



Oklahoma City Employee Retirement System

Comprehensive Annual Financial Report | A Pension Trust Fund of Oklahoma City

The City of Oklahoma City, Oklahoma | for the Fiscal Year ended June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

A Pension Trust Fund of
Oklahoma City, Oklahoma

Board of Trustees

Paul Bronson, Chairman

Ken Culver, Vice-Chairman

Frances Kersey, Secretary (ex-officio)

Robert Ponkilla, Treasurer (ex-officio)

Dianna Berry

Regina Story

David Shupe

Dennis Spencer

James Hamill

Jim Williamson

Craig Freeman

Randy Thurman

Jacqueline Ames

Management

Rena Hutton, Administrator

Comprehensive Annual Financial Report
for the Fiscal Years Ended June 30, 2016 and 2015

Prepared by The Oklahoma City Finance Department, Accounting Services Division
Laura L. Papas, Controller

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

TABLE OF CONTENTS

For the Fiscal Years Ended June 30, 2016 and 2015

PAGE

I. INTRODUCTORY SECTION

| | |
|--|----|
| Transmittal Letter | 1 |
| Certificate of Achievement for Excellence in Financial Reporting | 5 |
| Public Pension Standards Award for Funding and Administration | 6 |
| Board of Trustees | 7 |
| Professional Services | 8 |
| Organization Chart | 9 |
| Report of the Chair | 10 |

II. FINANCIAL SECTION

| | |
|--|----|
| Independent Auditor's Report on Financial Statements and Supplementary Information | 11 |
| Management's Discussion and Analysis | 14 |
| Basic Financial Statements: | |
| Statements of Fiduciary Net Position | 17 |
| Statements of Changes in Fiduciary Net Position | 18 |
| Notes to Financial Statements | 19 |
| Required Supplementary Information: | |
| Defined Benefit Pension Plan | 45 |
| Other Post-Employment Benefits Plan | 47 |
| Supporting Schedules: | |
| Schedule of Administrative Expenses | 48 |
| Schedule of Investment Expenses and Securities Lending Management Fees | 48 |
| Schedule of Consulting Expenses | 48 |

III. INVESTMENT SECTION

| | |
|------------------------------------|----|
| Report on Investment Activity | 49 |
| Investment Policy | 50 |
| Investment Summary | 54 |
| Investment Holdings Cost to Market | 56 |
| Investment Results | 57 |
| Asset Allocation | 58 |
| Largest Holdings | 59 |
| Schedule of Fees and Commissions: | |
| Investment Management Fees | 60 |
| Other Investment Service Fees | 61 |
| Broker Commission | 61 |

OKLAHOMA CITY EMPLOYEE RETIREMENT SYSTEM

TABLE OF CONTENTS

For the Fiscal Years Ended June 30, 2016 and 2015

PAGE

IV. ACTUARIAL SECTION

| | |
|---|----|
| Actuary's Disclosure Certification | 62 |
| Solvency Test - Schedule of Funding Progress | 66 |
| Summary of Benefit Provisions Evaluated or Considered | 67 |
| Schedule of Retirants and Beneficiaries as of the Valuation Date | 69 |
| Schedule of Active and Inactive Member Valuation Date | 70 |
| Summary of Actuarial Assumptions and Methods | 71 |
| Analysis of Financial Experience Derivation of Experience Gain (Loss) | 75 |
| Schedule of Retirees and Beneficiaries Added to and Removed from Rolls | 76 |
| Supplementary Information Schedule of Funding Progress | 77 |
| Supplementary Information Schedule of Employer Contributions | 78 |
| Notes to Supplementary Information Summary of Actuarial Methods and Assumptions | 78 |

V. STATISTICAL SECTION

| | |
|---|----|
| Statistical Overview | 79 |
| Schedule of Changes in Fiduciary Net Position | 80 |
| Schedule of Benefit and Refund Deductions from Net Position by Type | 81 |
| Schedule of Retired Members by Benefit Type | 81 |
| Schedule of Average Benefit Payments | 82 |

VI. OTHER

| | |
|---|----|
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 83 |
|---|----|

Introductory





Oklahoma City Employee Retirement System

Board of Trustees

Paul Bronson
General Services Director
Chairman

Ken Culver
Vice Chair

Frances Kersey
City Clerk
Secretary

Robert Ponkilla
City Treasurer
Treasurer

Jacqueline Ames
Police Service Tech II

Dianna Berry
Personnel Director

Craig Freeman
Finance Director

Karla Nickels
Retired

David Shupe
911 Communications
Manager

Dennis Spencer

Regina Story
Trust Specialist

Randy Thurman

Jim Williamson
City Auditor

Staff
Rena Hutton
Administrator

Debbie Hayes
Analyst

The Board of Trustees

Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma 73102

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Oklahoma City Employee Retirement System ("System") for fiscal year ended June 30, 2016. During the past years, the System has seen significant advances and celebrated numerous successes and will continue to meet the challenges of tomorrow.

FINANCIAL INFORMATION

The System's management is responsible for both the accuracy of the data and the completeness of the presentation of the financial statements, including all notes and disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position of the System. The System's management is also responsible for establishing and maintaining a comprehensive framework of internal controls designed to ensure that assets are protected from loss, theft, or misuse and to ensure that adequate accounting information is generated in order to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatements.

AGHLC, a firm of independent certified public accountants has audited the System's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the System for the fiscal year ended June 30, 2016, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the statements, assessing the accounting principles used, and evaluating the overall financial statement presentation. The independent certified public accountants concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the System's financial statements for the fiscal year ended June 30, 2016, are fairly presented in conformity with U.S. GAAP. The Independent Accountants' Report on Financial Statements and Supplementary Information is presented as the first component of the Financial Section of this report.

U.S. GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the Independent Accountants' Report on Financial Statements and Supplementary Information.

PROFILE OF THE SYSTEM

The Oklahoma City Employee Retirement System was created under the authority granted by Chapter 11 of the Oklahoma State Statutes on January 21, 1958, to provide pension and survivor benefits to all full-time civilian employees of The City of Oklahoma City. The benefit provisions of the System are established by City Ordinance. The System provides normal service retirement and early service retirement benefits for members who attain certain age and service requirements. Coverage for employment-connected (duty) disability benefits is immediate upon entry into the System; while for non-duty-related injuries or illnesses, disability benefits are provided after attainment of fifteen years of service. Members are vested after five years of service and are eligible for benefits at their early or normal service retirement date. For additional information on benefit provisions, see the Summary of Benefit Provisions Evaluated or Considered in the Actuarial Section of the CAFR.

FUNDING

A pension plan is considered to be “well-funded” when it has enough money in reserve to meet all expected future obligations to its members. The System’s funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of payroll. The greater the level of funding, the larger the ratio of assets accumulated to fund the actuarial accrued liabilities. Also, a better level of funding gives the members a higher degree of assurance that their pension benefits are secure. As of December 31, 2015, the System had an actuarial asset value of \$665,077,000 and an actuarial accrued liability of \$633,985,000, resulting in an unfunded actuarial accrued liability of (\$31,092,000).

The ratio of actuarial assets to actuarial accrued liabilities is 104.9%. The System is considered “well-funded” and is currently funded at better than 100%. The City’s dedication to provide a financially sound plan for its members is illustrated in the “Solvency Test-Schedule of Funding Progress” found in the Actuarial Section of the CAFR. This illustration presents the accrued liabilities calculated according to the plan funding method and historical progress made toward the funding of those liabilities. The “funded ratio” presents a positive indication of the financial strength of the System.

FACTORS AFFECTING FINANCIAL CONDITION

As provided in the plan provisions, Section 40-95 of the Oklahoma City Municipal Code, the Board of Trustees is authorized to invest the plan assets and to take appropriate action regarding the investment, management, and custodianship of the plan assets. The investment responsibilities of the Board of Trustees include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

The Board of Trustees recognizes that the objective of a sound and prudent policy is to produce investment results, which will preserve the plan’s assets, as well as maximize earnings consistent with long-term needs. Furthermore, through diversification of plan assets over several investment classifications, the Board of Trustees recognizes the need to maintain a balanced investment approach to not only maximize investment results but also to reduce risk. The Board of Trustees has adopted a formal investment policy that was last modified October 2014. The policy guidelines provide that the System shall target 25% of the fund to fixed income strategies (Core Bonds 5%, Core Plus Bonds 7.5%, Global Bonds 7.5% and Low Volatility Hedge Fund Strategies 5%), 15% of the fund to real assets (Core Real Estate 6%, Opportunistic Real Estate 4% and Commodities 5%) and 60% to equity strategies (Large Cap Domestic Equities 20%, Small/Mid Cap Domestic Equities 10%, International Equities 10%, Emerging Market Equities 5%, Long/Short Equity Strategies 10% and Private Equity 5%). The asset mix may deviate from the targets. Deviations greater than predetermined acceptable levels may require rebalancing back to the target. When an asset class exceeds its range, the goal of rebalancing is to meet the target allocation with consideration of the other remaining asset classes.

The Board of Trustees believes its asset allocation will assist in safeguarding it against short-term market volatility while still providing opportunities for long-term growth. The Board of Trustees along with the investment advisor is involved in a thorough review of each investment manager and asset type to assure they are fulfilling their role in achieving total portfolio performance. It is important that each investment manager maintain their assigned investment style so the System’s total portfolio is less likely to experience erratic market fluctuations.

For fiscal year 2016, investments provided a (.26) percent rate of return. The System earned an annualized rate of return over the past three years of 7.04 percent, 7.32 percent over the last five years. The Board of Trustees continues to monitor the cost of benefits as well as the financial stability of the System to ensure all benefits promised are paid to our members.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Oklahoma City Employee Retirement System for its CAFR for the fiscal year ended June 30, 2015. Fiscal year 2015 was the sixteenth year that the System submitted and achieved this prestigious award. In order to be awarded a Certificate of Achievement, a report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC) awarded the PPCC Standards Award for the plan year December 31, 2015. The PPCC is a coalition of three associations that represent the vast majority of public employees in the United States. The associations are the:

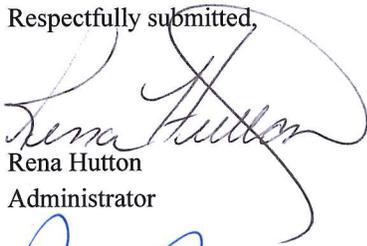
- National Association of State Retirement Administrators (NASRA)
- National Council on Teacher Retirement (NCTR)
- National Conference on Public Employee Retirement Systems (NCPERS)

The Public Pension Administration and Funding Standards are intended to reflect the minimum expectations for public retirement system management and administration, as well as serve as a benchmark by which all defined benefit public plans should be measured.

The preparation of this report could not have been accomplished without the dedicated efforts of The City's Controller and her staff. We would like to express our appreciation to all who assisted and contributed to its preparation.

On behalf of the Board of Trustees, we would like to take this opportunity to express our gratitude to the City staff, the System's advisors, and the many people who have worked so diligently to assure the successful operation of the Oklahoma City Employee Retirement System.

Respectfully submitted,



Rena Hutton
Administrator



Robert Ponkilla
Treasurer

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**The Oklahoma City
Employee Retirement System
Oklahoma**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2016***

Presented to

Oklahoma City Employee Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

The Board of Trustees (Board) is a policy-making body and is responsible for the Oklahoma City Employee Retirement System's (System) proper operation. The System is administered under its guidance and direction, subject to such rules, regulations, and ordinances as adopted.

The Board consists of two ex-officio members, the City Treasurer and the City Clerk; two members from various City departments who are appointed by the City Council (Council); three members who have professional experience in investments and/or pension fund management who are appointed by Council, one member elected from the retired membership; three members elected from the active membership; and two members who serve by position, the Finance Director and the City Auditor. The Municipal Counselor's Office serves as the System's legal advisor.

| | |
|---|---|
| Paul Bronson, Chairman General Services Director | Elected by active membership Term expires June 30, 2017 |
| Ken Culver, Vice-Chairman | Appointed by the Council |
| Frances Kersey, Secretary City Clerk | Ex-Officio |
| Robert Ponkilla, Treasurer City Treasurer | Ex-Officio |
| Karla Nickels | Elected by retired membership Term expires December 31, 2017 |
| Dianna Berry City Personnel Director | Appointed by Council |
| Craig Freeman City Finance Director | By Position |
| Regina Story Administrative Specialist | Elected by active membership Term expires June 30, 2018 |
| Jacqueline Ames City Police Dispatcher | Appointed by Council |
| David Shupe 911 Communication Manager | Elected by active membership Term expires June 30, 2016 |
| Jim Williamson City Auditor | By Position |
| Randy Thurman | Appointed by Council |
| Dennis Spencer | Appointed by Council |

Elected Trustees from the active membership serve three-year terms. The elected Trustee from the retiree membership serves a two-year term. Appointed trustees continue to serve until replaced by the Council. By position Trustees continue to serve as long as they hold their position. There are no limitations on the number of terms an elected Trustee may serve.

CONSULTING SERVICES

LEGAL COUNSEL

Municipal Counselor's Office
City of Oklahoma City
Wiley Williams

Davis Graham & Stubbs LLP
Cindy Birley
Denver, Colorado

ACTUARY

Gabriel, Roeder, Smith & Company
Louise M. Gates
Southfield, Michigan

INVESTMENT CONSULTANT

Asset Consulting Group, Inc.
Jason Pulos
George Tarlas
St. Louis, Missouri

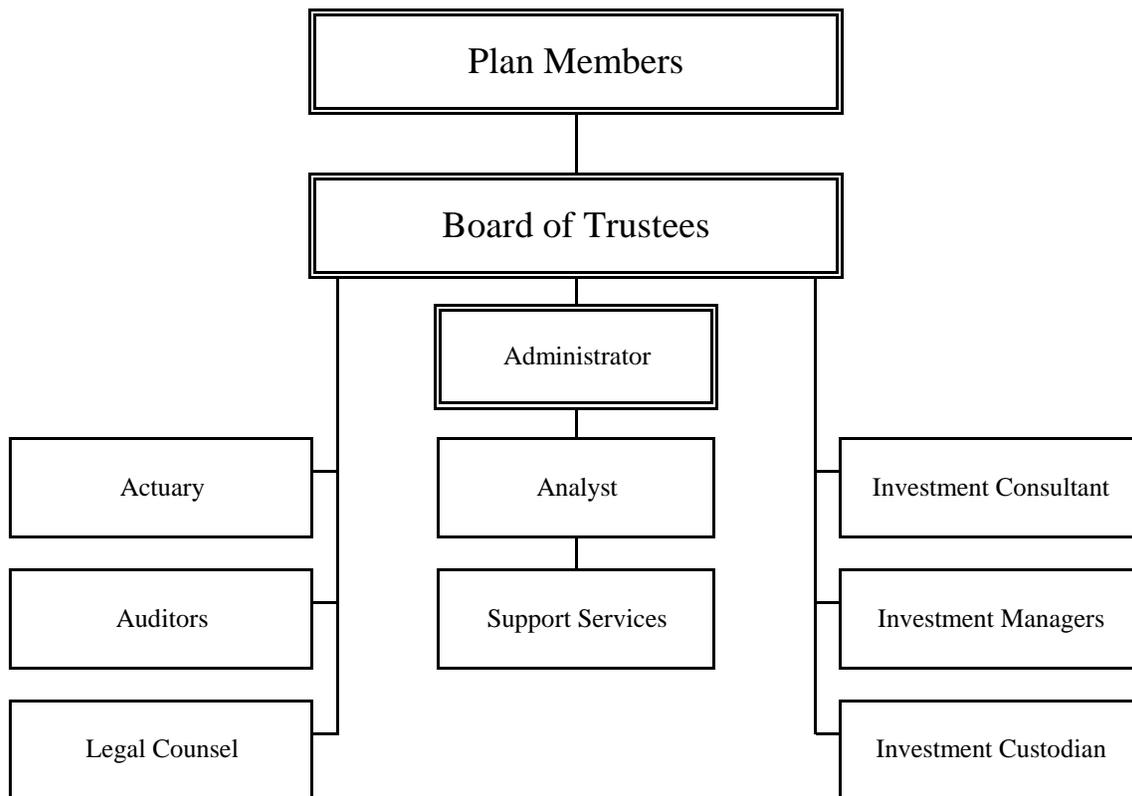
MEDICAL CONSULTANT

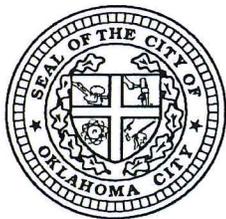
Independent Medical Examinations
Dr. John Munneke, M.D.
Medical Director
Oklahoma City, Oklahoma

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT

Allen, Gibbs & Houlik, L.C.
Wichita, Kansas

See Investment Section for a list of investment professionals.





Oklahoma City Employee Retirement System

Paul E. Bronson
Chairman

Rena L. Hutton
Administrator

Address:
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Oklahoma City, Oklahoma
73102

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The Members of the Oklahoma City Employee Retirement System:

The Comprehensive Annual Financial Report provides a comprehensive overview of the Oklahoma City Employee Retirement System's ("the System") financial position, funding activity and benefit payments during the past fiscal year. This report sets forth pertinent financial, investment, actuarial, and statistical data, and is available to all plan participants and the general public.

The Board realizes that proper, prudent, and faithful stewardship is necessary for the accumulation and preservation of assets needed to pay promised retirement benefits. Over the years, the Board has taken steps resulting in a positive financial position and a high level of security for the System. The System is considered to be one of the best funded retirement systems in the State of Oklahoma. As of June 30, 2016, the ratio of fiduciary net position to total pension liability is 99.82%. While the System is "well-funded", our ongoing challenge and goal is to maintain a fully funded status. To assist the Board in accomplishing this goal the System invests in various asset classes to provide a balanced investment approach and reduce overall risk. The Board will continue to monitor the System's financial stability and the cost of benefits to ensure all benefits promised are paid to our members.

On behalf of the Board, and the System's staff I would like to take this opportunity to extend a special note of thanks to our membership for their support during the past year. Additionally, I would like to thank the many dedicated consultants who provide valuable information to the Board. And finally, I would like to recognize the support provided by the Mayor, City Council and City management in helping the System provide a financially secure retirement future for its members.

