 revenue from \$306,150 in 2015 to \$194,182 in 2016, a decrease of \$111,968.

2015 Financial Highlights

- > Total fiduciary net position decreased by approximately \$4.3 million during 2015 from \$799,911,331 at December 31, 2014 to \$795,577,220 at December 31, 2015 prior to any adjustments to beginning net position. The decrease is due to a number of factors, including increasing retirements, loans and related distributions, as well as increased volatility in the equity markets, which were down for the year in general, in part due to global market shocks related to Chinese economic instability, across the board decreases in commodity prices, many to below-production price levels, as well as weakening credit markets and slim fixed income returns.
- > Participant contributions, including rollovers, increased from \$33,001,236 for the year ended December 31, 2014 to \$34,058,628 for the year ended December 31, 2015, likely due to small increases in participation and savings rates.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
December 31, 2016

- > The Plan's 2015 participant rollover contributions, totaling approximately \$4 million, is largely attributable to employees electing to contribute large portions of litigation settlement proceeds payable at retirement related to the City of Milwaukee Employees' Retirement System. Other rollover contributions come from plan to plan transfers from IRA, 401(k), 403(b) and 457 plans.
- > Benefits paid to participants decreased from \$40,306,425 for the year ended December 31, 2014 to \$36,614,944 for the year ended December 31, 2015. Distributions tend to fluctuate from year to year depending upon participant elections and retirement dates. The nearly 10% decrease in 2015, however, was likely caused by less demand for distributions as a result of the introduction of in-plan loans in 2014, which saw increased utilization in 2015.
- > Administrative expenses decreased approximately 6% during 2015 from \$303,068 for the year ended December 31, 2014 to \$284,844 for the year ended December 31, 2015. The decrease is likely due to largely offsetting revenues collected in the form of loan fees charged to participants.
- > The plan decreased 12b-1 revenue from \$329,668 in 2014 to \$306,150 in 2015, a decrease of \$23,518. This was due to decreases in market value. The revenue was received subsequent to year-end and has been appropriately recorded as a receivable in the accompanying financial statements.

Financial Contact

The Plan financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Plan's Executive Director at 414-286-5541.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

STATEMENTS OF FIDUCIARY NET POSITION As of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Investments	<u>\$ 814,289,931</u>	<u>\$772,644,993</u>
Receivables		
Participants' contributions	-	1,241,081
Notes receivable from participants	19,309,600	19,898,145
Fees receivable	-	306,150
Total Receivables	<u>19,309,600</u>	<u>21,445,376</u>
Cash and cash equivalents	2,720,523	1,486,851
Restricted cash	-	10,412,504
Total cash and cash equivalents	<u>2,720,523</u>	<u>11,899,355</u>
TOTAL ASSETS	<u>836,320,054</u>	<u>805,989,724</u>
LIABILITIES		
Accrued expenses	<u>618,723</u>	<u>10,412,504</u>
FIDUCIARY NET POSITION	<u>\$ 835,701,331</u>	<u>\$795,577,220</u>

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

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION For the Years Ended December 31, 2016 and 2015

	2016	2015
ADDITIONS		
Additions to net position attributed to		
Investment income		
Net appreciation in fair value of investments	\$ 47,052,392	\$ -
Interest and dividends	<u>807,385</u>	<u>772,145</u>
Total investment income	<u>47,859,777</u>	<u>772,145</u>
Contributions		
Participant	32,026,441	29,857,679
Rollovers	<u>4,029,686</u>	<u>4,200,949</u>
Total contributions	<u>36,056,127</u>	<u>34,058,628</u>
Total Additions	<u>83,915,904</u>	<u>34,830,773</u>
DEDUCTIONS		
Deductions from net position attributed to		
Net depreciation in fair value of investments	-	3,751,947
Benefits paid to participants	43,549,584	36,614,944
Administrative expenses	<u>242,209</u>	<u>284,844</u>
Total Deductions	<u>43,791,793</u>	<u>40,651,735</u>
Net Increase (Decrease)	<u>40,124,111</u>	<u>(5,820,962)</u>
FIDUCIARY NET POSITION - Beginning of Year	795,577,220	799,911,331
Prior period adjustment (Note 8)	<u>-</u>	<u>1,486,851</u>
FIDUCIARY NET POSITION - Beginning of Year as restated	<u>795,577,220</u>	<u>801,398,182</u>
NET FIDUCIARY POSITION - END OF YEAR	<u>\$ 835,701,331</u>	<u>\$ 795,577,220</u>

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

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Description of the Plan

The following description of the City of Milwaukee Deferred Compensation Plan (the Plan) provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

The Plan was created by Section 5.50 of the Milwaukee City Charter and the Plan opened to employees on January 1, 1976. The Plan operates pursuant to City Ordinance 320-17, a Master Agreement adopted by the City of Milwaukee (the City), as amended and/or restated from time to time, as well as Administrative Rules, Operating Procedures, and an Investment Policy Statement.

