

**CITY OF MILWAUKEE  
DEFERRED COMPENSATION PLAN**

Milwaukee, Wisconsin

**FINANCIAL STATEMENTS**

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2018 and 2017

# CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

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As of and for the Years Ended December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 on pages 3 through 5 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Voichaw Krause, LLP*

Milwaukee, Wisconsin  
August 9, 2019

# CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) December 31, 2018

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, 2018, 2017 and 2016. 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, 2018, including comparative amounts for the year ended December 31, 2017.

The Statements of Changes in Fiduciary Net Position summarize the Plan's financial activities that occurred during the years ended December 31, 2018 and 2017.

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>2018</u>	<u>2017</u>	<u>2016</u>
<b>FIDUCIARY NET POSITION</b>	\$ 868,567,461	\$ 939,889,899	\$ 835,701,331

**Table 2**  
**Changes in Fiduciary Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>ADDITIONS (DEDUCTIONS) TO NET POSITION</b>	\$ (362,724)	\$ 164,220,045	\$ 84,274,403
<b>DEDUCTIONS FROM NET POSITION</b>	70,959,714	60,031,477	44,150,292
<b>NET INCREASE (DECREASE)</b>	<u>\$ (71,322,438)</u>	<u>\$ 104,188,568</u>	<u>\$ 40,124,111</u>

### Financial Analysis of the Plan

The Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position report 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, 2018

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## 2018 Financial Highlights

- > Total fiduciary net position decreased by approximately \$71.3 million during 2018 from \$939,889,899 at December 31, 2017 to \$868,567,461 at December 31, 2018. The decrease is due to a number of factors, including unfavorable market results throughout 2018 as well as higher benefits paid to participants and decreased participant rollover contributions.
- > Participant contributions, including rollovers, decreased from \$44,459,288 for the year ended December 31, 2017 to \$42,079,156 for the year ended December 31, 2018, due to decreased participant rollover contributions.
- > The Plan's 2018 participant rollover contributions, totaling approximately \$7.0 million come from plan to plan transfers from IRA, 401(k), 403(b), 401(a) and 457 plans.
- > Benefits paid to participants increased from \$59,315,487 for the year ended December 31, 2017 to \$70,127,189 for the year ended December 31, 2018. Distributions tend to fluctuate from year to year depending upon participant elections and retirement dates.
- > Administrative expenses increased approximately \$116,535 during 2018 from \$715,990 for the year ended December 31, 2017 to \$832,525 for the year ended December 31, 2018. The increase is likely due to an increase in plan participation (based on quarterly average, plan participation increased from 8,383 in 2017 to 8,763 in 2018), the additional advisory services provided by VOYA Retirement Advisors (VRA) and the addition of a Plan administrative and professional fee assessment (i.e., for custodian, consulting, audit, outside legal and insurance costs, as well as City of Milwaukee staff costs, office expenses, Board of Directors and staff education, professional association and travel costs) applied to participant's assets invested in the Self-Directed Brokerage Personal Choice Retirement Account (PCRA) beginning in early 2018 (these fees had not been assessed from the portion of accounts invested in the PCRA since October 2016).

## 2017 Financial Highlights

- > Total fiduciary net position increased by approximately \$104.2 million during 2017 from \$835,701,331 at December 31, 2016 to \$939,889,899 at December 31, 2017. The increase is due to a number of factors, including favorable market results throughout 2017 as well as increased participant contributions.
- > Participant contributions, including rollovers, increased from \$36,056,127 for the year ended December 31, 2016 to \$44,459,288 for the year ended December 31, 2017, likely due to Plan's automatic enrollment feature which was effective October 1, 2016.
- > The Plan's 2017 participant rollover contributions, totaling approximately \$9.8 million come from plan to plan transfers from IRA, 401(k), 403(b), 401(a) and 457 plans.
- > Benefits paid to participants increased from \$43,549,584 for the year ended December 31, 2016 to \$59,315,487 for the year ended December 31, 2017. Distributions tend to fluctuate from year to year depending upon participant elections and retirement dates.

## CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
December 31, 2018

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- > Administrative expenses increased approximately \$115,282 during 2017 from \$600,708 for the year ended December 31, 2016 to \$715,990 for the year ended December 31, 2017. The increase is likely due to an increase in plan participation (based on quarterly average, plan participation increased from 7,918 in 2016 to 8,383 in 2017), and the additional advisory services offered by Voya Retirement Advisors (VRA), which were initially introduced in the 4<sup>th</sup> quarter of 2016. These additional services increased administrative expenses by approximately \$7,528 in 2016 and \$146,633 in 2017.