Sincerely,

Paul E. Bronson

Paul E. Bronson, Chairman
Oklahoma City Employee Retirement System

Financial



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Oklahoma City Employee Retirement System (the System), a fiduciary component unit of the City of Oklahoma City, Oklahoma (the City) which are comprised of the statement of fiduciary net position as of June 30, 2016, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 net position restricted for pensions and other employee benefits of the System as of June 30, 2016, and the changes in net position restricted for pensions and other employee benefits for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I.D.1. to the financial statements, in 2016 the System adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Year Comparative Information

The financial statements of the System, as of and for the year ended June 30, 2015, were audited by other auditors whose report dated December 29, 2015 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other post-employment information 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the System's financial statements. The supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The introductory, investment, actuarial and statistical sections listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 21, 2016
Wichita, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Oklahoma City Employee Retirement System (System) annual financial report, the System's management provides narrative discussion and analysis of the financial activities of the System for the fiscal years ended June 30, 2016 and 2015. The financial performance of the System is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. Introductory information is available in the transmittal letter which precedes this discussion and analysis. The System is a pension trust of the City of Oklahoma City (City).

Pension trust resources are not available to fund City programs but are held in trust to pay retirement benefits to members.

Financial Summary

- System net position reported in the financial statements is \$649,123,256 for 2016. This compares to the previous year when net position reported was \$670,163,985. These assets are held in trust to pay pension benefits to retirees.
- The fair value of investments at June 30, 2016, is \$650,393,910 compared to \$671,054,225 at June 30, 2015.
- The funded ratio of the net pension liability at June 30, 2016, was 99.82%.

Overview of the Financial Statements

This discussion and analysis introduces the basic financial statements. The basic financial statements include: (1) statement of fiduciary net position, (2) statement of changes in fiduciary net position, and (3) notes to the financial statements. Also included in this report is additional information to supplement the basic financial statements.

Financial Statements

The System's annual report includes two basic financial statements. These statements provide both long-term and short-term information about the overall status of the System and are presented to demonstrate the extent the System has met its operating objectives efficiently and effectively using all the resources available and whether the System can continue to meet its objectives in the foreseeable future. Financial reporting for the System uses a perspective similar to that found in the private sector with its basis in full accrual accounting.

The first of these basic statements is the statement of fiduciary net position. This statement presents information that includes all of the assets and liabilities, with the difference reported as net position restricted for pension and other employee benefits. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System as a whole is improving or deteriorating.

The second statement is the statement of changes in fiduciary net position which reports how the net position changed during the fiscal year and can be used to assess the System's operating results and analyze how the System's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees.

Financial Analysis

The System's net position at fiscal year-end is \$649,123,256. This is a decrease of \$21,040,729 from last year's net position. Overall the System's financial position declined during fiscal year 2016.

Summary of Plan Fiduciary Position

| | | | 2016-2015 | 2016-2015 | | | 2015-2014 | 2015-2014 |
|--------------------------|----------------------|----------------------|-----------------------|---------------|----------------------|---------------------|---------------|-----------|
| | | | Amount of | % | | | Amount of | % |
| | <u>2016</u> | <u>2015</u> | <u>Change</u> | <u>Change</u> | <u>2014</u> | <u>Change</u> | <u>Change</u> | |
| Assets | | | | | | | | |
| Cash | \$906,709 | \$3,528,272 | (\$2,621,563) | (74.3%) | \$460,283 | \$3,067,989 | 666.5% | |
| Receivables | 601,666 | 1,208,108 | (606,442) | (50.2) | 887,955 | 320,153 | 36.1 | |
| Investments | 650,393,910 | 671,054,225 | (20,660,315) | (3.1) | 665,357,064 | 5,697,161 | 0.9 | |
| Net pension asset | <u>60,916</u> | <u>85,978</u> | <u>(25,062)</u> | (29.1) | - | <u>85,978</u> | 100.0 | |
| Total assets | 651,963,201 | 675,876,583 | (23,913,382) | (3.5) | 666,705,302 | 9,171,281 | 1.4 | |
| Deferred outflows | 9,634 | 11,490 | (1,856) | (16.2) | - | 11,490 | 100.0 | |
| Liabilities | 2,824,271 | 5,660,542 | (2,836,271) | (50.1) | 8,246,504 | (2,585,962) | (31.4) | |
| Deferred inflows | <u>25,308</u> | <u>63,546</u> | <u>(38,238)</u> | (60.2) | - | <u>63,546</u> | 100.0 | |
| Net position | <u>\$649,123,256</u> | <u>\$670,163,985</u> | <u>(\$21,040,729)</u> | (3.1) | <u>\$658,458,798</u> | <u>\$11,705,187</u> | 1.8 | |

Cash and investments decreased by \$23.28 million during 2016. This is primarily due to benefits and other expenses in excess of contributions of \$16.27 million, decrease in the market value of investments of \$4.84 million, and a decrease in pending investment transactions of \$2.80 million. Cash and investments increased by \$8.77 million during 2015. This is primarily due to an increase in the market value of investments of \$25.21 million, offset by benefits and other expenses in excess of contributions of \$13.65 million, and a decrease in pending investment transactions of \$2.74 million.

Receivables decreased by \$606 thousand during 2016 compared to an increase of \$320 thousand in 2015. This is a result of the timing of contributions, dividends, and interest receipts.

In 2016 net pension asset decreased by \$25 thousand, deferred outflows decreased by \$2 thousand, and deferred inflows decreased by \$38 thousand due to the actuarially determined pension calculations. In 2015 the System reported a net pension asset of \$86 thousand, deferred outflows of \$11 thousand, and deferred inflows of \$64 thousand related to the implementation of GASB statement number 68.

The decrease in liabilities of \$2.84 million during the year ended June 30, 2016, was primarily from the decrease of \$2.80 million that was due to investment broker. The decrease in liabilities of \$2.59 million during the year ended June 30, 2015, was primarily from the decrease of \$2.74 million that was due to investment broker.

Summary of Changes in Fiduciary Net Position

| | <u>2016</u> | <u>2015</u> | 2016-2015 Amount of <u>Change</u> | 2016-2015 % | <u>2014</u> | 2015-2014 Amount of <u>Change</u> | 2015-2014 % |
|--|-----------------------------|-----------------------------|---|----------------|-----------------------------|---|----------------|
| Additions | | | | | | | |
| Contributions | \$14,973,280 | \$15,875,439 | (\$902,159) | (5.7%) | \$16,293,441 | (\$418,002) | (2.6%) |
| Investment income, net | (4,840,459) | 25,206,761 | (30,047,220) | (119.2) | 94,658,124 | (69,451,363) | (73.4) |
| Net securities lending activities | - | - | - | 0.0 | 467 | (467) | (100.0) |
| Other | <u>68,029</u> | <u>130,719</u> | <u>(62,690)</u> | (48.0) | <u>94,852</u> | <u>35,867</u> | 37.8 |
| Total additions | <u>10,200,850</u> | <u>41,212,919</u> | <u>(31,012,069)</u> | (75.2) | <u>111,046,884</u> | <u>(69,833,965)</u> | (62.9) |
| Deductions | | | | | | | |
| Benefits | 29,712,236 | 27,913,256 | 1,798,980 | 6.4 | 26,311,079 | 1,602,177 | 6.1 |
| Refunds of contributions | 1,131,613 | 1,166,506 | (34,893) | (3.0) | 1,037,043 | 129,463 | 12.5 |
| Administrative expenses | <u>397,730</u> | <u>445,438</u> | <u>(47,708)</u> | (10.7) | <u>461,529</u> | <u>(16,091)</u> | (3.5) |
| Total deductions | <u>31,241,579</u> | <u>29,525,200</u> | <u>1,716,379</u> | 5.8 | <u>27,809,651</u> | <u>1,715,549</u> | 6.2 |
| Changes in net position (deficit) | (21,040,729) | 11,687,719 | (32,728,448) | (280.0) | 83,237,233 | (71,549,514) | (86.0) |
| Beginning net position | | | | | | | |
| As previously reported | 670,163,985 | 658,458,798 | 11,705,187 | 1.8 | 575,221,565 | 83,237,233 | 14.5 |
| Change in accounting principle | - | <u>17,468</u> | <u>(17,468)</u> | (100.0) | - | <u>17,468</u> | 100.0 |
| As restated | <u>670,163,985</u> | <u>658,476,266</u> | <u>11,687,719</u> | 1.8 | <u>575,221,565</u> | <u>83,254,701</u> | 14.5 |
| Beginning net position | - | - | - | 0.0 | - | - | 0.0 |
| Ending net position | <u>\$649,123,256</u> | <u>\$670,163,985</u> | <u>(\$21,040,729)</u> | (3.1) | <u>\$658,458,798</u> | <u>\$11,705,187</u> | 1.8 |

Contributions decreased \$902 thousand and \$418 thousand at June 30, 2016 and 2015, respectively. This is due to a decrease in the employer contribution rate from 6.44% to 5.88% on July 1, 2015, and a decrease from 7.15% to 6.44% on July 1, 2014. At June 30, 2016, investment income decreased \$30.05 million primarily due to net market value depreciation of \$32.96 million from 2015 to 2016. At June 30, 2015, investment income decreased \$69.45 million, primarily due to net market value depreciation of \$70.50 million. The increase in benefits of \$1.80 million at June 30, 2016, and \$1.60 million at June 30, 2015, was due to increases in retirees and increased benefit costs. The decrease in refunds of contributions of \$35 thousand at June 30, 2016 and increase of \$129 thousand at June 30, 2015 was due to a decrease and increase in attrition rates, respectively.

Economic Factors

For the fiscal year ended June 30, 2016, System investments provided a negative 0.74% rate of return with a net investment loss of \$4.84 million. This is mostly due to oil prices and concerns regarding international developments and their potential impact on financial conditions. For the fiscal year ended June 30, 2015, the investments provided a 4.3% rate of return with a net investment income of \$25.21 million. Markets declined in the fiscal year ending in June 30, 2016. This growth slowed in the previous fiscal year ending in June 30, 2015. This is due to economic uncertainty of the foreign markets. In fiscal year 2016, net investment loss was equivalent to 0.7% of net position compared to an equivalent of 3.8% in 2015.

Financial Market Indices

| | <u>2016</u> | <u>2015</u> | 2016-2015 Amount of <u>Change</u> | 2016-2015 % <u>Change</u> | <u>2014</u> | 2015-2014 Amount of <u>Change</u> | 2015-2014 % <u>Change</u> |
|------------------------------|-------------|-------------|---|---------------------------------|-------------|---|---------------------------------|
| S&P 500 | 2,098.86 | 2,063.11 | 35.75 | 1.7% | 1,960.23 | 102.88 | 5.2% |
| S&P MidCap 400 | 1,496.50 | 1,502.17 | (5.67) | (0.4) | 1,432.94 | 69.23 | 4.8 |
| S&P SmallCap 600 | 761.87 | 664.87 | 97.00 | 14.6 | 682.87 | (18.00) | (2.6) |
| Dow Jones Industrial Average | 17,929.99 | 17,619.51 | 310.48 | 1.8 | 16,826.60 | 792.91 | 4.7 |
| NASDAQ | 4,842.67 | 4,986.87 | (144.20) | (2.9) | 4,408.18 | 578.69 | 13.1 |
| 10 Year Bond Yield (%) | 1.49 | 2.34 | (0.85) | (36.3) | 2.52 | (0.18) | (7.1) |

Diversification of investments is one of the primary means the System uses to moderate risk. The investment section of this report provides details on the types of investments, asset allocation, and investment approach that guide the System's investment decisions. The investment section also contains information on some of the specific investments held and annual return over the last one, three, and five years.

Contacting the System's Financial Management

This financial report is designed to provide a general overview of the System finances, comply with finance-related laws and regulations, and demonstrate commitment to public accountability. If you have questions about this report or would like to request additional information, contact the City's Finance Department, Accounting Services Division, at 100 North Walker, Suite 300, Oklahoma City, Oklahoma 73102.

STATEMENTS OF FIDUCIARY NET POSITION
June 30,

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | 2016 | 2015 |
|---|----------------------|----------------------|
| <u>ASSETS</u> | | |
| <u>CASH</u> | | |
| Non-pooled cash----- | \$906,709 | \$3,528,272 |
| <u>RECEIVABLES</u> | | |
| Interest and dividends----- | 601,666 | 694,633 |
| Employer----- | - | 246,558 |
| Plan members----- | - | 251,584 |
| Other receivables----- | - | 15,333 |
| Total receivables----- | 601,666 | 1,208,108 |
| <u>INVESTMENTS, AT FAIR VALUE</u> | | |
| Domestic common stock----- | 209,694,128 | 213,997,758 |
| Passive domestic stock funds----- | 68,070,965 | 65,394,162 |
| Preferred stock----- | 6,069,862 | 5,700,059 |
| Government securities/fixed income----- | 54,007,883 | 60,025,859 |
| Passive bond fund----- | 68,947,917 | 64,988,571 |
| International stock----- | 154,680,924 | 167,140,052 |
| Passive international bond funds----- | 3,549,058 | 5,769,113 |
| Treasury money market fund----- | 6,641,787 | 8,817,129 |
| Commodities----- | 25,069,287 | 29,724,021 |
| Real estate----- | 51,387,741 | 46,137,155 |
| Oklahoma City judgments----- | 2,274,358 | 3,360,346 |
| Total investments----- | 650,393,910 | 671,054,225 |
| <u>NET PENSION ASSET</u> ----- | 60,916 | 85,978 |
| Total assets----- | 651,963,201 | 675,876,583 |
| <u>DEFERRED OUTFLOWS</u> ----- | 9,634 | 11,490 |
| <u>LIABILITIES</u> | | |
| Accounts payable----- | 447,420 | 497,508 |
| Due to broker----- | 2,228,719 | 5,025,630 |
| Wages and benefits payable----- | 8,537 | 7,209 |
| Compensated absences, current----- | 20,373 | 18,581 |
| Compensated absences, non-current----- | 65,841 | 63,252 |
| Net other post-employment benefits obligation----- | 53,381 | 48,362 |
| Total liabilities----- | 2,824,271 | 5,660,542 |
| <u>DEFERRED INFLOWS</u> ----- | 25,308 | 63,546 |
| <u>NET POSITION</u> | | |
| Restricted for pension and other employee benefits | \$649,123,256 | \$670,163,985 |

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Years Ended June 30,

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | 2016 | 2015 |
|---|----------------------|----------------------|
| <u>ADDITIONS</u> | | |
| <u>CONTRIBUTIONS</u> | | |
| Employer----- | \$7,411,117 | \$8,207,083 |
| Plan members----- | 7,562,163 | 7,668,356 |
| Total contributions----- | 14,973,280 | 15,875,439 |
| <u>INVESTMENT INCOME</u> | | |
| Net appreciation (depreciation) in fair value of investments----- | (13,655,019) | 19,304,799 |
| Interest----- | 5,250,129 | 3,557,409 |
| Dividends----- | 5,258,424 | 4,288,717 |
| | (3,146,466) | 27,150,925 |
| Less: investment expense----- | (1,693,993) | (1,944,164) |
| Net investment income (loss)----- | (4,840,459) | 25,206,761 |
| Other----- | 68,029 | 130,719 |
| Total additions----- | 10,200,850 | 41,212,919 |
| <u>DEDUCTIONS</u> | | |
| Benefits paid----- | 29,712,236 | 27,913,256 |
| Refunds of pension contributions----- | 1,131,613 | 1,166,506 |
| Administrative expenses----- | 397,730 | 445,438 |
| Total deductions----- | 31,241,579 | 29,525,200 |
| Change in net position----- | (21,040,729) | 11,687,719 |
| <u>NET POSITION RESTRICTED FOR PENSIONS</u> | | |
| <u>AND OTHER EMPLOYEE BENEFITS</u> | | |
| Beginning of year, as previously reported----- | 670,163,985 | 658,458,798 |
| Change in accounting principle----- | - | 17,468 |
| Beginning of year, as restated----- | 670,163,985 | 658,476,266 |
| End of year----- | \$649,123,256 | \$670,163,985 |

See accompanying notes to financial statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

I. A. INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the Oklahoma City Employee Retirement System (System) financial activities for the fiscal years ended June 30, 2016 and 2015.

I. B. BASIS OF PRESENTATION

I. B. 1. REPORTING ENTITY AND RELATIONSHIP TO THE CITY OF OKLAHOMA CITY, OKLAHOMA

The System was authorized and created by the City of Oklahoma City (City) ordinance on January 21, 1958, to hold funds in trust for its members. The purpose of the System is to provide retirement benefits and disability allowances for substantially all full-time, civilian employees of the City and public trusts included in the City's reporting entity. Assets are held separately from the City and may be used only for the payment of benefits to the members. The System administers a single employer defined benefit pension plan (Plan).

The System Board of Trustees (Board) is comprised of thirteen members. The City Council appoints two City employees or department heads from the various City departments. The City Council also appoints three members who have demonstrated professional experience relating to pension fund investment and management practices. The City Clerk serves as an ex-officio member (non-voting) and acts as the Clerk and Secretary of the Board. The City Auditor and Finance Director are members by position. Three members are elected by ballot of active City employees. One member is elected by ballot of retired City employees. The City Treasurer serves as an ex-officio member (non-voting) and acts as the Treasurer of the System.

Method of Reporting in the City's Comprehensive Annual Financial Report (CAFR)

The System is reported as a fiduciary component unit in the City's CAFR as a pension trust fund included in the City's fiduciary financial statements. This report can be obtained from Accounting Services at 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

I. B. 2. BASIC FINANCIAL STATEMENTS

The basic financial statements include the statement of fiduciary net position and statement of changes in fiduciary net position. These statements report financial information of the System as a whole.

I. B. 3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Financial statements of the System are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Revenues are recognized when earned and expenses are recorded when incurred regardless of the timing of related cash flows. All assets and liabilities (both current and non-current) are included in the statement of net position. Plan member contributions to the System are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

I. C. BUDGET LAW AND PRACTICE

Oklahoma Statutes require the submission of financial information for public trusts. However, legal budgetary control levels are not specified. Accordingly, financial information for the System is submitted to its governing body. Appropriations are not recorded. Management's policy prohibits disbursements which exceed available cash.