Contributions

Under the Plan provisions, eligible employees may contribute to the Plan through payroll deductions. Eligible employees are individuals who perform services for the City as an employee. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contributions to an amount not to exceed the lesser of \$18,000 (for 2016 and 2015) or 100% of the individual's gross annual salary, or if appropriate, adjusted gross salary. Individuals age 50 or over may make an additional "catch-up" contribution effective for tax years after December 31, 2001. Additional catch-up contributions are allowed for participants within three years of retirement. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. An employee's interest in his/her account is fully vested at all times. The City does not make any contributions to the Plan.

Effective October 1, 2016, an annual account elections and enrollment period will occur in the October time frame, and eligible employees not contributing or contributing less than 3% of pay will be default enrolled at 3% on a pre-tax basis if no action is taken at that time. For new hires, the effective date shall be no less than thirty days after the earlier of (a) the new hire's new employee orientation; or (b) mailing of an enrollment packet. Default enrollment and contributions do not apply to active unionized police and fire employees.

Participant Accounts

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. At December 31, 2016 and 2015, the Plan met the requirements of the SBJPA.

The Plan is governed by the City of Milwaukee Deferred Compensation Board (the Board) and is administered by a third party. The Board is also the trustee of the Plan.

Each participant's account is credited with the participant's salary contributions, rollover contributions and earnings (net of administrative expenses). The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Description of the Plan (cont.)

Participants direct the investment of their account balances and had the following investment options to choose from, prior to October 2016, when the Plan changed its investment offerings:

- > Stable Value account, which invests primarily in fixed income securities and investment contracts.
- > Variable earnings investment accounts consisting of various underlying mutual funds, common stocks and bond investments that have different investment risks and return objectives:
 - Actively Managed Income Account
 - Socially Conscious Balanced Account
 - Passively Managed U.S. Equity Account
 - Actively Managed Equity Account
 - Passively Managed International Equity Account
 - Conservative Model Portfolio
 - Accumulator Model Portfolio
 - Wealth Builder Model Portfolio
 - Aggressive Model Portfolio
- > Self-directed option - Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. (Schwab):
 - Participants with a minimum account balance of \$1,000 may elect to self-direct the investment of their account balance through a PCRA account. The PCRA account investments primarily consist of common stocks, mutual funds, and bonds.

Some of the Plan's investments are still held in a group annuity contract underwritten by American United Life Insurance Company (AUL), which is not available for new deferrals.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Description of the Plan (cont.)

In October 2016, the Plan changed its investment offerings, with the exception of the Stable Value Account. The underlying management structure for all of the core investment options changed and the Socially Conscious Balanced Account was eliminated. In addition, the risk managed accounts were replaced with a suite of target date funds managed by JP Morgan. After the change, participants may direct the investment of their account balances and have the following investment options to choose from:

- > Stable Value account, which invests primarily in fixed income securities and investment contracts.
- > Variable earnings investment accounts consisting of various underlying mutual funds, common stocks and bond investments that have different investment risks and return objectives:
 - Actively Managed Income Account
 - Passively Managed U.S. Equity Account
 - Actively Managed Equity Account
 - Passively Managed International Equity Account
 - Target Date Income
 - Target Date 2015
 - Target Date 2020
 - Target Date 2025
 - Target Date 2030
 - Target Date 2035
 - Target Date 2040
 - Target Date 2045
 - Target Date 2050
 - Target Date 2055
- > Self-directed option - Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. (Schwab):
 - Participants with a minimum account balance of \$1,000 may elect to self-direct the investment of their account balance through a PCRA account. The PCRA account investments primarily consist of common stocks, mutual funds, and bonds.

Some of the Plan's investments are still held in a group annuity contract underwritten by American United Life Insurance Company (AUL), which is not available for new deferrals.

Vesting

Participants are immediately vested in their salary reduction and rollover contributions plus earnings thereon.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 1 - Description of the Plan (cont.)