### **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, 2018 and 2017

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	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Investments	\$ 849,445,731	\$ 921,285,633
Notes receivable from participants	17,075,225	17,615,270
Cash and cash equivalents	<u>2,300,185</u>	<u>1,238,442</u>
<b>TOTAL ASSETS</b>	<u>868,821,141</u>	<u>940,139,345</u>
<b>LIABILITIES</b>		
Accrued expenses	<u>253,680</u>	<u>249,446</u>
<b>FIDUCIARY NET POSITION</b>	<u>\$ 868,567,461</u>	<u>\$ 939,889,899</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, 2018 and 2017

	2018	2017
<b>ADDITIONS</b>		
Additions to net position attributed to		
Investment income		
Net appreciation (depreciation) in fair value of investments	\$ (43,153,646)	\$ 118,988,908
Interest and dividends	711,766	771,849
Total investment income (loss)	(42,441,880)	119,760,757
Contributions		
Participant	35,032,198	34,626,746
Rollovers	7,046,958	9,832,542
Total contributions	42,079,156	44,459,288
Total Additions (Deductions)	(362,724)	164,220,045
<b>DEDUCTIONS</b>		
Deductions from net position attributed to		
Benefits paid to participants	70,127,189	59,315,487
Administrative expenses	832,525	715,990
Total Deductions	70,959,714	60,031,477
Net Increase (decrease)	(71,322,438)	104,188,568
FIDUCIARY NET POSITION - Beginning of Year	939,889,899	835,701,331
<b>NET FIDUCIARY POSITION - END OF YEAR</b>	<b>\$ 868,567,461</b>	<b>\$ 939,889,899</b>

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, 2018 and 2017

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## **NOTE 1 - Description of the Plan**

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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 \$18,500 for 2018 and \$18,000 for 2017 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.

Beginning 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, 2018 and 2017, 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, 2018 and 2017

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## **NOTE 1 - Description of the Plan (cont.)**

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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 2020
  - Target Date 2025
  - Target Date 2030
  - Target Date 2035
  - Target Date 2040
  - Target Date 2045
  - Target Date 2050
  - Target Date 2055
  - Target Date 2060
- > 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, 2018 and 2017

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## **NOTE 1 - Description of the Plan (cont.)**

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### *Notes Receivable from Participants*

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 the investment's fair value.

# CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017

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## **NOTE 2 - Summary of Significant Accounting Policies**

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### *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 record-keeper 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 2.62% and 2.26% as of December 31, 2018 and 2017, 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, 2018 and 2017. 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, 2018 and 2017

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

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### *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.

### *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.

# CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017

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## NOTE 3 - Investments

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### 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, 2018 and 2017.

*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, 2018 and 2017

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## **NOTE 3 - Investments (cont.)**

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*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, 2018 and 2017

### 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, 2018 and 2017:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Equities	\$ 36,517,811	\$ 160,391	\$ -	\$ 36,678,202
Equity funds	-	537,899,157	-	537,899,157
Fixed Income	-	58,462,009	-	58,462,009
PCRA's	35,243,240	4,268,387	-	39,511,627
Group annuity	-	-	1,205,617	1,205,617
Total assets in the fair value hierarchy	<u>\$ 71,761,051</u>	<u>\$ 600,789,944</u>	<u>\$ 1,205,617</u>	673,756,612
Investments measured at net asset value (a)				<u>175,689,119</u>
Total investments				<u>\$ 849,445,731</u>
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equities	\$ 55,410,662	\$ 102,722	-	\$ 55,513,384
Equity funds	-	593,984,744	-	593,984,744
Fixed Income	-	53,793,974	-	53,793,974
PCRA's	43,818,886	5,460,285	-	49,279,171
Group annuity	-	-	1,204,956	1,204,956
Total assets in the fair value hierarchy	<u>\$ 99,229,548</u>	<u>\$ 653,341,725</u>	<u>\$ 1,204,956</u>	753,776,229
Investments measured at net asset value (a)				<u>167,509,404</u>
Total investments				<u>\$ 921,285,633</u>

- (a) In accordance with GASB 72, *Fair Value Measurement and Application*, 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, 2018 and 2017

### **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, 2018 and 2017, 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, 2018			
Stable Value Account	\$ 175,689,119	N/A	Daily	N/A
	December 31, 2017			
Stable Value Account	\$ 167,509,404	N/A	Daily	N/A

The fair value of investments held by the Plan at December 31, 2018 and 2017 was as follows:

	2018	2017
<b>Fixed earnings investment</b>		
Stable Value Account	\$ 175,689,119	\$ 167,509,404
<b>Variable earnings investments</b>		
Actively Managed Income Account	58,462,009	53,793,974
Passively Managed U.S. Equity Account	179,438,769	186,730,494
Actively Managed Equity Account	148,500,732	178,594,069
Passively Managed International Equity Account	56,536,926	64,316,397
<b>Target date investments</b>		
Target Date Income	40,042,997	48,587,771
Target Date 2020	35,997,844	44,030,782
Target Date 2025	40,501,381	46,997,813
Target Date 2030	27,307,316	30,603,237
Target Date 2035	20,267,539	22,220,575
Target Date 2040	11,943,094	13,680,867
Target Date 2045	7,337,683	7,920,112
Target Date 2050	3,794,181	3,944,867
Target Date 2055	2,227,753	1,817,738
Target Date 2060	681,144	53,406

## CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017

### NOTE 3 - Investments (cont.)

	2018	2017
<b>Self-directed option</b>		
PCRAs - Charles Schwab	39,511,627	49,279,171
<b>Group Annuity contract</b>		
AUL	1,205,617	1,204,956
<b>Total investments</b>	<b>\$ 849,445,731</b>	<b>\$ 921,285,633</b>

The following individual underlying investments exceeded 5% of the Plan Fiduciary Net Position at December 31, 2018 and 2017:

	2018	2017
Russell 3000 Index Fund	\$ 179,438,769	\$ 186,730,494
Stable Value Fund	175,689,119	167,509,404
S&P 500 Index Fund	68,336,368	79,972,361
International Equity Fund	56,536,926	64,316,397
Baird Core Fixed Income	43,813,409	-
Target Date Income Fund	-	48,587,771
Target Date Fund 2025	-	46,997,813

The Plan conforms to the reporting requirements of *Governmental Accounting Standards Board Statement No. 40*. As of December 31, 2018, 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
<b>Fixed earnings investment</b>			
Stable Value Account	\$ 175,689,119	3.05	AA+
<b>Variable earnings investments</b>			
Baird Core Fixed Income	43,813,409	8.09	AA-
Brandywine Global Fixed Income	7,208,978	9.61	A
Reams Opportunistic Fixed Income	7,439,622	4.45	AA-

## CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017

### **NOTE 3 - Investments (cont.)**

As of December 31, 2017, 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
<b>Fixed earnings investment</b>			
Stable Value Account	\$ 167,509,404	3.21	AA
<b>Variable earnings investments</b>			
Baird Core Fixed Income	38,783,404	7.92	AA-
Brandywine Global Fixed Income	7,610,023	7.25	A+
Reams Opportunistic Fixed Income	7,400,547	3.21	AA+

### **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, 2018 and 2017, the Plan's exposure to foreign currency risk, expressed in U.S. Dollars, is in the following table.

December 31, 2018		
Foreign Currency	Equities	Total Fair Market Value
Australian dollar	\$ 1,273,545	\$ 1,273,545
Brazilian real	287,601	287,601
British pound sterling	3,470,384	3,470,384
Canadian dollar	613,757	613,757
Danish krone	842,206	842,206
Euro	5,950,787	5,950,787
Hong Kong dollar	2,423,450	2,423,450
Hungarian forint	153,654	153,654
Indonesian rupiah	59,854	59,854
Japanese yen	2,615,105	2,615,105
Mexican peso	1,088,752	1,088,752
Philippine peso	50,670	50,670
South Korean won	562,917	562,917
Swedish krona	1,246,730	1,246,730
Swiss franc	2,222,262	2,222,262
Totals	\$ 22,861,674	\$ 22,861,674

## CITY OF MILWAUKEE DEFERRED COMPENSATION PLAN

NOTES TO FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2018 and 2017

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### NOTE 3 - Investments (cont.)

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December 31, 2017		
Foreign Currency	Equities	Total Fair Market Value
Australian dollar	\$ 1,584,825	\$ 1,584,825
Brazilian real	1,228,659	1,228,659
British pound sterling	5,388,252	5,388,252
Canadian dollar	977,385	977,385
Danish krone	2,586,033	2,586,033
Euro	6,585,600	6,585,600
Hong Kong dollar	2,757,765	2,757,765
Hungarian forint	172,244	172,244
Japanese yen	4,337,300	4,337,300
Mexican peso	1,105,808	1,105,808
Philippine peso	42,290	42,290
South Korean won	487,135	487,135
Swedish krona	1,078,715	1,078,715
Swiss franc	2,031,964	2,031,964
Totals	\$ 30,363,975	\$ 30,363,975

#### 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*.

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#### NOTE 4 - Related Parties

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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, 2018 and 2017

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## **NOTE 5 - Plan Termination**

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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.

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## **NOTE 6 - Tax Status**

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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.

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## **NOTE 7 - Subsequent Events**

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The Plan has evaluated subsequent events through August 9, 2019, 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