I. D. POLICIES RELATED TO ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES

I. D. 1. CASH AND INVESTMENTS

Implementation of New Accounting Standard

Effective July 1, 2015, the System implemented GASB statement number 72, Fair Value Measurement and Application. This statement is designed to enhance comparability of financial statements among governments by requiring consistent definitions of fair value and accepted valuation techniques in the measurement of fair value. It also provides additional disclosure to provide information about the impact of fair value measurements on financial position.

Cash equivalents are reported with investments. Cash deposits are reported at carrying value which approximates fair value.

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Market quotations are as of fiscal year end. Managed funds not listed on an established market are reported at estimated fair value as determined by the investment manager based on quoted sales prices of the underlying securities.

Oklahoma City judgments are carried at cost which approximates market value.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

Accounting guidance establishes a consistent framework for measuring fair value and establishes a fair value hierarchy based on the observability of inputs used to measure fair value. These different levels of valuation hierarchy are described as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable.

Level 3 - Significant unobservable prices or inputs.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

I. D. 2. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

In addition to assets and liabilities, the statement of fiduciary net position may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

I. D. 3. COMPENSATED ABSENCES

Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on the tenure with the City. Sick leave accrues to full-time, permanent employees to specified maximums. Generally, after one year of service, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. Selected management employees are entitled to all accrued sick and vacation leave balances at termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued current and non-current liabilities in the financial statements.

I. D. 4. USE OF ESTIMATES

The preparation of the System financial statements in conformity with U.S. GAAP requires the System to make significant estimates and assumptions that affect the reported amounts of net position held in trust for pension benefits at the date of the financial statements. The actuarial information included in the required supplementary information as of the benefit information date, the changes in the fiduciary net position during the reporting period, and applicable disclosures of contingent assets and liabilities at the date of the financial statements could also be affected. Actual results could differ from reported estimates.

Contributions to the System and the actuarial information included in the required supplementary information are determined from certain assumptions pertaining to interest rates, inflation rates, and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effects of such changes could be material to the financial statements. In addition, due to the unpredictability of market performance, there are risks and uncertainties regarding future investment performance.

I. D. 5. RISK MANAGEMENT

The System's risk management activities are recorded in the City Risk Management Fund, the Oklahoma City Municipal Facilities Authority (OCMFA) Services Fund and the Oklahoma City Post-Employment Benefit Trust (OCPEBT). The purpose of these funds is to administer employee life, employee health, unemployment, and disability insurance programs of the City, in which the System participates. These funds account for the risk financing activities of the System and constitute a transfer of risk from the System. Retiree health insurance claims liabilities are reported in OCPEBT.

The System pays a premium for insurance coverage and has no further costs or liabilities. Costs and liabilities for commercial insurance, stop-loss insurance, and claims paid are recorded in the City Risk Management Fund, the OCMFA Services Fund, and OCPEBT.

The System participates in the State of Oklahoma workers' compensation insurance plan, CompSource, Oklahoma.

I. E. TAX STATUS

The Internal Revenue Service has determined and informed the System by a letter dated November 12, 2014, that the System is designed in accordance with applicable sections 401(a) of the Internal Revenue Code (Code). The Board believes that the System is designed and is currently being operated in compliance with the applicable requirements of the Code.

II. ASSETS

II. A. DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the System deposits may not be returned or the System will not be able to recover collateral securities in the possession of an outside party. The System policy does not formally address custodial credit risk for deposits. However, the investment policy restricts uninvested cash to minimal balances generally covered by the Federal deposit insurance.

At June 30, 2016 and 2015, the System's cash is collateralized with securities held by the pledging financial institution in the name of the System or the City, less Federal depository insurance.

Investments

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the System's financial position.

| | 2016 | | | | | | Weighted Average Effective Duration months (3) |
|--------------------------------|-----------------------------|---------------------------------------|-----------------------------|----------------------------|-------------------|-----------------------------|--|
| | Cost | Fair Value/ Carrying Amount (1) | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Measured at NAV (2) | |
| <u>COMMON STOCK</u> | | | | | | | |
| Domestic | \$118,556,935 | \$151,729,631 | \$151,729,631 | \$ - | \$ - | \$ - | N/A |
| International (4) | 7,609,667 | 8,608,161 | 8,608,161 | - | - | - | N/A |
| <u>GOVERNMENT SECURITIES</u> | | | | | | | |
| U.S. Treasury strips | 366,682 | 403,737 | - | 403,737 | - | - | 1.99 |
| U.S. Treasury bonds | 10,963,928 | 11,754,242 | - | 11,754,242 | - | - | 14.73 |
| U.S. Treasury TIPS | 2,887,675 | 3,069,595 | - | 3,069,595 | - | - | 13.34 |
| Federal agency notes | 11,392,748 | 11,435,437 | - | 11,435,437 | - | - | 2.52 |
| Ginnie Mae | 2,163,978 | 2,191,956 | - | 2,191,956 | - | - | 1.45 |
| Small Business Administration | 112,350 | 115,443 | - | 115,443 | - | - | 6.33 |
| <u>CORPORATE OBLIGATIONS</u> | | | | | | | |
| Domestic | 13,524,292 | 14,497,782 | - | 14,497,782 | - | - | 8.64 |
| International (4) | 3,509,836 | 3,573,987 | - | 3,573,987 | - | - | 6.83 |
| <u>MUTUAL FUNDS</u> | | | | | | | |
| Equity (4) | 124,962,430 | 173,732,433 | 51,242,874 | - | - | 122,489,559 | N/A |
| Bond | 64,333,868 | 72,496,974 | - | - | - | 72,496,974 | 6.57 |
| Other | 115,064,946 | 119,227,370 | 415,825 | - | - | 118,811,545 | N/A |
| <u>OTHER INVESTMENTS</u> | | | | | | | |
| Money market (5)(6) | 6,641,787 | 6,641,787 | - | - | - | - | 1.35 |
| Foreign government obligations | 1,394,131 | 1,556,095 | - | 1,556,095 | - | - | 11.40 |
| Oklahoma City judgments (5) | 2,274,358 | 2,274,358 | - | - | - | - | 4.00 |
| Asset backed obligations | 10,939,067 | 10,539,691 | - | 10,539,691 | - | - | 3.21 |
| Real estate investment trusts | <u>45,760,519</u> | <u>56,545,231</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>56,545,231</u> | N/A |
| | <u>\$542,459,197</u> | <u>\$650,393,910</u> | <u>\$211,996,491</u> | <u>\$59,137,965</u> | <u>\$-</u> | <u>\$370,343,309</u> | |

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | 2015 | | | | | | |
|-------------------------------------|-----------------------------|--|-----------------------------|----------------------------|---------------------------|--------------------------------|-----------------------------------|
| | <u>Cost</u> | <u>Fair Value/ Carrying Amount (1)</u> | <u>Level 1 Inputs</u> | <u>Level 2 Inputs</u> | <u>Level 3 Inputs</u> | <u>Measured at NAV (2)</u> | <u>Effective Duration (3)</u> |
| <u>COMMON STOCK</u> | | | | | | | |
| Domestic | \$118,047,441 | \$156,799,429 | \$156,799,429 | \$ - | \$ - | \$ - | N/A |
| International (4) | 6,477,590 | 8,155,307 | 8,155,307 | - | - | - | N/A |
| <u>GOVERNMENT SECURITIES</u> | | | | | | | |
| U.S. Treasury strips | 479,702 | 544,071 | - | 544,071 | - | - | 5.19 |
| U.S. Treasury bonds | 12,965,717 | 12,922,255 | - | 12,922,255 | - | - | 9.44 |
| U.S. Treasury TIPS | 2,758,662 | 2,688,441 | - | 2,688,441 | - | - | 12.21 |
| Federal agency notes | 15,610,049 | 15,531,275 | - | 15,531,275 | - | - | 4.85 |
| Ginnie Mae | 1,589,249 | 1,619,395 | - | 1,619,395 | - | - | 3.20 |
| Small Business Administration | 306,530 | 303,696 | - | 303,696 | - | - | 6.55 |
| <u>CORPORATE OBLIGATIONS</u> | | | | | | | |
| Domestic | 13,763,846 | 14,068,729 | - | 14,068,729 | - | - | 7.58 |
| International (4) | 3,948,515 | 3,222,246 | - | 3,222,246 | - | - | 5.32 |
| <u>MUTUAL FUNDS</u> | | | | | | | |
| Equity (4) | 119,587,871 | 173,708,712 | 54,947,202 | - | - | 118,761,510 | N/A |
| Bond | 65,052,250 | 70,558,184 | - | - | - | 70,558,184 | 5.98 |
| Other | 116,657,122 | 133,526,447 | 20,079 | - | - | 133,506,368 | N/A |
| <u>OTHER INVESTMENTS</u> | | | | | | | |
| Money market fund (5) (6) | 8,817,129 | 8,817,129 | - | - | - | - | 1.35 |
| Foreign government obligations | 1,281,504 | 1,334,813 | - | 1,334,813 | - | - | 10.51 |
| Oklahoma City judgments (5) | 3,360,346 | 3,360,346 | - | - | - | - | 4.00 |
| Asset backed obligations | 12,713,524 | 12,347,998 | - | 12,347,998 | - | - | 2.64 |
| Real estate investment trusts | <u>44,105,186</u> | <u>51,545,752</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>51,545,752</u> | N/A |
| | <u>\$547,522,233</u> | <u>\$671,054,225</u> | <u>\$219,922,017</u> | <u>\$64,582,919</u> | <u>\$-</u> | <u>\$374,371,814</u> | |

- (1) Financial statement presentation is based on investment policy definitions, therefore individual line items will not agree to the statement of fiduciary net position.
- (2) The net asset value (NAV) is used as a practical expedient to estimate fair value. NAV is explained further in the paragraphs below.
- (3) Interest rate risk is estimated using effective duration in months for investment types listed except for the money market fund and judgments which uses weighted average months to maturity.
- (4) These line items include foreign investments.
- (5) Valued at cost
- (6) Consists solely of U.S. Treasury securities.

Fair Value Measurement

The following is a description of the valuation methodologies used for assets measured at fair value in the tables above. There have been no changes in the methodologies used at June 30, 2016 and 2015.

An investment's categorization within the valuation hierarchy is based upon the lowest level of 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.

Money market funds, judgments, and certificates of deposit fair value approximates cost and therefore do not report a fair value measurement.

Government securities include U.S. Treasury obligations consisting of U.S. Treasury strips, U.S. Treasury bonds, U.S. treasury TIPS, and federal agency notes, Government National Mortgage Associations notes, and Small Business Administration loans. These securities are valued at level 2 using pricing models that maximize the use of observable inputs for similar securities.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Corporate obligations consist of domestic and international corporate bonds and are valued using pricing models maximizing the use of observable inputs for similar securities which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. Corporate bonds are valued at level 2.

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the System include open-end mutual funds and are required to publish their daily value and to transact at that price. The mutual funds held by the System are deemed to be actively traded. The System invests in various mutual funds including equity funds, bond funds, and outside common trust funds.

The System invests in comingled funds and limited partnerships which are valued at net asset value (NAV). 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 and other various methods are used to value these securities. The investment objectives are described in the tables and paragraphs in greater detail below.

Other investments consist of money market funds, foreign government obligations, Oklahoma City judgments, asset backed obligations, and real estate investment trusts. Money market funds and Oklahoma City judgments fair value approximates the carrying value. Foreign government obligations and asset backed obligations are valued at level 2 and are valued by the use of inputs of quoted prices of similar securities.

Investments measured at the NAV

The following tables summarize investments measured at fair value based on net asset value (NAVs) per share as of June 30, 2016 and 2015, respectively.

| | 2016 | | | |
|------------------------------------|-----------------------------|----------------------------|---|-----------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
| <u>COMMINGLED FUNDS</u> | | | | |
| US Large Cap Core | \$68,070,965 | \$ - | Daily | T/D-2 |
| Long/Short Equity | 62,115,644 | - | Quarterly | 91 days |
| Emerging Markets Equity | 19,662,513 | - | Daily | T/D-2 |
| Emerging Markets Small Cap Equity | 7,921,244 | - | Daily | N/A |
| Emerging Markets Local Debt | 1,204,184 | - | Daily | N/A |
| Floating Rate High Income | 1,124,453 | - | Daily | N/A |
| Non-Dollar Hedged | 1,220,421 | - | Daily | N/A |
| Opportunistic US\$ | | | | |
| High Yield Securities | 3,317,189 | - | Daily | N/A |
| Core Fixed Income | 21,282,255 | - | Daily | T/D-2 |
| Absolute Return | 31,626,614 | - | Quarterly | 90 days |
| Global Opportunistic Fixed Income | 44,348,471 | - | Daily | 10 days |
| Core Real Estate | 51,387,741 | - | Quarterly | 90 days |
| Commodities | 25,069,287 | - | Daily | N/A |
| <u>LIMITED PARTNERSHIPS</u> | | | | |
| <u>-PRIVATE EQUITY</u> | | | | |
| Warburg Pincus | 8,021,197 | 10,275,000 | Not Eligible | Not Eligible |
| Siguler Guff | 1,990,969 | - | Not Eligible | Not Eligible |
| Mesirow | 16,822,672 | - | Not Eligible | Not Eligible |
| <u>LIMITED PARTNERSHIPS</u> | | | | |
| <u>REAL ESTATE</u> | | | | |
| TA Realty | 5,157,490 | - | Not Eligible | Not Eligible |
| Total Investments | <u>\$370,343,309</u> | <u>\$10,275,000</u> | | |

(continued)

Investments measured at the NAV (continued)

| | 2015 | | | |
|-----------------------------------|----------------------|-------------------------|---|-----------------------------|
| | Fair Value | Unfunded Commitments | Redemption Frequency (if currently eligible) | Redemption Notice Period |
| <u>COMMINGLED FUNDS</u> | | | | |
| US Large Cap Core | \$65,394,162 | \$ - | Daily | T/D-2 |
| Long/Short Equity | 69,600,524 | - | Quarterly | 91 days |
| Emerging Markets Equity | 21,159,241 | - | Monthly | 15 days |
| Emerging Markets Small Cap Equity | 8,866,943 | - | Daily | N/A |
| Emerging Markets Corporate Credit | 826,733 | - | Daily | N/A |
| Emerging Markets Local Debt | 1,668,433 | - | Daily | N/A |
| Floating Rate High Income | 1,498,115 | - | Daily | N/A |
| Non-Dollar Hedged | 1,576,331 | - | Daily | N/A |
| Opportunistic US\$ | | | | |
| High Yield Securities | 2,837,859 | - | Daily | N/A |
| Core Fixed Income | 20,072,364 | - | Daily | T/D-2 |
| Absolute Return | 34,181,823 | - | Quarterly | 90 days |
| Global Opportunistic Fixed Income | 42,078,349 | - | Daily | 10 days |
| Core Real Estate | 46,137,155 | - | Quarterly | 90 days |
| Commodities | 29,724,021 | - | Daily | N/A |
| <u>LIMITED PARTNERSHIPS</u> | | | | |
| <u>-PRIVATE EQUITY</u> | | | | |
| Warburg Pincus | 5,736,277 | 2,542,500 | Not Eligible | Not Eligible |
| Siguler Guff | 2,624,165 | - | Not Eligible | Not Eligible |
| Mesirow | 14,980,722 | - | Not Eligible | Not Eligible |
| <u>LIMITED PARTNERSHIPS</u> | | | | |
| <u>REAL ESTATE</u> | | | | |
| TA Realty | 5,408,597 | - | Not Eligible | Not Eligible |
| Total Investments | <u>\$374,371,814</u> | <u>\$2,542,500</u> | | |

Commingled Funds

SSgA S&P Flagship Fund Non-Lending (U.S. Large Cap Core):

The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the S&P 500 Index over the long term. The fund invests primarily in long term common stocks. Other investments include government issues, derivatives, and futures contracts.

K2 Overseas Fund (Long/Short Equity):

The investment objective of the fund is to achieve superior investment returns with less volatility than the Standard & Poor's 500 Composite Stock Index over a full market cycle by investing in a broadly diversified portfolio of hedge funds, other investment entities, and/or separate accounts, which engage in a variety of investment strategies that include long/short equity, equity market neutral, catalyst driven equity, or other similar hedge fund strategies. If redemption requests are received as of any redemption date for more than 20% of the net asset value of the fund as of such redemption date, the directors may, at their sole discretion; (i) satisfy all of such redemptions, or (ii) reduce all redemption requests pro-rata so that no more than 20% of the net asset value of the fund is redeemed as of such redemption date. The fund was formed on May 1, 2003, and commenced operations on March 1, 2004.

SSgA Emerging Markets Index Fund (Emerging Markets Equity):

The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the MSCI Emerging Markets Index over the long term.

Vontobel (Emerging Markets Equity):

The investment objective of the fund is capital appreciation through investing in a diversified portfolio consisting primarily of equity securities. Equity securities consist of common stocks and securities convertible into common stocks, such as warrants, rights, convertible bonds, debentures or convertible preferred stock. Under normal market conditions, the fund will invest at least 75% of its assets in equity securities issued by companies that are in developing countries or emerging markets. Redemptions are allowed, subject to certain exceptions, after 15 days prior written notice to the investment manager to redeem all or any part of the capital account. Redemptions are made as of the close of business on the last business day of each calendar month. The fund was inceptioned on February 26, 2007. OCERS redeemed its entire investment in the fund on April 1, 2016.

Wasatch Emerging Markets Small Cap (Emerging Markets Small Cap Equity):

The fund is designed to invest in foreign equity securities, American depositary receipts, or global depositary receipts of small companies in emerging foreign markets. There are no restrictions.

Western Asset Management (Emerging Markets Local Debt):

The investment strategy of the fund, under normal market conditions, is to invest all or substantially all of its assets in lower-rated debt and other fixed income securities of non-U.S. issuers. Although the fund may invest in any country, it generally expects to invest a significant portion of its assets in the non-U.S. dollar denominated sovereign debt issued by emerging market countries and in fixed income securities of other issuers (including corporate issuers) located in such countries and supranational issuers that issue fixed income securities in the currency of such countries. The objective of the fund is to maximize total return, consistent with prudent investment management. The fund reserves the right to implement a redemption notice period. A notice period is currently not in place. The fund was inceptioned on May 30, 2006, and a termination date has not been determined.