Notes Receivable From Participants

Beginning in 2014, participants may borrow from their fund accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50 percent of their vested account balance. Loan terms are not to exceed five years for a general purpose loan or up to fifteen years for the purchase of a principal residence. Principal and interest payments received on a participant's outstanding loan balance are allocated to the participant's account pro-rata according to current designated investment elections. The loans are secured by the remaining balance in the participant's account and bear interest at prime rate at the first day of the calendar quarter in which the loan was initiated, plus 1%. Participants are limited to having one general purpose loan outstanding and one principal residence loan outstanding at a given time.

Payment of Benefits

Employees participating in the Plan may withdraw the value of their accounts upon termination of employment from the City, because of financial hardship, (if approved by the City of Milwaukee Deferred Compensation Board), or in order to satisfy minimum distribution requirements of the IRC. Normal retirement age under the Plan is age 70, unless the participant has designated an alternative Normal Retirement Date, as defined in the plan document. A participant's alternative Normal Retirement Age may not be earlier than the earliest date that the participant will become eligible to retire and receive unreduced benefits under the Employees' Retirement System, the Policemen's Annuity and Benefit Fund or the Fireman's Annuity and Benefit Fund, whichever is applicable to the participant.

Participants may select various payout options, which include lump sum, periodic, or annuity payments.

In the case of death, with certain exceptions, any amount invested under the participant's account is paid to the beneficiary or the participant's estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Administrative Expenses

Investment management fees, service fees (i.e., loan fees), and other administrative fees are paid directly by the Plan participants. Loan and other special service fees are charged directly to participant accounts. Administrative fees include the costs of legal counsel, fiduciary insurance, staff salaries and benefits, consultants, third-party plan administration, custodial banking, audit, as well as travel, professional association, and office expenses. Investment and administrative expenses are reflected daily in the net appreciation (depreciation) of investment fair value.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies

Basis of Accounting

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

Use of Estimates

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

Investment Valuation and Income Recognition

Variable earning investments and PCRA's are presented at fair values based on published quotations or Net Asset Value (NAV) based on the fair values of the underlying mutual funds, stocks and bonds. Purchases and sales of investments are recorded by the recordkeeper on the date the trade is ordered by the money manager and/or on the date that participant elections are made.

The Stable Value account investment is presented at contract value, which approximates fair value. Contract value represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The interest rate credited to the account is based on the overall rate of return for the entire portfolio. The interest rate was 1.97% and 1.73% as of December 31, 2016 and 2015, respectively. The assets held in the group annuity contract are actuarially valued as reported by AUL.

Interest income is recorded as earned on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the gains and losses on investments bought and sold as well as held during the year.

Variable earning investment and PCRA income consists of dividends, interest and realized and unrealized gains and losses attributable to the mutual funds, stocks, and bonds. Earnings are accrued to individual participants' accounts on a daily basis, based upon the investment performance of the specific options selected.

Fees incurred by the Plan for the investment manager services are included in net appreciation (depreciation) in the fair value of investment as they are paid through revenue sharing, rather than a direct payment.

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Related fees are recorded as administrative expenses and are expensed when they are incurred. Interest income is recorded on the accrual basis. No allowance for credit losses has been recorded as of December 31, 2016 and 2015. Delinquent participant loans are reclassified as distributions based upon the terms of the plan document.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 2 - Summary of Significant Accounting Policies (cont.)

Cash and Cash Equivalents

The Plan defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Restricted cash represents amounts set aside by the Plan that may be reimbursable to vendors.

Payment of Benefits

Benefits are recorded when paid.

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.

Risks and Uncertainties

The Plan invests in various investment securities. These securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain values of 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 financial statements. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions and has responsibility for managing their exposure to fair value loss.

New Accounting Pronouncement

In February 2016, GASB issued Statement No. 72, Fair Value Measurement and Application. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for periods beginning after June 15, 2015. The Plan adopted the guidance for the 2016 fiscal year. The impact of adopting this statement is reflected in the financial statements.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments

Fair Value Measurement

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under authoritative guidance are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the plan has the ability to access.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- > Quoted prices for similar assets or liabilities in active markets;
- > Quoted prices for identical or similar assets or liabilities in inactive markets;
- > Inputs other than quoted prices that are observable for the asset or liability;
- > Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There were no changes to the methodologies during the years ended December 31, 2016 and 2015.

Equities: Valued at quoted market prices for identical assets in active markets.

Equity funds: Valued at market prices for similar assets in active markets

Fixed income: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yield currently available on comparable securities of issuers with similar credit ratings.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

Personal choice retirement accounts: The Plan's investments held in participant-directed brokerage accounts may include mutual funds, common stock, bonds, cash, money market funds, unit investment trusts and options. The fair values of mutual funds and money market funds are based on the quoted NAVs of the shares held by the Plan at year end. The fair values of common stock and unit investment trusts are based on quoted market prices. Cash is reported at carrying value which approximates fair value. The fair value of bonds for which quoted market prices are not available are valued based on yields currently available on comparable securities of issues with similar credit ratings. The fair value of options are based on cost; no value is given until options are exercised.