Western Asset Management (Floating Rate High Income):

The investment strategy of the fund, under normal market conditions, is to invest at least 80% of its total assets in U.S. dollar denominated loans, loan participations and fixed income securities that are rated below investment grade at the time of purchase by one or more nationally recognized statistical organizations or are of a comparable quality as determined by the investment manager. The objective of the fund is to maximize total return. The fund reserves the right to implement a redemption notice period. A notice period is currently not in place. The fund was inceptioned on August 12, 2003, and a termination date has not been determined.

Western Asset Management (Non-Dollar Hedged):

The investment strategy of the fund, under normal market conditions, is to invest substantially all of its assets in non-U.S. dollar denominated debt and fixed income securities of foreign issuers, while hedging at least 75% of its foreign currency exposure. The objective of the fund is to maximize total return. The fund reserves the right to implement a redemption notice period. A notice period is currently not in place. The fund was inceptioned on September 3, 1997, and a termination date has not been determined.

Western Asset Management (Opportunistic US\$ High Yield Securities):

The investment strategy of the fund, under normal market conditions, is to invest at least 90% of its total assets in U.S. dollar denominated debt or fixed income securities that are rated below investment grade at the time of purchase by one or more nationally recognized statistical organizations or are of comparable quality as determined by the investment manager. The objective of the fund is to maximize total return. The fund reserves the right to implement a 15 day redemption notice period. A notice period is currently not in place. The fund was inceptioned on September 15, 1999, and a termination date has not been determined.

SSgA Bond Market Non-Lending Fund (Core Fixed Income):

The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the Barclays U.S. Aggregate Bond Index over the long term. The fund attempts to achieve its investment objective by investing in other collective investment funds, each an underlying fund, managed by the trustee, which have characteristics consistent with the fund's overall investment objective.

PAAMCO (Absolute Return):

PAAMCO consists of Pacific Hedged Strategies, LLC, which on June 1, 2004, transferred substantially all of its investment holdings to the Pacific Atlantic Master Fund, L.P. (Master Fund) in exchange for an ownership percentage in that fund. A related party, Pacific Alternative Asset Management Company, LLC serves as the investment manager of the company and the Master Fund. The objective, through its investment in the Master Fund, is to seek capital appreciation with an attractive risk-adjusted rate of return over a complete market cycle. In pursuit of the objective, the Master Fund may allocate substantially all of its assets across a variety of private investment vehicles (hedge funds), generally with fixed income and equity orientations, covering many different investment styles. Pacific Hedged Strategies, LLC was incepted April 25, 2000, and commenced operations on November 1, 2011. A termination date of the fund has not been established.

Brandywine (Global Opportunistic Fixed Income):

The investment objective of the fund is to achieve interest income and long-term capital appreciation by investing in U.S. fixed income instruments and non-U.S. developed and emerging markets sovereign debt securities. The fund concentrates its investments in bonds of countries having the best value in the form of high real interest rates. The Brandywine Global Investment Management Trust was organized on May 1, 2006, with an agreement permitting the investment advisor to create multiple funds. The fund is currently one of eight active funds in the investment trust. The trust will continue until May 1, 2056, unless sooner terminated upon the occurrence of any of the following: (1) resignation or removal of the trustee when no successor trustee is appointed, (2) termination of all the funds of the trust.

Prime Property Fund (Core Real Estate):

The fund is a core commingled real estate investment fund. The fund invests in high quality, well leased and strategically located U.S. properties. The fund seeks to achieve an aggregate long term annual return on investment equity of 8-10% with the majority of the return being realized from income, with modest appreciation, and using leverage when appropriate. Morgan Stanley Real Estate Advisor, Inc. serves as the sponsor and advisor of the fund. Redemptions are subject to available cash.

Gresham TAP Fund (Commodities):

The investment objectives of the fund are to provide an investor's portfolio of financial investments a partial inflation hedge, with an attractive risk/return profile as compared to other products using a commodity index or a pool of commodities. The fund commenced operations on March 1, 2011. A termination date of the fund has not been established.

Limited Partnerships - Private Equity

Warburg Pincus:

Investments consist of Warburg Pincus Private Equity XI, operations effective May 9, 2012, and Warburg Pincus Private Equity XII, operations effective December 1, 2015, both with the purpose to make private equity investments and help build durable companies with sustainable value and related investments. Each fund provides for a 12 year partnership life. The general partner of each fund may extend the partnership term up to two additional years with the approval of the respective advisory committee. Each fund may be dissolved earlier upon specific events, as provided for in the respective partnership agreement.

Siguler Guff:

The purpose of the Siguler Guff Distressed Opportunities Fund III is to invest in pooled investment vehicles and direct investments consisting of direct or indirect securities of companies undergoing financial distress, operating difficulties and significant restructuring. The partnership's portfolio investments are generally illiquid. The partnership was formed on October 18, 2007. The term of the fund will continue until December 31, 2018, unless dissolved earlier in accordance with fund agreements. The term may be extended for up to three additional years with the consent of the advisory board.

Mesirow:

The purpose of the Mesirow Financial Private Equity Partnership Fund V is to invest in private equity limited partnerships. The fund was formed on November 5, 2008, and terminates on November 5, 2020. Provisions allow for three one-year extensions to provide for orderly liquidation of remaining assets.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Limited Partnerships - Real Estate

TA Realty:

The fund is organized for the purpose of investing in a diversified portfolio of income-producing real estate investment properties. The fund extends seven years from October 7, 2014, the date of the capital commitments were substantially invested, unless extended longer or terminated earlier, as provided in the amended and restated partnership agreement dated January 10, 2013. The has fund invested in a geographically diversified portfolio of real estate investments, principally office, industrial, multifamily and retail properties. There are no further capital commitments to the fund.

Credit Risk

Ratings represent the System exposure to credit risk including obligations of the U.S. government and those explicitly guaranteed by the U.S. government.

| | 2016 | | | | | | | | | | |
|--------------------------------|-------------|-----------|----------|------------|-----------|----------|------------|-----------|----------|---------------------|------------|
| | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> | <u>BB</u> | <u>B</u> | <u>CCC</u> | <u>CC</u> | <u>D</u> | Not <u>Rated</u> | <u>N/A</u> |
| <u>GOVERNMENT SECURITIES</u> | | | | | | | | | | | |
| U.S. Treasury strips | 0% | 100% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| U.S. Treasury bonds | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| U.S. Treasury TIPS | 3 | 97 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal agency notes (1) | 0 | 92 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 8 |
| Ginnie Mae (1) | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Small Business | | | | | | | | | | | |
| Administration Loans (1) | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>CORPORATE OBLIGATIONS</u> | | | | | | | | | | | |
| Domestic | 0 | 9 | 31 | 56 | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| International | 0 | 7 | 45 | 23 | 20 | 5 | 0 | 0 | 0 | 0 | 0 |
| <u>MUTUAL FUNDS</u> | | | | | | | | | | | |
| Bond | 0 | 29 | 61 | 2 | 6 | 2 | 0 | 0 | 0 | 0 | 0 |
| <u>OTHER INVESTMENTS</u> | | | | | | | | | | | |
| Asset backed obligations | 41 | 20 | 13 | 13 | 1 | 0 | 4 | 3 | 1 | 1 | 3 |
| Foreign government obligations | 0 | 0 | 0 | 66 | 34 | 0 | 0 | 0 | 0 | 0 | 0 |

| | 2015 | | | | | | | | | | |
|------------------------------|-------------|-----------|----------|------------|-----------|----------|------------|-----------|----------|---------------------|------------|
| | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> | <u>BB</u> | <u>B</u> | <u>CCC</u> | <u>CC</u> | <u>D</u> | Not <u>Rated</u> | <u>N/A</u> |
| <u>GOVERNMENT SECURITIES</u> | | | | | | | | | | | |
| U.S. Treasury strips | 0% | 100% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| U.S. Treasury bonds | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| U.S. Treasury TIPS | 35 | 65 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Federal agency notes (1) | 0 | 93 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 |
| Ginnie Mae (1) | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Small Business | | | | | | | | | | | |
| Administration Loans (1) | 0 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>CORPORATE OBLIGATIONS</u> | | | | | | | | | | | |
| Domestic | 0 | 10 | 47 | 39 | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| International | 0 | 5 | 36 | 35 | 24 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>MUTUAL FUNDS</u> | | | | | | | | | | | |
| Bond | 0 | 3 | 83 | 5 | 6 | 3 | 0 | 0 | 0 | 0 | 0 |

(continued)

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Credit Risk (continued)

| | 2015 | | | | | | | | | | |
|--------------------------------|------|----|----|-----|----|---|-----|----|---|--------------|-----|
| | AAA | AA | A | BBB | BB | B | CCC | CC | D | Not Rated | N/A |
| <u>OTHER INVESTMENTS</u> | | | | | | | | | | | |
| Asset backed obligations | 24 | 27 | 10 | 10 | 5 | 0 | 1 | 0 | 1 | 19 | 3 |
| Foreign government obligations | 0 | 0 | 18 | 66 | 16 | 0 | 0 | 0 | 0 | 0 | 0 |

(1) Below is the list of agencies in which the government is currently invested

| | 2016 | 2015 |
|--|-------------|-------------|
| Federal Home Loan Mortgage Corporation | \$2,717,196 | \$2,737,896 |
| Fannie Mae | 8,073,248 | 12,348,307 |
| Ginnie Mae | 2,534,994 | 1,865,529 |
| Resolution Funding Corporation | 181,847 | 198,126 |
| Small Business Administration Guaranteed Development | 112,350 | 306,530 |
| Tennessee Valley Authority Global | 49,441 | 49,441 |

Foreign Investments (1)

Investments in foreign equities for fiscal years 2016 and 2015 are shown by monetary unit to indicate possible foreign currency risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

| | 2016 | 2015 |
|---|-----------------------------|-----------------------------|
| Romanian Leu | \$71,731 | \$ - |
| Brazilian real | \$305,948 | \$471,554 |
| Colombian Peso | 195,416 | 226,955 |
| Canadian dollar | 42,776 | - |
| Hungarian Forint | 131,500 | 216,970 |
| Indonesian rupiah | 235,647 | 362,662 |
| Malaysian ringgit | 232,299 | 437,738 |
| Mexican peso | 223,447 | 473,436 |
| Polish zloty | 254,422 | 442,234 |
| Russian ruble | 186,498 | 215,878 |
| South African rand | 177,712 | 423,934 |
| Thai Baht | 149,675 | 282,996 |
| Turkish Lira | 201,896 | 384,654 |
| Philippine Peso | - | 60,961 |
| Chinese Yuan | 700 | 106,992 |
| Other (2) | <u>1,139,391</u> | <u>1,662,149</u> |
| International securities | <u>\$3,549,058</u> | <u>\$5,769,113</u> |
| International stock funds and similar securities | <u>\$154,680,924</u> | <u>\$167,140,052</u> |

- (1) Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Investment in foreign bonds and equities is shown by monetary unit to indicate possible foreign currency risk.
- (2) Includes no individual currencies greater than \$100,000.

Realized Gains/losses

For the year ended June 30, 2016, net realized gains were \$1,252,412 compared to realized gains of \$1,788,263 in 2015. Net realized gains are calculated independently of the calculation of net appreciation (depreciation) and include investments sold in the referenced year that had been held for more than one year for which unrealized gains and losses were reported in net appreciation (depreciation) in prior years.

Investment Policies

The System investment policies provide for investment managers who have full discretion of assets allocated to them subject to the overall investment guidelines set out in the policy. Manager performance is reviewed by a consultant who provides reports to the Board. Any changes in the investment management firm must be reported as they occur. Overall investment guidelines provide for diversification and allow investment in domestic and international common stocks, fixed income securities, cash equivalents, index funds, collective trust funds, mutual funds, and City judgments.

Custodial credit risk policy provides for the engagement of a custodian who accepts possession of securities for safekeeping; collects and disburses income; collects principal of sold, matured, or called items; and provides periodic accounting to the Board. The System holds \$438,515,879 in equity funds at June 30, 2016, compared to \$452,232,031 at June 30, 2015. Of these amounts \$179,653,913 in 2016 and \$158,845,226 in 2015 are held by the investment counterparty, not in the name of the System or the City.

Asset Allocation Guidelines

| | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> | <u>Actual (1) (2)</u> | |
|------------------|----------------|---------------|----------------|-----------------------|-------------|
| | | | | <u>2016</u> | <u>2015</u> |
| Equities | 30.0% | 55.0% | 80.0% | 57.4% | 58.4% |
| Private equities | 0.0 | 5.0 | 5.0 | 4.1 | 3.4 |
| Fixed income (3) | 7.5 | 25.0 | 45.0 | 25.9 | 26.1 |
| Real assets | 10.0 | 15.0 | 20.0 | 12.6 | 12.1 |

- (1) Percentages are based on investment policy definitions.
- (2) Percentage allocations are intended to serve as guidelines; the System Board is not required to strictly maintain the designed allocation. Market conditions or an investment transition may require an interim investment strategy and a temporary imbalance in asset mix.
- (3) Fixed income includes cash.

The System policy provides risk parameters for various portfolio compositions. These address credit risk, concentration of credit risk, interest rate risk, and foreign currency risk applicable to the portfolio. The System contractually delegates portfolio management to investment managers based on these prescribed portfolio structures. Domestic equity securities (common stock or equivalent) must be traded on a major U.S. exchange and may include issues convertible to common stocks. International equity securities are non-U.S. issuances whose principal markets are outside the U.S. In general, cash may not exceed more than 10% of any equity manager's portfolio.

Portfolio Parameters

Large Cap Domestic Portfolio

Investment in equity securities may not exceed 10% of an individual equity, 10% of the market value of the individual portfolio, or 10% of any company's outstanding equity.

Small/SMID Cap Portfolio

Investment in equity securities may not exceed 5% of an individual equity, 10% of the market value of the individual portfolio, or 5% of any company's outstanding equity.

International Portfolio

Investment policy designates that no single stock may exceed 5% of the market value of the individual portfolio or 5% of any company's outstanding equity. Cash assets may be invested in short-term fixed income investments denominated in U.S. dollars or other foreign currencies. Fixed income should not exceed 10% of the individual portfolio.

Emerging Markets Portfolio

Investment policy designates that no single stock may exceed 5% of the market value of the individual portfolio or 5% of any company's outstanding equity. Cash should not exceed 10% of the individual portfolio.

Long Short Equity Portfolio

This portfolio will be implemented through a fund of funds approach. Equity oriented strategies shall include primarily fundamental long/short equity managers, but may include other primarily equity oriented strategies at the managers discretion.

Private Equity and Venture Capital Portfolio

Within the Private Equity/Venture Capital investment portfolio, the following securities and/or strategies may be included: Seed, Early, and Late Stage Venture Capital; Small, Mid and Large Market Buyout; Mezzanine Debt; and Distressed Debt. Other strategies that improve the potential risk/reward profile may be included.

Core Fixed Income Portfolio

Investments may include any amount of U.S. government or U.S. government agencies obligations. Corporate bonds are diversified by industry and no more than 5% of any issuer. Mortgages and mortgage-backed securities are permitted. Bonds must have a minimum quality rating of BBB with overall portfolio average credit quality of AA or higher. International bonds may not exceed 20% of an individual portfolio and no more than 5% may be invested in one country. Convertible securities or preferred stock may not exceed 5% of the portfolio. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Barclays Capital Aggregate Bond Index.

Core Plus Fixed Income Portfolio

Income investment is structured to include 75-100% domestic securities and 0-25% high yield, emerging market, non-dollar securities which may include below investment grade corporate bonds. Other provisions are similar to the core fixed income portfolio with exceptions for bonds limited to 2% and neither cash or structured notes, as individual investment types, may exceed 5% of the total portfolio. Derivatives may be used on a limited basis to eliminate undesirable risk. No more than 5% of the portfolio will be invested in original futures margin and option premiums. Swap contracts may be executed with counterparties whose credit rating is A2/A or better. Average option adjusted duration of the portfolio shall approximate the option adjusted duration of the relevant benchmark designated as the Barclays Capital Aggregate Bond Index, within a band of plus or minus 20%. On an ongoing basis, cash should not exceed 5% of the portfolio.

Low Volatility Hedge Fund of Funds

This portfolio will be implemented through a fund of funds approach. The portfolio is intended to serve as a surrogate to traditional fixed income and maintain a volatility profile similar to the Barclays Capital Aggregate Bond Index. The portfolio may include various relative value, event driven and market neutral oriented hedge fund strategies all at the manager's discretion.

Real Estate Manager

The manager may invest in real estate and related securities permitted under Oklahoma Law including improved or unimproved retail property, mortgages, and collective investment funds including Real Estate Investment Trusts or Real Estate Funds, notes secured by real property, mortgage-backed bonds and pass through securities backed by mortgages. Investments in real estate properties will be broadly diversified by geography, by property type and the number of properties.

Compliance with State Requirements

The System investment policy is more restrictive than the requirements of Oklahoma law found in Title 60 of the Oklahoma Statutes and the standards of the Oklahoma Uniform Prudent Investor Act. These statutes restrict public trust investing to the Prudent Investor Rule defined by Title 60 Oklahoma Statutes to consider the purposes, terms, distribution requirements, and other circumstances of the Trust and to exercise reasonable care, skill, and caution. Investment decisions must be evaluated not in isolation, but in the context of the trust portfolio as a whole and as a part of the overall investment strategy having risk and return objectives reasonably suited to the Trust.

Securities Lending Transactions

City ordinance and the Board of Trustees permit the System to lend securities with a simultaneous agreement to return collateral for the same securities in the future with agent indemnification in the event of borrower default. Securities lent may consist of both equity and fixed income securities. Collateral may consist of cash or securities issued or guaranteed by the U.S. government or its agencies. The System may use or invest cash collateral at its own risk. However, collateral other than cash may not be pledged, sold, or otherwise transferred without borrower default.

Due to the increasing concerns of risk of collateral default as well as low returns being generated, the System's securities lending program was suspended on May 9, 2013 and the liquidation of the collateral was finalized on July 5, 2013.

Derivatives

The System's derivative position currently includes interest rate swaps, foreign currency forwards, index swaps, treasury bond futures and swaptions. The System is exposed to credit risk on hedging derivative instruments that are in asset positions. In the System's investment policy, derivatives may be used to reduce or eliminate undesirable portfolio risks caused by currency exposure, duration and yield curve position. Derivatives may not be used to create exposure to an asset class that is not permitted by portfolio guidelines. At June 30, 2016 and 2015, derivative investments comprise less than .5% of the System's portfolio.

II. B. CONTRIBUTIONS RECEIVABLE

| | 2016 | | | 2015 |
|---|-------------|-------------|-------------|------------------|
| | Employee | Employer | Total | Total |
| General Fund | \$ - | \$ - | \$ - | \$223,949 |
| Parking Fund | - | - | - | 931 |
| Police Fund | - | - | - | 5,035 |
| Fire Fund | - | - | - | 1,297 |
| Emergency Management Fund | - | - | - | 15,349 |
| Airports Fund | - | - | - | 24,187 |
| Fleet Services Fund | - | - | - | 6,573 |
| Risk Management Fund | - | - | - | 2,703 |
| Information Technology Fund | - | - | - | 24,980 |
| Print Shop Fund | - | - | - | 842 |
| Maps Operations Fund | - | - | - | 3,835 |
| Solid Waste Management Fund | - | - | - | 19,039 |
| Water Utilities Fund | - | - | - | 108,375 |
| Stormwater Drainage Fund | - | - | - | 19,725 |
| Police/Fire Equipment Use Tax Fund | - | - | - | - |
| Grants Management Fund | - | - | - | 5,064 |
| System | - | - | - | 668 |
| Oklahoma City Public Property Authority - Golf Courses | - | - | - | 8,873 |
| Asset Forfeiture Fund | - | - | - | - |
| Transportation Fund | - | - | - | 4,408 |
| City and Schools Sales Tax Fund | - | - | - | 1,485 |
| Zoo Fund | - | - | - | 20,824 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$498,142</u> |

There are no receivables older than thirty days. Receivables are due from the City.

II. C. PENSION DEFERRED OUTFLOWS

Effective July 1, 2014, the City and the System implemented GASB statement number 68, Accounting and Financial Reporting for Pensions, as amended by GASB statement number 71, Pension Transition for Contributions Made Subsequent to the Measurement Date and GASB statement number 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement, as amended, establishes standards for measuring and recognizing assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expense for employers providing pension plans. It also includes note disclosure and required supplementary information requirements.

Differences are deferred when the pension system's actuarial estimate of the plan's experience costs for a given period differ from the actual experience costs. Deferred outflows that result from plan experience differences are divided by the beginning expected remaining service life of its members and amortized over that period, with the current year amount included in the determination of pension expense. Current year employee contributions are deferred and included in the following year net pension liability calculation.

| | 2016 | | 2015 | |
|---------------------------------------|--------------------|----------------|--------------------|-----------------|
| | Total | System | Total | System |
| | <u>Plan</u> | <u>Share</u> | <u>Plan</u> | <u>Share</u> |
| Current year contributions - Employer | <u>\$7,411,117</u> | <u>\$9,634</u> | <u>\$8,207,083</u> | <u>\$11,490</u> |

III. LIABILITIES AND DEFERRED INFLOWS

III. A. COMPENSATED ABSENCES

Compensated absences balances changed from 2015 to 2016 by accruals of \$23,306 and usages of \$18,925 compared to changes in accruals of \$24,048 and usages of \$17,261 from 2014 to 2015.

III. B. PENSION DEFERRED INFLOWS

Effective July 1, 2014, the City and the System implemented GASB statement number 68, Accounting and Financial Reporting for Pensions, as amended by GASB statement number 71, Pension Transition for Contributions Made Subsequent to the Measurement Date and GASB statement number 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. This statement, as amended, establishes standards for measuring and recognizing assets and liabilities, deferred outflows of resources, deferred inflows of resources, and expense for employers providing pension plans. It also includes note disclosure and required supplementary information requirements.

Differences are deferred when the pension system's actuarial estimate of the plan's experience costs for a given period differ from the actual experience costs. Deferred inflows that result from plan experience differences are divided by the beginning expected remaining service life of its members and amortized over that period, with the current year amount included in the determination of pension expense. Differences are also calculated and recorded as deferred inflows when actual investment earnings exceed estimated investment earnings. This amount is amortized over a fixed 5 year period for each unique fiscal year.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | <u>2016</u> | | <u>2015</u> | |
|--|----------------------------|------------------------|----------------------------|------------------------|
| | Total Plan | System Share | Total Plan | System Share |
| Differences between expected and actual pension plan experience | \$7,237,458 | \$9,409 | \$3,834,406 | \$5,368 |
| Differences between projected and actual investment earnings on Plan investments | <u>12,229,802</u> | <u>15,899</u> | <u>41,555,832</u> | <u>58,178</u> |
| | <u>\$19,467,260</u> | <u>\$25,308</u> | <u>\$45,390,238</u> | <u>\$63,546</u> |

IV. NET POSITION

Change in Accounting Principle

Effective July 1, 2014, the City implemented GASB statement number 68, Accounting and Financial Reporting for Pensions as amended by GASB statement number 71, Pension Transition for Contributions Made Subsequent to the Measurement Date and GASB statement number 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. The implementation of this statement resulted in recording previously unrecorded net pension assets, as well as, deferrals of employer contributions. This resulted in a restatement of previously reported net position.

| | <u>2015</u> | |
|--------------------------------|----------------------------|------------------------|
| | Total Plan | System Share |
| Beginning net pension asset | \$3,600,005 | \$5,042 |
| Deferred outflows of resources | | |
| Employer contributions | <u>8,871,000</u> | <u>12,426</u> |
| | <u>\$12,471,005</u> | <u>\$17,468</u> |

V. PENSION EXPENSE

| | <u>2016</u> | | <u>2015</u> | |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Total Plan | System Share | Total Plan | System Share |
| | <u>(\$3,161,484)</u> | <u>(\$4,110)</u> | <u>(\$3,545,295)</u> | <u>(\$4,963)</u> |

Deferred Inflows of Resources and Deferred Outflows of Resources to be Recognized in Future Pension Expense

| | <u>2016</u> | | <u>2015</u> | |
|------------|------------------------------|--------------------------|-------------------|------------------------------|
| | Total Plan (1) | System Share (2) | Total Plan (1) | System Share (2) |
| 2017 | (\$6,996,288) | (\$9,095) | 2016 | (\$11,039,309) |
| 2018 | (6,996,288) | (9,095) | 2017 | (11,039,309) |
| 2019 | (6,996,288) | (9,095) | 2018 | (11,039,309) |
| 2020 | 3,392,670 | 4,410 | 2019 | (11,039,309) |
| 2021 | (1,273,898) | (1,656) | 2020 | (650,351) |
| Thereafter | <u>(597,168)</u> | <u>(777)</u> | Thereafter | <u>(582,651)</u> |
| | <u>(\$19,467,260)</u> | <u>(\$25,308)</u> | | <u>(\$45,390,238)</u> |
| | | | | <u>\$63,546</u> |

- (1) Total Plan includes deferred outflows of resources less deferred inflows of resources excluding deferred outflows of resources for employer contributions, which are excluded from actuarial calculations.
- (2) System share is calculated from the indicated year proportionate amount.

VI. PENSION PLAN

VI. A. PLAN DESCRIPTION

Plan Administration

OCERS provides retirement benefits for substantially all full-time, non-uniformed employees of the System, the City, the Oklahoma City Public Property Authority, and the Oklahoma City Zoological Trust. Unless otherwise indicated, OCERS information is provided as of the latest actuarial valuation, December 31, 2015 and December 31, 2014, rolled forward to June 30, 2016 and 2015, respectively. The information presented in this note is reported in the financial statements of the System as of June 30, 2017 and 2016, respectively. Actuarial valuations are performed annually.

The required supplementary information immediately following the notes to the financial statements presents certain ten-year trend information for as many years as the information measured in conformity with GASB 68 is available.

Funding Policies, Contribution Methods and Benefit Provisions

| | | |
|--|---|---|
| Year established and governing authority | 1958; City Council Ordinance | |
| Determination of contribution requirements | Actuarially determined | |
| | <u>2016</u> | <u>2015</u> |
| Employer | 5.88% of covered payroll | 6.44% of covered payroll |
| Plan members | 6.00% of covered payroll | 6.00% of covered payroll |
| Funding of administrative costs | Investment earnings | Investment earnings |
| Period required to vest | 5 years | 5 years |
| Post-retirement benefit increases | Cost of living adjustments are compounded annually; increases must be approved by the System Board | Cost of living adjustments are compounded annually; increases must be approved by the System Board |
| Eligibility for distribution | 30 years credited service regardless of age, or age 60 with 10 years (Pre 3/67 hires), or 25 years of credited service regardless of age, or age 65 with 5 years (Post 3/67 hires), or age 55 with 5 years on a reduced basis, or 5 years service, with benefits. | 30 years credited service regardless of age, or age 60 with 10 years (Pre 3/67 hires), or 25 years of credited service regardless of age, or age 65 with 5 years (Post 3/67 hires), or age 55 with 5 years on a reduced basis, or 5 years service, with benefits. |

Funding Policy

Contribution requirements are actuarially determined and established by City Council ordinance. Beginning July 01, 2015, the employer contribution rate changed from 6.44% to 5.88% of covered payroll. Beginning July 01, 2014, the employer contribution rate changed from 7.15% to 6.44% of covered payroll. The employee contributes 6.00% of covered payroll. Administrative costs are funded with investment earnings.

Benefit Provisions

Benefit provisions include both duty and non-duty disability retirement and death benefits. Average Final Compensation (AFC) determines the retirement benefit and is calculated as the highest 36 months of earned employee compensation (excluding compensation for unused vacation and sick leave and amounts elected to be deferred under Section 125 of the Internal Revenue Code) during the last 60 months of service. Generally, the normal retirement benefit is 2% of AFC for each full year of service, plus 1/12 of 2% for each whole month of a partial year of service to a maximum of 100% of AFC. There are modifications to the normal retirement benefit for early and deferred retirement, duty and non-duty disability, and death benefits.

Post-Retirement Benefit Adjustments

Retirement pension may be adjusted annually for changes in the Consumer Price Index. The maximum adjustment is 2% compounded annually.

Membership

| | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|
| Active employees - nonvested | 968 | 833 |
| Active plan members | 1,618 | 1,667 |
| Inactive plan members currently receiving benefits | 1,422 | 1,380 |
| Inactive plan members entitled to but not yet receiving benefits | 89 | 82 |
| | <u>4,097</u> | <u>3,962</u> |

Contributions

City Council establishes contribution rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016 and 2015, the actuarially determined rate was 5.88% and 6.44% for the employers, respectively. The employee rate was 6.00% for both years.

Actuarial Assumptions

| | <u>2016</u> | <u>2015</u> |
|--|--|--|
| Valuation date | 12/31/15 | 12/31/14 |
| Actuarial cost method | Individual | Individual entry age |
| Amortization method | Level Percent of Payroll | Level % of payroll |
| Amortization period | 27 years, closed | 28 years, closed |
| Actuarial asset valuation method | 4-year smoothed market | 4-year smoothed market |
| Actuarial Assumptions | | |
| Investment rate of return | 7.5% | 7.5% |
| Cost of living benefit increases (maximum) | 2% | 2% |
| Inflation | 2.8% | 3.0% |
| Projected salary increases | 3.75% to 7.25% | 3.75% to 7.25% |
| Mortality table | RP-2000 male (unadjusted) and Female (unadjusted) Healthy Life Mortality Table, adjusted for mortality improvements to 2010 | RP 2000 mortality table projected to 2010 |
| Experience study | Actuarial assumptions were based upon results of an experience study covering the period January 1, 2008, through December 31, 2012. | Actuarial assumptions were based upon results of an experience study covering the period January 1, 2008, through December 31, 2012. |

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the System and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the System and Plan members to that point. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

For the actuarial valuation dated December 31, 2015, the amortization period is at 27 years, closed. The actuarial valuation dated December 31, 2014 is at 28 years, closed.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and that actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

VI. B. ANNUAL PENSION COST, TREND INFORMATION, AND RESERVES

Annual Pension Cost and Trend Information

| Fiscal Year | Employer Contributions | Actuarially Determined Contribution | Percentage Contributed |
|-------------|------------------------|-------------------------------------|------------------------|
| 2016 | \$7,411,117 | \$7,410,919 | 100.0% |
| 2015 | 8,207,083 | 8,230,702 | 99.7 |
| 2014 | 8,871,692 | 8,871,692 | 100.0 |
| 2013 | 11,320,094 | 11,320,094 | 100.0 |

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) |
|--------------------------|-------------------------------------|---------------------------------------|---------------------------|--------------------|
| 12/31/2015 | \$665,077,000 | \$633,985,000 | (\$31,092,000) | 104.9% |
| 12/31/2014 | 628,686,000 | 607,295,000 | (21,391,000) | 103.5 |
| 12/31/2013 | 589,527,000 | 581,866,000 | (7,661,000) | 101.3 |
| 12/31/2012 | 547,686,000 | 553,588,000 | 5,902,000 | 98.9 |

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits. The Plan held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net position available for benefits. There are no long-term contracts for contributions.

Concentrations

The plans held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net position available for benefits. There are no long-term contracts for contributions.

VI. C. NET PENSION ASSET

System Share

The System share of the net pension asset is allocated using the System's share of employer contributions for the last payroll in the fiscal year. The System share for 2016 and 2015 was 0.13% and 0.14%, respectively.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Net Pension Asset

| | <u>2016</u> | <u>2015</u> |
|--|-----------------------------|----------------------------|
| Total pension liability | \$650,296,394 | \$623,305,898 |
| Fiduciary net position | <u>649,123,256</u> | <u>670,163,985</u> |
| Net pension asset (Liability) | <u>(\$1,173,138)</u> | <u>\$46,858,087</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>99.82%</u> | <u>107.52%</u> |

| | <u>2016</u> | | |
|--|--------------------------------|------------------------------------|--------------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Asset (Liability)</u> |
| Beginning balance | \$623,305,898 | \$670,163,985 | \$46,858,087 |
| Service cost | 16,478,008 | - | (16,478,008) |
| Interest | 46,209,223 | - | (46,209,223) |
| Differences between expected and actual experience | (12,124,853) | - | 12,124,853 |
| Changes of assumptions | 7,271,967 | - | (7,271,967) |
| Contributions - employer | - | 7,411,117 | 7,411,117 |
| Contributions - employee | - | 7,562,162 | 7,562,162 |
| Net investment income | - | (4,840,456) | (4,840,456) |
| Benefit payments and refunds | (30,843,849) | (30,843,849) | - |
| Administrative expense | - | (397,732) | (397,732) |
| Other changes | - | <u>68,029</u> | <u>68,029</u> |
| | <u>\$650,296,394</u> | <u>\$649,123,256</u> | <u>(\$1,173,138)</u> |

| | <u>2015</u> | | |
|--|--------------------------------|------------------------------------|----------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Asset</u> |
| Beginning balance | \$597,046,301 | \$658,458,798 | \$61,412,497 |
| Service cost | 15,803,400 | - | (15,803,400) |
| Interest | 44,280,609 | - | (44,280,609) |
| Differences between expected and actual experience | (4,744,650) | - | 4,744,650 |
| Contributions - employer | - | 8,207,083 | 8,207,083 |
| Contributions - employee | - | 7,668,356 | 7,668,356 |
| Net investment income | - | 25,206,761 | 25,206,761 |
| Benefit payments and refunds | (29,079,762) | (29,079,762) | - |
| Administrative expense | - | (445,438) | (445,438) |
| Other changes | - | <u>148,187</u> | <u>148,187</u> |
| | <u>\$623,305,898</u> | <u>\$670,163,985</u> | <u>\$46,858,087</u> |

VI. D. RATE OF RETURN AND DISCOUNT RATE

Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was negative 0.78%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The annual money-weighted rate of return on pension plan investments for June 30, 2015, was 4.10%.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation. See **Note II. A. DEPOSITS AND INVESTMENTS, Investments, Asset Allocation Guidelines** for target allocation of investments.

| | Long-term Expected Rate of Return | |
|--------------------------------|--------------------------------------|-------------|
| | <u>2016</u> | <u>2015</u> |
| Core Bonds | 2.80% | 2.80% |
| Core Plus | 3.07 | 3.07 |
| Global Bonds | 2.69 | 2.63 |
| Absolute Return | 4.42 | 4.37 |
| U.S. Large Cap Equity | 7.55 | 7.80 |
| U.S. Small Cap Equity | 8.76 | 9.09 |
| International Developed Equity | 8.51 | 8.79 |
| Emerging Market Equity | 9.78 | 10.14 |
| Long/Short Equity | 7.46 | 7.64 |
| Private Equity | 10.49 | 10.43 |
| Core Real Estate | 5.77 | 5.51 |
| Opportunistic Real Estate | 9.11 | 8.80 |
| Commodities | 3.96 | 3.91 |

Discount Rate

A single discount rate of 7.4% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.4%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

| | Total Pension Liability | | | | | |
|------------------------------|-------------------------|---------------|---------------------|---------------|---------------------|-----------|
| | <u>Rate</u> | <u>2016</u> | | <u>2015</u> | | |
| | | Total Plan | System Share (1) | Total Plan | System Share (1) | |
| 1% decrease | 6.40% | \$730,425,239 | \$949,553 | 6.50% | \$700,497,103 | \$980,696 |
| Current single discount rate | 7.40 | 650,296,394 | 845,385 | 7.50 | 623,305,898 | 872,628 |
| 1% increase | 8.40 | 582,744,406 | 757,568 | 8.50 | 558,242,087 | 781,539 |

(1) System share is reported in the financial statements in the year subsequent to Plan reporting.

VII. DEFINED CONTRIBUTION PLANS

The System participates in two defined contribution plans administered by the International City Manager’s Association Retirement Corporation (ICMA Retirement). Plan provisions and contribution requirements are established or amended by City Council resolution. The plans are money purchase plans qualified under section 401 of the Internal Revenue Code.