Group annuity: Group annuity contracts are reported at contract value equal to the accumulated cash contributions and interest less any withdrawals, which approximates fair value. The annuity is not available for sale or transfer on any securities exchange. The fair value of the annuity was determined by discounting the related cash flows on current yields of similar instruments with comparable durations and taking into consideration the creditworthiness of the issuer.

Common collective trust funds: The collective trust fund is valued at the NAV of units of a bank collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.

The plan sponsor is responsible for the determination of fair value. Accordingly, they perform periodic analysis on the prices received from the pricing services used to determine whether the prices are reasonable estimates of fair value. As a result of these reviews, the plan sponsor has not historically adjusted the prices obtained from the pricing services. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

The following tables set forth by level, within the fair value hierarchy, the Plan's investments at fair value as of December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equities	\$ 59,504,665	\$ 163,142	\$ -	\$ 59,667,807
Equity funds	-	484,039,960	-	484,039,960
Fixed income	-	44,525,065	-	44,525,065
PCRA's	43,387,763	6,802,662	-	50,190,425
Group annuity	-	-	<u>1,202,706</u>	<u>1,202,706</u>
Total assets in the fair value hierarchy	<u>\$102,892,428</u>	<u>\$535,530,829</u>	<u>\$ 1,202,706</u>	\$639,625,963
Investments measured at net asset value (a)				<u>174,663,968</u>
Investments at fair value				<u>\$814,289,931</u>

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Equity funds	\$ -	\$441,002,671	\$ -	\$441,002,671
Fixed income	-	62,745,186	-	62,745,186
PCRA's	40,416,126	5,970,327	-	46,386,453
Group annuity	-	-	<u>1,207,615</u>	<u>1,207,615</u>
Total assets in the fair value hierarchy	<u>\$ 40,416,126</u>	<u>\$509,718,184</u>	<u>\$ 1,207,615</u>	\$551,341,925
Investments measured at net asset value (a)				<u>221,303,068</u>
Investments at fair value				<u>\$772,644,993</u>

(a) In accordance with GASB 72, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Fiduciary Net Position.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

Investments Measured Using NAV per Share Practical Expedient

The following table summarizes investments for which fair value is measured using NAV per share practical expedient as of December 31, 2016 and 2015, respectively. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	December 31, 2016			
Stable Value Account	\$174,663,968	N/A	Daily	24 months
	December 31, 2015			
Stable Value Account	\$221,303,068	N/A	Daily	24 months

The fair value of investments held by the Plan at December 31, 2016 and 2015 was as follows:

	2016	2015
Fixed earnings investment		
Stable Value Account	\$ 174,663,968	\$ 221,303,068
Variable earnings investments		
Actively Managed Income Account	44,668,245	45,580,720
Passively Managed U.S. Equity Account	149,253,101	152,933,883
Actively Managed Equity Account	151,583,474	208,420,016
Passively Managed International Equity Account	41,735,807	45,529,365
Socially Conscious Balanced Account	-	31,037,670
Conservative Model Portfolio	-	4,320,291
Accumulator Model Portfolio	-	4,103,486
Wealth Builder Model Portfolio	-	5,470,770
Aggressive Model Portfolio	-	6,351,656
Target date investments		
Target Date Income	27,329,742	-
Target Date 2015	24,934,240	-
Target Date 2020	42,649,705	-
Target Date 2025	39,903,442	-
Target Date 2030	27,069,616	-
Target Date 2035	19,061,546	-
Target Date 2040	10,701,423	-
Target Date 2045	6,052,652	-
Target Date 2050	2,355,279	-
Target Date 2055	934,560	-

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

	2016	2015
Self-directed option		
PCRA- Charles Schwab	50,190,425	46,386,453
Group annuity contract		
AUL	1,202,706	1,207,615
Total investments	\$ 814,289,931	\$ 772,644,993

The following individual underlying investments exceeded 5% of the Plan Fiduciary Net Position at December 31, 2016 and 2015:

	2016	2015
Vanguard Total Stock Market Index Trust-Mutual Fund	\$ -	\$ 153,073,899
Vanguard FTSE All-World ex-US Index-Mutual Fund	-	45,643,643
Stable Value Fund	174,663,968	221,303,068
Russell 3000 Index Fund	149,253,101	-
Target Date Fund 2020	42,649,705	-

The Plan conforms to the reporting requirements of *Governmental Accounting Standards Board Statement No. 40*. As of December 31, 2016, the Plan had the following investments and maturities in its fixed earnings investment and certain mutual funds which include investments in bonds.