Participants of the first plan are comprised of eligible employees hired before September 1, 2001. The City and participants are required to contribute 8.35% and 6.0% of annual covered payroll, respectively. Participants of the first plan vest at service inception and are entitled to 100% of vested contributions.

Participants of the second plan are comprised of eligible employees hired after September 1, 2001. The City and participants are required to contribute 7.0% and 6.0% of annual covered payroll, respectively. Participants of the second plan vest after 5 years of service.

The two plans include 97 participants comprised of City Council appointees and management personnel. The System has no participants.

VIII. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

VIII. A. PLAN DESCRIPTION

The System provides post-employment healthcare benefits for retired employees and their dependents through the City of Oklahoma City Post-retirement Medical Plan (the Plan), a single-employer defined benefit healthcare plan administered by the OCPEBT. The benefits, coverage levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts. The Plan issues a separate report that can be obtained from Human Resources at 420 W. Main, Suite 110, Oklahoma City, OK 73102.

Funding Policies, Contribution Methods and Benefit Provisions

| | <u>2016</u> | <u>2015</u> |
|--|---|---|
| Year established and governing authority | 2008; City Council Ordinance | 2008; City Council Ordinance |
| Determination of contribution requirements | City Policy | City Policy |
| Employer | 56% of premium | 58% of premium |
| Plan members | 44% of premium | 42% of premium |
| Funding of administrative costs | Investment earnings | Investment earnings |
| Period required to vest | 5 years | 5 years |
| Eligibility for distribution | General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 25 years of service. Police officers are eligible for benefits under the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 20 years of service. Firefighters with 20 years of service retiring before January 1, 2003, are eligible for membership. Participation may only be elected at the time of retirement. COTPA general employees under the age of 65 are eligible for membership in the Plan if they retire from COTPA on or after age 62 with 10 years of service or at any age with 25 years of service. | General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 25 years of service. Police officers are eligible for benefits under the Plan if they retire from the City with 20 years of service. Firefighters retiring before January 1, 2003, are eligible for membership. Participation may only be elected at the time of retirement. |

Funding Policy

Beginning January 1, 2016, the employer contribution rate changed from 58% of premium to 56% of premium for retirees other than COTPA retirees under 65. Beginning January 1, 2015, the employer contribution rate changed from 60% of premium to 58% of premium for retirees other than COTPA retirees under 65. For COTPA retirees under 65, COTPA contributed a subsidy towards medical coverage of retirees based on years of service. The retirees were responsible for paying the remaining balance of the premium. COTPA contributions to the Plan were equal to the benefit payments.

Benefit Provisions

The City provides post-retirement healthcare benefits to its retirees. The Plan covers all current retirees who elected post-retirement medical coverage at the time of retirement, firefighters that retired before January 1, 2003, future retired general employees and police officers.

The City provides medical benefits either through a fully insured health plan or through a self-insured Group Indemnity Plan. Benefits include general inpatient and outpatient medical services and prescription drug coverage. General employees are eligible for membership in the Plan if they retire from the City on or after age 55 with 5 years of service or at any age with 25 years of service. Police officers are eligible for benefits under the plan if they retire with the City with 20 years of service and elect coverage at the time of retirement. Coverage for dependents can continue upon the death of the retiree. Spouses and eligible dependents of employees who die in active service while eligible for benefits can receive coverage.

Membership

| | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|
| Active members | 3,563 | 3,592 |
| Retirees and beneficiaries currently receiving benefits | 2,169 | 2,145 |
| | <u>5,732</u> | <u>5,737</u> |

Annual Required Contributions - Actuarial Assumptions

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|--|--|
| Valuation date | 7/1/15 | 7/1/15 |
| Actuarial cost method | Projected unit credit with linear proration to decrement | Projected unit credit with linear proration to decrement |
| Amortization method | Level percentage of payroll | Level percentage of payroll |
| Amortization period | 30 years, open | 30 years, open |
| Actuarial asset valuation method | 4-year smoothed market | 4-year smoothed market |
| Investment rate of return | 4.9% | 4.9% |
| Blended discount rate method | The discount rate is based on the expected long-term return on the investments that are used to finance the benefit programs | The discount rate is based on the expected long-term return on the investments that are used to finance the benefit programs |
| Inflation | 3.0% | 3.0% |
| Projected salary increases | 3.0% | 3.0% |
| Health care trend rate | 4.5% (4.5% for Medicare age) | 4.5% (4.5% for Medicare age) |
| Mortality table | RP 2000 combined mortality table | RP 2000 combined mortality table |

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by OCPEBT and Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between OCPEBT and Plan members to that point. Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and that actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

In the July 1, 2015, actuarial valuation, adjustments have been made to the AAL and normal cost for actual premium increases from 2014 to 2015, which increased the City's liabilities on a net basis as the reduction in pre-Medicare liabilities, is more than offset by the increase in Medicare liabilities.

VIII. B. ANNUAL OPEB COSTS, NET OPEB OBLIGATION, TREND INFORMATION AND RESERVES

Annual OPEB Costs and Net OPEB Obligation

| | 2016 | | 2015 | | 2014 | |
|---|-----------------|----------------------|-----------------|----------------------|-----------------|----------------------|
| | System | Total | System | Total | System | Total |
| Annual required contribution | \$13,712 | \$33,371,059 | \$15,083 | \$35,920,317 | \$14,180 | \$33,975,672 |
| Interest on net OPEB obligation | 2,819 | 6,854,945 | 2,516 | 5,990,979 | 2,197 | 5,264,870 |
| Adjustment to annual required contribution | (2,588) | (6,292,817) | (2,309) | (5,499,654) | (2,017) | (4,833,132) |
| Annual OPEB cost | 13,943 | 33,933,187 | 15,290 | 36,411,642 | 14,360 | 34,407,410 |
| Contributions made | (8,924) | (17,811,341) | (9,245) | (18,815,545) | (9,245) | (19,619,034) |
| Increase in net OPEB obligation | 5,019 | 16,121,846 | 6,045 | 17,596,097 | 5,115 | 14,788,376 |
| Net OPEB obligation, Beginning of year | 48,362 | 139,611,965 | 42,317 | 122,015,868 | 37,202 | 107,227,492 |
| End of year | <u>\$53,381</u> | <u>\$155,733,811</u> | <u>\$48,362</u> | <u>\$139,611,965</u> | <u>\$42,317</u> | <u>\$122,015,868</u> |

Trend Information

| Fiscal Year <u>Ended</u> | Annual OPEB <u>Cost</u> | Employer <u>Contributions</u> | Percentage of Annual OPEB <u>Cost Contributed</u> | Net OPEB <u>Obligation</u> |
|--------------------------------|-------------------------------|----------------------------------|---|-------------------------------|
| 2016 | \$33,933,187 | \$17,811,341 | 52.5% | \$155,733,811 |
| 2015 | 36,411,642 | 18,815,545 | 51.7 | 139,611,965 |
| 2014 | 34,407,410 | 19,619,034 | 57.0 | 122,015,868 |
| 2013 | 33,258,975 | 19,904,516 | 59.8 | 107,227,492 |

Reserves

There are no assets legally reserved for purposes other than the payment of plan member benefits for either plan. The plans held no individual investments (other than U.S. government and U.S. government guaranteed obligations) whose market value exceeds 5% or more of net position available for benefits. There are no long-term contracts for contributions.

VIII. C. FUNDED STATUS AND FUNDING PROGRESS

| | |
|---|--------------|
| Actuarial Value of Plan Assets (AVA) | \$39,337,227 |
| Actuarial Accrued Liability (AAL) | 474,680,748 |
| Unfunded Actuarial Accrued Liability (UAAL) | 400,894,911 |
| Funded Ratio (AVA/AAL) | 8% |
| Covered Payroll (Active Plan Members) | 219,484,135 |
| UAAL as a Percentage of Covered Payroll | 182.7% |

The required supplementary information schedules of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. OCPEBT financial statements including the actuarial report referred to in this note may be obtained from the Finance Department, Accounting Services Division, 100 N. Walker, Suite 300, Oklahoma City, OK 73102.

VIII. D. TERMINATION BENEFITS

At June 30, 2016, the System had no terminated employees participating in COBRA health and/or dental care in various options available from the City. COBRA participants pay 102% of employee premium cost for continuing coverage. COBRA continuation coverage benefits are available for eligible employees for up to 18 months. Employees on military leave are eligible up to 24 months. Dependents of employees who lose coverage due to a qualifying event are eligible for up to 36 months. Benefits provided are not material to the financial statements.

IX. RELATED PARTY TRANSACTIONS

As of June 30, 2016 and 2015, the System held judgments in the amounts of \$2,274,358 and \$3,360,346, respectively. The judgments earn 5.25 percent interest. State Statutes permit the System to purchase judgments rendered against the City throughout the year. In November of each year, the City (through the property tax levy process) pays the System for the principal amount and earned interest for each purchased judgment.

The System reimburses the City for the cost of providing financial and other services. Amounts charged are expensed during the period incurred. For fiscal years ending June 30, 2016 and 2015, the System reported charges for City services of \$91,910 and \$87,852, respectively.

The City also reimburses the System for the cost of providing services. System staff provided administrative services for the City's deferred compensation and defined contribution plans. However, responsibilities are contractually limited and the System does not hold or administer these plan assets in a trustee capacity. Revenue for services is reported in the period earned. For fiscal years ending June 30, 2016 and 2015, the System reported income for services of \$7,932 and \$31,726, respectively.

For the 2016 and 2015 fiscal years, the System reported additions of \$8,924 and \$9,245, respectively, that were contributed to the OCPEBT on behalf of the System and will be used to pre-fund medical benefits to be provided in future fiscal years.

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**REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

I. SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS (1)

| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--|--|--|
| <u>Total Pension Liability</u> | | | |
| Service cost | \$16,478,008 | \$15,803,400 | \$14,859,971 |
| Interest | 46,209,223 | 44,280,609 | 42,402,916 |
| Differences between expected and actual experience of the total pension liability | (12,124,853) | (4,744,650) | (4,484,757) |
| Assumption changes | 7,271,967 | - | - |
| Benefits payments, including refunds | <u>(30,843,849)</u> | <u>(29,079,762)</u> | <u>(27,348,122)</u> |
| Net change in total pension liability | 26,990,496 | 26,259,597 | 25,430,008 |
| Pension liability, beginning | <u>623,305,898</u> | <u>597,046,301</u> | <u>571,616,293</u> |
| Pension liability, ending | <u>650,296,394</u> | <u>623,305,898</u> | <u>597,046,301</u> |
| <u>Plan Fiduciary Net Position</u> | | | |
| Contributions - employer | 7,411,117 | 8,207,083 | 8,871,692 |
| Contributions - employee | 7,562,162 | 7,668,356 | 7,421,749 |
| Net investment income | (4,840,456) | 25,206,761 | 94,658,124 |
| Benefits payments, including refunds | (30,843,849) | (29,079,762) | (27,348,122) |
| Administrative expense | (397,732) | (445,438) | (461,529) |
| Other | <u>68,029</u> | <u>148,187</u> | <u>95,319</u> |
| Net change in fiduciary net position | (21,040,729) | 11,705,187 | 83,237,233 |
| Plan fiduciary net position, beginning | <u>670,163,985</u> | <u>658,458,798</u> | <u>575,221,565</u> |
| Plan fiduciary net position, ending | <u>649,123,256</u> | <u>670,163,985</u> | <u>658,458,798</u> |
| Net pension liability (asset), ending | <u>\$1,173,138</u> | <u>(\$46,858,087)</u> | <u>(\$61,412,497)</u> |
| Covered - employee payroll | \$126,036,039 | \$127,805,936 | \$124,957,446 |
| Plan fiduciary net position as a percentage of total pension liability | 99.82% | 107.52% | 110.29% |
| Net pension liability (asset) as a percentage of covered - employee payroll | 0.93% | -36.66% | -49.15% |
| <u>Actuarial assumptions</u> | | | |
| Valuation date | 12/31/15 | 12/31/14 | 12/31/13 |
| Actuarial cost method | Individual | Individual entry age | Individual entry age |
| Amortization method | Level % of payroll | Level % of payroll | Level % of payroll |
| Amortization period | 27 years, closed | 28 years, closed | 28 years, closed |
| Actuarial asset valuation method | 4-year smoothed market | 4-year smoothed market | 4-year smoothed market |
| Investment rate of return | 7.5% | 7.5% | 7.5% |
| Cost of living benefit increases (maximum) | 2% | 2% | 2% |
| Inflation | 2.8% | 3.0% | 3.8% |
| Projected salary increases | 3.75% to 7.25% | 3.75% to 7.25% | 3.75% to 7.25% |
| Mortality table | RP-2000 male (unadjusted) and Female (unadjusted) | RP 2000 mortality table projected to 2010 | RP 2000 mortality table projected to 2010 |
| Experience study | Actuarial assumptions were based upon results of an experience study covering the period January 1, 2008, through December 31, 2012. | Actuarial assumptions were based upon results of an experience study covering the period January 1, 2008, through December 31, 2012. | Actuarial assumptions were based upon results of an experience study covering the period January 1, 2008, through December 31, 2012. |

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, results for measurement dates before 2014, are not available. This information will be developed prospectively beginning in 2014, until eventually 10 years of information is available.

REQUIRED SUPPLEMENTARY INFORMATION

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

II. SCHEDULE OF SYSTEM SHARE OF NET PENSION LIABILITY (ASSET) (1) (2)

| | <u>2016</u> | <u>2015</u> |
|---|------------------------------|------------------------------|
| System share | 0.13% | 0.14% |
| System share of the net pension liability (asset) | (\$60,916) | (\$85,978) |
| Other funds of the City share of the net pension liability (asset) | <u>(46,797,171)</u> | <u>(61,326,519)</u> |
| Total net pension liability (asset) | <u>(\$46,858,087)</u> | <u>(\$61,412,497)</u> |
| Covered - System employee payroll | <u>\$166,148</u> | <u>\$174,940</u> |
| System share of net pension liability (asset) as a percentage of covered - employee payroll | -36.66% | -49.15% |

(1) Amounts presented represent the System's share presented in Note VI. C. NET PENSION ASSET and are reported for the fiscal year in which they are reported on the financial statements. The Plan's pension information is measured as of December 31 and rolled forward to June 30 of the year prior to inclusion in the financial statements. Therefore, this information will not tie to information presented in the schedule of changes in net pension liability (asset) and related ratios.

(2) This schedule is presented to illustrate the requirement to show information for 10 years. However, results for measurement dates before 2014, are not available. This information will be developed prospectively beginning in 2014, until eventually 10 years of information is available.

III. SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year Ending <u>June 30.</u> | Actuarially Determined Contribution | Actual Contribution (b) | Contributions Deficiency (Excess) (a-b) | Covered Payroll (c) | Actual Contribution As a Percentage of Covered Payroll (b/c) |
|--|---|----------------------------|---|------------------------|--|
| | <u>(ADC) (a)</u> | | | | |
| 2016 | \$7,410,919 | \$7,411,117 | (\$198) | \$126,036,039 | 5.88% |
| 2015 | 8,230,702 | 8,207,083 | 23,619 | 127,805,936 | 6.42 |
| 2014 | 8,871,692 | 8,871,692 | - | 124,957,446 | 7.10 |
| 2013 | 11,320,094 | 11,320,094 | - | 114,933,000 | 9.85 |
| 2012 | 9,614,625 | 9,614,625 | - | 109,293,000 | 8.80 |
| 2011 | 7,132,772 | 7,132,772 | - | 102,915,000 | 6.93 |
| 2010 | 5,585,595 | 5,585,595 | - | 110,408,000 | 5.06 |
| 2009 | 5,464,178 | 5,464,178 | - | 105,566,000 | 5.18 |
| 2008 | 7,211,608 | 7,211,608 | - | 99,574,000 | 7.24 |
| 2007 | 8,479,329 | 8,479,329 | - | 95,504,000 | 8.88 |

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POST-EMPLOYMENT BENEFIT PLAN (1)**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

I. SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 7/1/2015 | \$39,337,227 | \$440,232,138 | \$400,894,911 | 8.9% | \$219,484,135 | 182.7% |
| 7/1/2014 | 34,027,895 | 474,680,748 | 440,652,853 | 7.2 | 213,091,393 | 206.8 |
| 7/1/2013 | 26,315,759 | 451,028,790 | 424,713,031 | 5.8 | 203,859,835 | 208.3 |

II. SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Fiscal Year-ended | Employer Contribution | Annual Required Contribution | Percentage Contributed |
|----------------------|--------------------------|---------------------------------|---------------------------|
| 2016 | \$17,811,341 | \$33,371,059 | 53.4% |
| 2015 | 18,815,545 | 35,920,317 | 52.4 |
| 2014 | 19,619,034 | 33,975,672 | 57.7 |

(1) See Note VIII. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN for actuarial assumptions and other information used to determine the annual required contributions.