	Fair Value	Weighted Average Maturity (Years)	Credit Quality
Fixed earnings investment			
Stable Value Account	\$ 174,663,968	3.43	AA
Variable earnings investments			
Baird Core Fixed Income	30,614,030	7.61	AA-
Brandywine Global Fixed Income	6,815,242	9.52	AA-
Reams Opportunistic Fixed Income	7,238,973	2.30	AA+

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

As of December 31, 2015, the Plan had the following investments and maturities in its fixed earnings investment and certain mutual funds which include investments in bonds.

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Quality</u>
Fixed earnings investment			
Stable Value Account	\$ 221,303,068	3.28	AA1
Variable Earnings Investment			
DoubleLine Emerging Markets Fixed Income	1,526,496	7.65	BB
Baird Intermediate Bond Fund	9,770,145	4.46	A
Black Rock High Yield Bond Fund Inst	1,586,707	7.23	B
Black Rock Strategic Income Opp Fund Inst	9,876,649	6.75	BB
Dodge & Cox Income Fund	9,105,912	8.40	BBB
Franklin Templeton Global Bond Fund	1,089,912	3.26	BB
Loomis Sayles Bond Fund	3,547,812	5.51	BB
Vanguard Inflation- Protected Securities Fund	1,598	8.80	AAA
Vanguard GNMA Fund	5,828,223	4.40	AAA
Vanguard Inter-Term Treasury Fund	815,206	5.70	AA
Vanguard Short-Term Federal Fund	1,775,732	2.50	A
Touchstone Total Return Bond Fund	8,230,479	8.20	BBB
Neuberger Berman High Income Bond Fund	1,645,141	5.70	BB
TCW Total Return Bond Fund	7,945,174	6.54	BBB

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 3 - Investments (cont.)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of the investment. The Plan may have investments in foreign investments that are issued outside of the United States of America. As of December 31, 2016, the Plan's exposure to foreign currency risk, expressed in U.S. Dollars, is in the following table. The Plan did not hold foreign investments as of December 31, 2015.

Foreign Currency	Equities	Total Fair Market Value
Australian dollar	\$ 1,425,782	\$ 1,425,782
Brazilian real	290,065	290,065
British pound sterling	6,133,185	6,133,185
Canadian dollar	1,428,364	1,428,364
Danish krone	2,690,121	2,690,121
Euro	6,619,366	6,619,366
Hong Kong dollar	1,532,316	1,532,316
Hungarian forint	232,640	232,640
Japanese yen	4,762,206	4,762,206
Mexican peso	610,130	610,130
New Israeli shekel	114,496	114,496
Philippine peso	48,560	48,560
South African rand	815,278	815,278
Swiss franc	2,479,471	2,479,471
Totals	\$ 29,181,980	\$ 29,181,980

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Plan's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not the Plan's name.

All deposits of the Plan are held on behalf of the Plan by the investment custodian in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk as defined by *Governmental Accounting Standards Board Statement No. 40*.

NOTE 4 - Related Parties

All members of the Deferred Compensation Board are participants in the Plan.

CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended December 31, 2016 and 2015

NOTE 5 - Plan Termination

The City reserves the right to terminate the Plan at any time and such termination shall act as a termination as to all participants. Upon termination of the Plan, the City reserves the right to make distributions to participants at such time and in such manner the City may deem advisable.

NOTE 6 - Tax Status

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

NOTE 7 - Subsequent Events

The Plan has evaluated subsequent events through January 10, 2018, which is the date that the financial statements were approved and available to be issued, for events requiring recording or disclosure in the Plan's financial statements. Management believes that no material events have occurred that would require disclosure

NOTE 8 - Prior Period Adjustment

The accompanying financial statement for 2015 has been adjusted to properly record cash accounts and accrued expenses. The adjustment is presented as cash and cash equivalents and accrued expenses in the accompanying financial statement. The adjustment is necessitated by the identification of assets in 2015 as a result of the Plan's change in custodial banks as of January 3, 2015 from US Bank to Northern Trust. None of these assets were allocable or otherwise owing to participant accounts. The effect of the correction of the error did not have an impact on the 2015 net decrease on the Statements of Changes in Fiduciary Net Position. Fiduciary net position at the beginning of 2015 was adjusted by \$1,486,851 for the effects of the restatements on prior years; there was no income tax impact to the Plan.