SUPPORTING SCHEDULES
For the Fiscal Years Ended June 30,
SCHEDULE OF ADMINISTRATIVE EXPENSES

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | <u>2016</u> | <u>2015</u> |
|--|-------------------------|-------------------------|
| <u>PERSONAL SERVICES</u> | | |
| Staff salaries and benefits | \$207,743 | \$209,247 |
| Compensated absences | 4,381 | 6,787 |
| OPEB Expense | <u>5,019</u> | <u>6,044</u> |
| Total personal services | <u>217,143</u> | <u>222,078</u> |
| <u>PROFESSIONAL SERVICES</u> | | |
| Actuarial | 17,000 | 64,200 |
| Accounting | 14,604 | 15,390 |
| Information technology services | 29,704 | 26,020 |
| Audit | 24,970 | 24,361 |
| Medical exams | 2,100 | 650 |
| Bank fees | 883 | 1,040 |
| Legal fees | 14,826 | 23,043 |
| Other administrative services | <u>60,073</u> | <u>57,629</u> |
| Total professional services | <u>164,160</u> | <u>212,333</u> |
| <u>TRAINING AND EDUCATION</u> | | |
| | <u>11,962</u> | <u>6,350</u> |
| <u>MISCELLANEOUS</u> | | |
| Supplies | 1,329 | 1,117 |
| Other | <u>3,136</u> | <u>3,560</u> |
| Total miscellaneous | <u>4,465</u> | <u>4,677</u> |
| Total administrative expenses | <u>\$397,730</u> | <u>\$445,438</u> |

SCHEDULE OF INVESTMENT EXPENSES AND SECURITIES LENDING MANAGEMENT FEES

| | <u>2016</u> | <u>2015</u> |
|----------------------------------|---------------------------|---------------------------|
| Management fees | \$1,448,426 | \$1,647,113 |
| Custodial fees | \$128,067 | 182,051 |
| Investment performance analysis | <u>117,500</u> | <u>115,000</u> |
| Total investment expenses | <u>\$1,693,993</u> | <u>\$1,944,164</u> |

SCHEDULE OF CONSULTING EXPENSES (1)

| | | <u>2016</u> | <u>2015</u> |
|------------------------------|------------|-------------|-------------|
| Gabriel, Roeder, Smith & Co. | Actuarial | \$17,000 | \$64,200 |
| Asset Consulting Group, Inc. | Consulting | 117,500 | 115,000 |
| BKD LLP | Auditing | 24,970 | 24,361 |
| Davis Graham & Stubbs, LLP | Legal | 14,826 | 23,043 |

(1) For fees and commissions paid to investment professionals, see the Schedule of Fees and Commissions in the Investment Section of this report.

Investment





ASSET CONSULTING GROUP

231 SOUTH BEMISTON AVENUE

14TH FLOOR

ST. LOUIS, MISSOURI 63105

TEL 314.862.4848

FAX 314.862.5967

WWW.ACGNET.COM

December 20, 2016

Oklahoma City Employees Retirement System
Oklahoma City, Oklahoma

The investment performance returns as shown in the five year investment performance review are all calculated using information derived from monthly statements provided by the Fund's custodial institution. Monthly returns are calculated using a time-weighted rate of return methodology based upon beginning and end of month market values and cash flows. Monthly returns are linked to provide compounded, annual, and annualized rates of return for periods of one, three, five years and beyond when available. The returns as shown in this report are gross of investment manager fees.

The investment performance of the Total Fund and its segments is compared to relevant benchmark returns and presented to the Board of Trustees on a monthly basis. For the Total Fund, the benchmark is an index which reflects the asset mix policy established by the Board of Trustees and is referred to as the Policy Portfolio. Comparisons to the Policy Portfolio, the median total fund universe, and the median return of a universe of total funds with similar asset allocation are presented to the Board of Trustees on a quarterly basis.

All of the above comparisons are included in the Statement of Investment Policy, Objectives, and Guidelines, and are also reported to the Board of Trustees on a quarterly basis. Investment objectives are spelled out for the Total Fund and each of the segments for one year time periods and longer (3-5 years), and include protecting the fund corpus, both nominally and in terms of inflation, achieving a return in excess of the risk free rate of return (90 day U.S. T-bills), achieving a return in excess the actuarial required return, and a return in excess of the median return of a universe of funds with similar asset mix, and achieving a return in excess of that of an unmanaged index return (constructed to reflect the asset mix of the Fund's assets). In addition, investment managers are monitored for adherence to style, both on a returns-based regression analysis as well as a holdings-based characteristic analysis versus the appropriate benchmarks specified in the Statement of Investment Policy, Objectives, and Guidelines. Current asset allocation ranges, and targets within those ranges, are measured against target ranges established in the Statement of Investment Policy, Objectives, and Guidelines on a monthly basis. The status of each is also presented in a monthly investment performance review submitted to the Board of Trustees.

The risk profile of the Total Fund and its segments is also measured quarterly for one, three, five years and beyond when available, and includes the usual MPT statistics: alpha, beta, R^2 , and standard deviation. To further reduce risk, Fund assets are diversified by asset class, by security, by investment manager, and by investment manager style. The fund has a long term strategic target allocation of 60% to equity, 25% to fixed income, and 15% to real assets.

Respectfully submitted,

Jason C. Pulos, CFA
Managing Director

INVESTMENT POLICY SUMMARY (STATEMENT)

I. POLICY PURPOSE AND OBJECTIVES

The primary objective of the Oklahoma City Employee Retirement System (System) is to provide eligible employees with retirement benefits. Assets will be invested in a diversified portfolio to achieve attractive real rates of return. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the Plan's tolerance for risk as determined by the Board of Trustees in its role as fiduciary.

II. PARTIES ASSOCIATED WITH THE SYSTEM

Board of Trustees (Board)

The Board is responsible for the appropriateness and execution of the investment policy. The Board accomplishes this by retaining and meeting regularly with: an investment consultant, investment managers, and a custodian; who then aide in defining and reviewing the adequacy of the investment policy, as well as the objectives and guidelines for the System.

Investment Consultant

The investment consultant aides in developing a management team of investment managers, monitors their performance, and then provides the Board with a quarterly report. Their position also evaluates and makes recommendations on portfolio management and other areas of investments.

Investment Managers

Investment managers are hired in a fiduciary capacity, and as such, are responsible for specific securities decisions and have full discretion in the management of assets, subject to the overall investment policy.

Custodian

The custodian's fiduciary position accepts possession of securities for safekeeping and oversees the collection and disbursement of income and provides accounting statements and status reports to the Board. The Custodian interacts with the investment managers in relation to the securities held in account and meets with the Board as required.

Investment Committee

The System's investment committee meets to discuss investment issues with the consultant and investment managers, makes recommendations to the Board for consideration, and is the source for policy clarification.

III. INVESTMENT OBJECTIVES AND GUIDELINES

III. A. OBJECTIVES

The Board structures the System's portfolio for maximum investment style diversification and expected total return investment results. As applicable to the equities portfolio, the total return concept means dividend income plus realized and unrealized capital appreciation. The Board achieves this by retaining multiple equity and fixed income portfolio investment managers and brokers from external professional organizations, purchasing judgments of the City of Oklahoma City (City), and implementing various programs.

Fixed income investments constitute a portion of the System's assets to primarily reduce the volatility of the total portfolio, in addition to providing current income.

The investment managers operate within a set of guidelines, objectives, and constraints. The Board follows the policy that, except for established guidelines and unusual circumstances, no restrictions will be placed on the selection of individual investments by the investment managers.

The investment managers vote proxies in the manner which they feel will most benefit the System, however, the Board reserves the right to instruct the investment managers on how to vote individual proxies. The investment managers retain records of proxy voting and, upon request, makes these records available to the Board.

The Board has authorized a commission recapture program whereby certain brokers rebate 50% or more of their commissions back to the System. The recapture brokers provide monthly transaction reports to the Board or its representative for review.

Trustees, officers, employees, investment managers, and investment consultants involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees, investment officials, and investment consultants shall disclose to the Chairperson of the Board any direct financial interests in financial institutions that conduct business with the System, and they shall further disclose any personal financial investment positions that could be related to the performance of the System. Such disclosure shall be made to the Board within 90 days of any such position being taken. Employees, officers, Trustees, and investment consultants shall subordinate their personal investment transactions to those of the System, particularly with regard to the timing of purchases and sales.

The System is subject to an annual audit of its financial position. The Board or Chairperson may establish internal control procedures, as deemed necessary for services performed by the City and/or its employees on behalf of the System.

III. B. PORTFOLIO ASSET ALLOCATION GUIDELINES

Target percentages have been determined for each asset class. Percentage allocations are intended to serve as guidelines; the Board will not be required to remain strictly at the designated allocation. Market conditions or an investment transition (asset class or investment manager) may require an interim investment strategy and, therefore, a temporary imbalance in asset mix.

| | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> | | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> |
|--------------------------|----------------|---------------|----------------|----------------------|----------------|---------------|----------------|
| Equities | | | | Fixed Income | | | |
| Large Cap Domestic | 15.0% | 20.0% | 25.0% | Core Bonds | 2.5% | 5.0% | 10.0% |
| Small/Mid Cap Domestic | 5.0 | 10.0 | 15.0 | Core Plus Bonds | 2.5 | 7.5 | 12.5 |
| International | 5.0 | 10.0 | 15.0 | Global Bonds | 2.5 | 7.5 | 12.5 |
| Emerging Market Equities | 0.0 | 5.0 | 10.0 | Low Volatility Hedge | 0.0 | 5.0 | 10.0 |
| Long/Short Equity | 5.0 | 10.0 | 15.0 | Real Assets | 10.0 | 15.0 | 20.0 |
| Private Equity | 0.0 | 5.0 | 7.5 | | | | |

For purposes of this policy statement, fixed income may include certain hedge fund strategies that exhibit similar volatility to fixed income with low correlation to long, only equity and fixed income markets. The above target allocations will be achieved over an appropriate time period, based on market conditions, investment manager availability and portfolio needs and constraints.

III. C. PERFORMANCE OBJECTIVES

The System's investment total return is expected to provide equal or superior results, using a three-year moving average, relative to the following benchmarks:

- An absolute return objective of 7.4% (or current actuarial rate).
- A relative return objective of 35% S&P 500 Index, 10% Russell 2500 index, 10% MSCI-EAFE, 5% MSCI Emerging Markets Index, 35% Barclays Capital Bond Index, 5% NFI-ODCE Property Index.
- A relative return objective of above median in consultant's total fund peer group universe.

III. D. ANNUAL REVIEW OF GUIDELINES

In view of the rapid changes within the capital markets and investment management techniques, the Board and its investment managers should review these guidelines annually. Any recommended changes to the investment policy should be communicated in writing to the Board for review. Exceptions to these guidelines may be made anytime with the written approval of the Board.

IV. INVESTMENT MANAGER OBJECTIVES AND PERFORMANCE

IV. A. INVESTMENT OBJECTIVE OF INVESTMENT MANAGERS

The investment management style and process of each investment manager is important because of the manner in which each style blends with the structure of the portfolio; therefore, adherence to this discipline is a critical issue. The portfolio should be managed in a style consistent with the investment manager's other portfolios within the same investment mandate or product. Any significant deviation from the investment manager's stated style will require written approval from the Board.

IV. B. PERFORMANCE CRITERIA FOR MONEY MANAGERS

Investment manager performance is monitored over current and long term time periods. Performance will be reviewed over the following periods with an emphasis on 3 and 5 year periods:

- 3 months
- Year to date
- One Year
- Three Years
- Five Years

The investment manager's performance will be evaluated on absolute return, relative return, volatility profile, and consistency with stated style.

IV. C. INVESTMENT MANAGER PERFORMANCE EXPECTATIONS

Investment manager portfolios should outperform the designated broad based or other relevant benchmark over a market cycle. Relative performance should be above median over a market cycle when compared to relevant peer groups.

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INVESTMENT SUMMARY
June 30, 2016

| | <u>Domestic Common Stock</u> | <u>Passive Domestic Stock Funds</u> | <u>Preferred Stock</u> | <u>Government Securities/Fixed Income</u> | <u>Passive Bond Fund</u> | <u>International Stock</u> |
|------------------------------------|----------------------------------|---|----------------------------|---|------------------------------|--------------------------------|
| <u>EQUITY</u> | | | | | | |
| <u>DOMESTIC COMMON</u> | | | | | | |
| <u>STOCK</u> | | | | | | |
| Active, small cap growth | \$36,610,670 | \$ - | \$ - | \$ - | \$ - | \$2,916,976 |
| Active, small cap value | 40,830,565 | - | 1,518,689 | - | - | 1,096,688 |
| Active, large cap core | 68,218,126 | - | 4,551,173 | - | - | 4,594,497 |
| Passive, large cap S&P 500 | - | 68,070,965 | - | - | - | - |
| Hedge-long/short | 31,626,614 | - | - | - | - | - |
| <u>INTERNATIONAL STOCKS</u> | | | | | | |
| Active, large cap value | - | - | - | - | - | 27,510,137 |
| Active, large cap growth | - | - | - | - | - | 23,732,737 |
| Active, emerging markets | - | - | - | - | - | 27,584,162 |
| <u>FIXED INCOME</u> | | | | | | |
| Active | 415,825 | - | - | 54,007,883 | 3,317,189 | 5,130,083 |
| Passive | - | - | - | - | 65,630,728 | - |
| Hedge-low volatility | - | - | - | - | - | 62,115,644 |
| <u>COMMODITIES</u> | | | | | | |
| Commodities | - | - | - | - | - | - |
| <u>REAL ASSETS</u> | | | | | | |
| Real Estate | 5,157,490 | - | - | - | - | - |
| <u>PRIVATE EQUITY</u> | | | | | | |
| | 26,834,838 | - | - | - | - | - |
| <u>OTHER</u> | | | | | | |
| Oklahoma City judgments | - | - | - | - | - | - |
| | <u>\$209,694,128</u> | <u>\$68,070,965</u> | <u>\$6,069,862</u> | <u>\$54,007,883</u> | <u>\$68,947,917</u> | <u>\$154,680,924</u> |

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| <u>Passive International Bond Fund</u> | <u>Treasury Money Market Fund</u> | <u>Commodities</u> | <u>Real Estate</u> | <u>Oklahoma City Judgments</u> | <u>Accrued Income</u> | <u>Total</u> |
|--|---|----------------------------|----------------------------|------------------------------------|---------------------------|-----------------------------|
| \$ - | \$1,029,123 | \$ - | \$ - | \$ - | \$7,841 | \$40,564,610 |
| - | 1,363,812 | - | - | - | 48,284 | 44,858,038 |
| - | 424,178 | - | - | - | 83,538 | 77,871,512 |
| - | 111,415 | - | - | - | - | 68,182,380 |
| - | 1,534 | - | - | - | - | 31,628,148 |
| - | 17 | - | - | - | - | 27,510,154 |
| - | 841,759 | - | - | - | - | 24,574,496 |
| - | 7 | - | - | - | - | 27,584,169 |
| 3,549,058 | 2,715,189 | - | - | - | 342,672 | 69,477,899 |
| - | 152,889 | - | - | - | - | 65,783,617 |
| - | - | - | - | - | - | 62,115,644 |
| - | - | 25,069,287 | - | - | - | 25,069,287 |
| - | 1,854 | - | 51,387,741 | - | - | 56,547,085 |
| - | 10 | - | - | - | - | 26,834,848 |
| - | - | - | - | <u>2,274,358</u> | <u>116,209</u> | <u>2,390,567</u> |
| <u>\$3,549,058</u> | <u>\$6,641,787</u> | <u>\$25,069,287</u> | <u>\$51,387,741</u> | <u>\$2,274,358</u> | <u>\$598,544</u> | <u>\$650,992,454</u> |

INVESTMENT HOLDINGS COST TO MARKET
June 30, 2016

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | <u>Cost of Holdings</u> | <u>Cash Equivalents</u> | <u>Cost</u> | <u>Fair Value</u> | <u>% of Total Fair Value</u> |
|--|-----------------------------|---------------------------|-----------------------------|-----------------------------|------------------------------|
| <u>EQUITY</u> | | | | | |
| <u>DOMESTIC COMMON STOCK</u> | | | | | |
| Active, small cap growth | \$36,376,484 | \$1,029,123 | \$37,405,607 | \$40,564,610 | 6.23% |
| Active, small cap value | 25,673,009 | 1,363,812 | 27,036,821 | 44,858,038 | 6.89 |
| Active, large cap core | 64,117,109 | 424,178 | 64,541,287 | 77,871,512 | 11.96 |
| Passive, large cap S&P 500 | 29,698,804 | 111,415 | 29,810,219 | 68,182,380 | 10.47 |
| Hedge-long/short | 31,626,614 | 1,534 | 31,628,148 | 31,628,148 | 4.86 |
| <u>INTERNATIONAL STOCKS</u> | | | | | |
| Active, large cap value | 27,779,487 | 17 | 27,779,504 | 27,510,154 | 4.23 |
| Active, large cap growth | 17,893,305 | 841,759 | 18,735,064 | 24,574,496 | 3.77 |
| Active, emerging markets | 27,514,752 | 7 | 27,514,759 | 27,584,169 | 4.24 |
| <u>FIXED INCOME</u> | | | | | |
| Active | 63,251,064 | 2,715,189 | 65,966,253 | 69,477,899 | 10.67 |
| Passive | 59,263,306 | 152,889 | 59,416,195 | 65,783,617 | 10.11 |
| Hedge-low volatility | 47,512,517 | - | 47,512,517 | 62,115,644 | 9.54 |
| <u>COMMODITIES</u> | | | | | |
| Commodities | 35,000,000 | - | 35,000,000 | 25,069,287 | 3.85 |
| <u>REAL ASSETS</u> | | | | | |
| Real Estate | 45,760,519 | 1,854 | 45,762,373 | 56,547,085 | 8.69 |
| <u>PRIVATE EQUITY</u> | | | | | |
| | 22,076,082 | 10 | 22,076,092 | 26,834,848 | 4.12 |
| <u>OTHER</u> | | | | | |
| Oklahoma City judgments | <u>2,274,358</u> | <u>-</u> | <u>2,274,358</u> | <u>2,390,567</u> | <u>0.37</u> |
| | <u>\$535,817,410</u> | <u>\$6,641,787</u> | <u>\$542,459,197</u> | <u>650,992,454</u> | <u>100.00%</u> |
| <u>INTEREST AND DIVIDEND INCOME (1)</u> | | | | | |
| Equities | | | | (139,663) | |
| Fixed Income | | | | (342,672) | |
| Judgments | | | | (116,209) | |
| | | | | <u>\$650,393,910</u> | |

(1) For purposes of portfolio evaluation by the consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of fiduciary net position. Interest income, dividend income and money market positions are included as shown above. See the investment summary for a reconciliation of this presentation to the statement of fiduciary net position presentation.

INVESTMENT RESULTS (1)
As of June 30, 2016

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> |
|--|---------------|----------------|----------------|
| <u>TOTAL PORTFOLIO</u> | | | |
| System Composite | 0.3% | 7.0% | 7.3% |
| Median Total Fund (between 55-70% Equity) | (0.2) | 6.3 | 6.4 |
| Policy Index | 1.3 | 6.7 | 7.2 |
| <u>EQUITIES</u> | | | |
| <u>LARGE CAP - PASSIVE</u> | | | |
| State Street Global Advisors S & P 500 Flagship Fund (inception March 2008) | 4.1 | 11.7 | 12.2 |
| Standard & Poor's 500 Index | 4.0 | 11.7 | 12.1 |
| <u>LARGE CAP - ACTIVE</u> | | | |
| Enhanced Investment Technologies, LLC (inception January 2007) | 3.9 | 12.5 | 12.4 |
| Russell 1000 | 2.9 | 11.5 | 11.9 |
| <u>SMALL CAP VALUE</u> | | | |
| Earnest Partners (inception May 2003) | (1.5) | 11.2 | 10.6 |
| Russell 2500 Value Index | (3.7) | 8.6 | 9.5 |
| <u>SMALL CAP GROWTH</u> | | | |
| Timesquare Capital Management LLC (inception February 2010) | (7.9) | 7.7 | 10.9 |
| Russell 2500 Growth Index | (7.7) | 9.1 | 9.3 |
| <u>HEDGE FUND - LONG/SHORT</u> | | | |
| K2 Advisors (inception January 2005) | (9.9) | 4.5 | 4.5 |
| Standard & Poor's 500 Index | 4.0 | 11.7 | 12.1 |
| <u>INTERNATIONAL</u> | | | |
| <u>LARGE CAP VALUE</u> | | | |
| Lazard International Strategic (inception September 2013) | (8.1) | 0.0 | 0.0 |
| Morgan, Stanley, Capital International/Europe, Australia, and Far East | (9.7) | 2.5 | 2.2 |
| <u>LARGE CAP GROWTH</u> | | | |
| Harding Loevner (inception June 2012) | (2.3) | 5.7 | 0.0 |
| Morgan, Stanley, Capital International/All Country World Index Ex-U.S. | (9.8) | 1.6 | 0.6 |
| <u>EMERGING MARKETS</u> | | | |
| Vontobel (inception June 2012) | 0.0 | 0.0 | 0.0 |
| MSCI Emerging Markets Index | (11.7) | (1.2) | (3.4) |
| Wasatch | (9.8) | (1.2) | 0.0 |
| MSCI Emerging Markets Small Cap | (12.5) | 0.3 | (2.0) |
| <u>FIXED INCOME</u> | | | |
| <u>CORE BONDS - PASSIVE</u> | | | |
| State Street Global Advisors Passive Bond Market Non-Securities Lending Index Fund | 6.0 | 4.1 | 3.8 |
| Barclays Capital Aggregate | 6.0 | 4.1 | 3.8 |
| Brandywine Global Opportunistic Fixed Income | 5.4 | 2.8 | 0.0 |
| Citigroup World Government Bond | 11.3 | 2.7 | 1.2 |
| <u>CORE BONDS - ACTIVE</u> | | | |
| Western Asset Management (inception January 2003) | 7.0 | 5.2 | 5.0 |
| Barclays Capital Aggregate | 6.0 | 4.1 | 3.8 |
| <u>HEDGE FUND - LOW VOLATILITY</u> | | | |
| PAAMCO (inception February 2006) | (6.4) | 1.6 | 2.7 |
| Barclays Capital Aggregate | 6.0 | 4.1 | 3.8 |
| <u>COMMODITIES</u> | | | |
| Gresham TAP Fund (inception October 2014) | (15.0) | 0.0 | 0.0 |
| Bloomberg Commodity | (13.3) | (10.6) | (10.8) |
| <u>REAL ESTATE</u> | | | |
| Prime Property Fund LLC | 12.6 | 14.9 | 15.1 |
| National Counsel of Real Estate Investment Fiduciaries Property Index | 10.8 | 12.0 | 11.7 |
| <u>PRIVATE EQUITY</u> | | | |
| Siguler Guff, Mesirow, Warburg Pincus, TA Associates | 1.7 | 13.7 | 10.5 |
| <u>INTERNAL</u> | | | |
| City of Oklahoma City Judgments | 5.0 | 4.8 | 4.9 |
| Merrill Lynch 1-3 Year Treasury Bond | 0.2 | 0.1 | 0.1 |

(1) Monthly returns are calculated using a time-weighted rate of return methodology based on beginning and ending fair values and cash flows and are linked to provide compounded, annual, and annualized rates of return for periods of one, three, and five years. The returns as shown in this report are net of transaction costs and investment manager fees.

ASSET ALLOCATION (1)
June 30, 2016

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

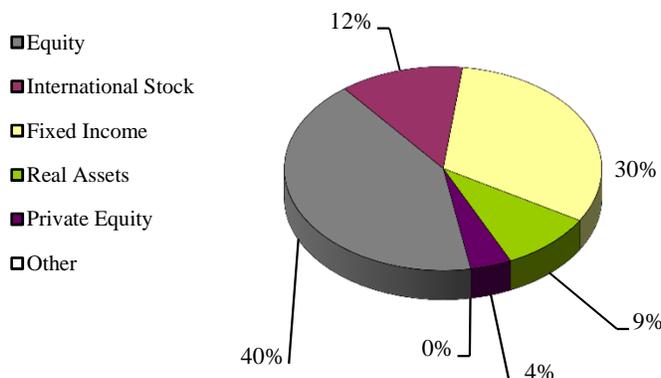
| | <u>Fair Value of Holdings</u> | <u>Cash Equivalents</u> | <u>Accrued Income</u> | <u>Fair Value</u> | <u>% of Total Fair Value</u> | <u>% of Model Portfolio</u> |
|---|-----------------------------------|-----------------------------|---------------------------|---------------------------|----------------------------------|---------------------------------|
| <u>EQUITY</u> | | | | | | |
| <u>DOMESTIC COMMON STOCK</u> | | | | | | |
| Active, small cap | \$82,973,588 | \$2,392,935 | \$56,125 | \$85,422,648 | 13.12% | |
| Active, large cap | 77,363,796 | 424,178 | 83,538 | 77,871,512 | 11.96 | |
| Passive, large cap | 68,070,965 | 111,415 | - | 68,182,380 | 10.47 | |
| Hedge-long/short | 62,115,644 | - | - | 62,115,644 | <u>4.86</u> | |
| | | | | | <u>40.41</u> | 45.0% |
| <u>INTERNATIONAL STOCK</u> | | | | | | |
| Active, large cap | 78,827,036 | 841,783 | - | 79,668,819 | <u>12.24</u> | 10.0 |
| <u>FIXED INCOME</u> | | | | | | |
| Active | 66,420,038 | 2,715,189 | 342,672 | 69,477,899 | 10.67 | |
| Passive | 65,630,728 | 152,889 | - | 65,783,617 | 10.11 | |
| Hedge-low volatility | 31,626,614 | 1,534 | - | 31,628,148 | <u>9.54</u> | |
| | | | | | <u>30.32</u> | 25.0 |
| <u>COMMODITIES</u> | | | | | | |
| Commodities | 25,069,287 | - | - | 25,069,287 | 3.85 | 0.0 |
| <u>REAL ASSETS</u> | | | | | | |
| Real Estate | 56,545,231 | 1,854 | - | 56,547,085 | 8.69 | 15.0 |
| <u>PRIVATE EQUITY</u> | | | | | | |
| | 26,834,838 | 10 | - | 26,834,848 | 4.12 | 5.0 |
| <u>OTHER</u> | | | | | | |
| Oklahoma City judgments | <u>2,274,358</u> | <u>-</u> | <u>116,209</u> | <u>2,390,567</u> | <u>0.37</u> | <u>0.0</u> |
| | <u>\$643,752,123</u> | <u>\$6,641,787</u> | <u>\$598,544</u> | <u>650,992,454</u> | <u>100.00%</u> | <u>100.0%</u> |

INTEREST AND DIVIDEND INCOME

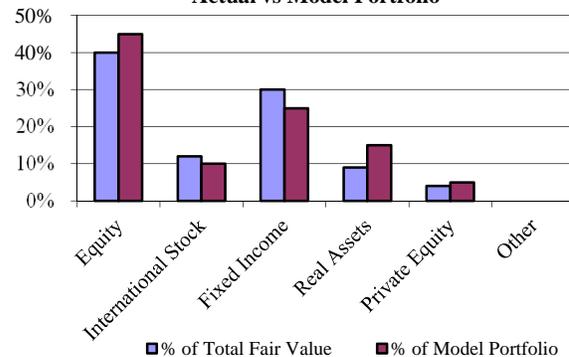
| | |
|--------------|-----------------------------|
| Equities | (139,663) |
| Fixed Income | (342,672) |
| Judgments | (116,209) |
| | <u>\$650,393,910</u> |

(1) For purposes of portfolio evaluation by consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of plan net position. Accrued income and cash equivalent positions are included. See the investment summary for a reconciliation of this presentation to the statement of net position presentation.

Asset Allocation by Class



Actual vs Model Portfolio



LARGEST HOLDINGS (1)
June 30, 2016

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

10 Largest Stock Holdings (by fair value)

| <u>Shares</u> | <u>Stock</u> | <u>Fair Value</u> |
|---------------|-----------------------------------|-------------------|
| 30,071 | Centene Corporation | \$2,146,167 |
| 31,110 | Republic Services, Inc. | 1,596,254 |
| 16,400 | Apple, Inc. | 1,567,840 |
| 21,660 | Global Payments, Inc. | 1,546,091 |
| 22,411 | Huntington Ingalls Industry, Inc. | 1,474,824 |
| 8,960 | Snap on, Inc. | 1,414,067 |
| 11,890 | SBA Communications Corp. | 1,283,407 |
| 11,820 | Intuit | 1,265,700 |
| 40,147 | D R Horton, Inc. | 1,256,052 |
| 10,555 | Valspar Corp. | 1,140,257 |

10 Largest Fixed Income Holdings (by fair value)

| <u>Par</u> | <u>Bonds</u> | <u>Rate</u> | <u>Maturity</u> | <u>Fair Value</u> |
|-------------|---------------------------------------|-------------|-----------------|-------------------|
| \$2,700,000 | United States Treasury Bonds | 2.875% | 5/15/2043 | \$3,036,123 |
| 2,200,000 | United States Treasury Bonds | 2.750 | 11/15/2042 | 2,420,176 |
| 1,700,000 | Federal National Mortgage Association | 4.000 | 30 Yr July | 1,822,672 |
| 1,700,000 | Federal National Mortgage Association | 4.000 | 30 Yr July | 1,822,672 |
| 1,540,000 | United States Treasury Notes | 1.375 | 6/30/2023 | 1,547,946 |
| 900,000 | Federal National Mortgage Association | 4.000 | 30 Yr July | 964,944 |
| 900,000 | Federal National Mortgage Association | 4.000 | 30 Yr July | 964,944 |
| 900,000 | Federal National Mortgage Association | 4.000 | 30 Yr July | 964,944 |
| 883,604 | Federal National Mortgage Association | 4.000 | 2/1/2046 | 942,144 |
| 883,604 | Federal National Mortgage Association | 4.000 | 2/1/2046 | 942,414 |

(1) A complete list of portfolio holdings is available upon request.

(2) Mortgage backed securities.

SCHEDULE OF FEES AND COMMISSIONS
June 30, 2016
INVESTMENT MANAGEMENT FEES

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

| | <u>Fair Value of Holdings (1)</u> | <u>Cash Equivalents</u> | <u>Accrued Income</u> | <u>Total Assets under Management</u> | <u>Fees</u> |
|--|---------------------------------------|-----------------------------|---------------------------|--|---------------------------|
| <u>EQUITY MANAGERS</u> | | | | | |
| <u>ACTIVE</u> | | | | | |
| Timesquare Capital Management, LLC New York, NY | \$39,527,646 | \$1,029,123 | \$7,841 | \$40,564,610 | \$401,733 |
| Earnest Partners; Atlanta, GA | 43,445,942 | 1,363,812 | 48,284 | 44,858,038 | 327,493 |
| Enhanced Investment Technologies, LLC; Palm Beach Gardens, FL | 77,363,796 | 424,178 | 83,538 | 77,871,512 | 328,782 |
| <u>PASSIVE</u> | | | | | |
| State Street Global Advisors; Boston, MA | 68,070,965 | 111,415 | - | 68,182,380 | 31,368 |
| <u>HEDGE</u> | | | | | |
| K2 Advisors; Stanford, CT (2) | 62,115,644 | - | - | 62,115,644 | - |
| <u>INTERNATIONAL INVESTMENT MANAGERS</u> | | | | | |
| <u>ACTIVE</u> | | | | | |
| Lazard International Strategic, New York, NY (2) | 27,510,137 | 17 | - | 27,510,154 | - |
| Harding Loevner; Bridgewater, NJ (2) | 23,732,737 | 841,759 | - | 24,574,496 | - |
| Vontobel Asset Management; New York, NY (2) | 19,662,918 | 7 | - | 19,662,925 | - |
| Wasatch Advisors; Salt Lake City, UT (2) | 7,921,244 | - | - | 7,921,244 | - |
| <u>FIXED INCOME MANAGERS</u> | | | | | |
| <u>ACTIVE</u> | | | | | |
| Western Asset Management; Pasadena, CA | 66,420,038 | 2,715,189 | 342,672 | 69,477,899 | 162,693 |
| <u>PASSIVE</u> | | | | | |
| State Street Global Advisors; Boston, MA | 21,282,256 | 152,889 | - | 21,435,145 | 6,880 |
| Brandywine Global Investment Management, LLC Philadelphia, PA | 44,348,472 | - | - | 44,348,472 | 189,477 |
| <u>HEDGE</u> | | | | | |
| Pacific Hedged Strategies LLC; New York, NY (2) | 31,626,614 | 1,534 | - | 31,628,148 | - |
| <u>COMMODITIES</u> | | | | | |
| Commodities | 25,069,287 | - | - | 25,069,287 | - |
| <u>REAL ESTATE</u> | | | | | |
| Morgan Stanley Prime Property Fund; New York, NY (2) | 51,387,741 | 1,854 | - | 51,389,595 | - |
| TA Associates Realty; Boston, MA | 5,157,490 | - | - | 5,157,490 | - |
| <u>PRIVATE EQUITY</u> | | | | | |
| Siguler Guff; New York, NY (2) | 26,834,838 | 10 | - | 26,834,848 | - |
| <u>OTHER</u> | | | | | |
| Oklahoma City Judgments | <u>2,274,358</u> | <u>-</u> | <u>116,209</u> | <u>2,390,567</u> | <u>-</u> |
| | <u>\$643,752,123</u> | <u>\$6,641,787</u> | <u>\$598,544</u> | 650,992,454 | <u>\$1,448,426</u> |
| <u>INTEREST AND DIVIDEND INCOME</u> | | | | | |
| Equities | | | | (139,663) | |
| Fixed Income | | | | (342,672) | |
| Judgments | | | | (116,209) | |
| | | | | <u>\$650,393,910</u> | |

- (1) For purposes of portfolio evaluation by the consultant and to follow the investment policy guidelines, the investment categorization on this schedule does not tie to the statements of fiduciary net assets. Interest income, dividend income and money market positions are included as shown above. See the investment summary for a reconciliation of this presentation to the statement of fiduciary net assets presentation.
- (2) Fees are netted with earnings for each respective fund.

SCHEDULE OF FEES AND COMMISSIONS
June 30, 2016

OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM

OTHER INVESTMENT SERVICE FEES

| | |
|----------------------------|------------------|
| Custodial Fees | <u>\$128,067</u> |
| Investment Consultant Fees | <u>\$117,500</u> |

BROKER COMMISSION (1)

| <u>Broker</u> | <u>Shares</u> | <u>Commission Expense</u> | <u>Average Cost/Share</u> |
|--------------------------------|-------------------------|-------------------------------|-------------------------------|
| Bear Stearns & Co Inc | 262,324 | \$5,739 | 0.021877526 |
| Credit Suisse Securities | 162,900 | 3,828 | 0.023499079 |
| Bernstein, Sanford & Company | 179,786 | 3,500 | 0.019467589 |
| Instinet Corporation | 186,569 | 3,230 | 0.017312630 |
| Knight Equity Markets L.P. | 74,400 | 2,623 | 0.035255376 |
| UBS Securities LLC | 111,156 | 2,192 | 0.019720033 |
| Rosenblatt Securities | 109,300 | 2,148 | 0.019652333 |
| Jefferies & Co. Inc | 89,413 | 2,148 | 0.024023352 |
| Deutsche Banc Securities Inc | 63,690 | 1,879 | 0.029502277 |
| Cap Institutional Services Inc | 104,711 | 1,768 | 0.016884568 |
| Cowen & Co LLC | 33,900 | 1,645 | 0.048525074 |
| Robert W. Baird & Co. | 31,158 | 1,458 | 0.046793761 |
| First Union Capital Markets | 28,300 | 1,415 | 0.050000000 |
| Convergex LLC | 36,375 | 1,273 | 0.034996564 |
| Barclays Capital LE | 25,653 | 1,264 | 0.049272990 |
| Guzman & Company | 60,226 | 1,237 | 0.020539302 |
| RBC Capital Markets Corp | 38,700 | 1,208 | 0.031214470 |
| Oppenheimer & Co Inc. | 23,308 | 1,162 | 0.049854127 |
| Century Securities | 24,476 | 1,084 | 0.044288282 |
| All others \$1,000 or less | <u>320,383</u> | <u>10,938</u> | 0.034140388 |
| | <u>1,966,728</u> | <u>\$51,739</u> | |

- (1) The commissions are included in the net appreciation (depreciation) amounts reported in the financial statements.

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Actuarial



October 10, 2016

The Board of Trustees
Oklahoma City Employee Retirement System
420 W. Main St., Suite 343
Oklahoma City, Oklahoma 73102

Dear Board Members:

The basic financial objective of the Oklahoma City Employee Retirement System (OCERS) is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Oklahoma City citizens, and when combined with present assets and future investment return will be sufficient to meet the financial obligations of the System to present and future benefit recipients.

The purpose of the valuation was to determine contribution rates for the 2017-2018 fiscal year and to provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements. The valuation should not be relied upon for any other purpose. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund the unfunded actuarial accrued liabilities as a level percent of active member payroll over a finite period. The valuation was completed based upon population data, asset data, and plan provisions in effect on December 31, 2015.

The valuation was based upon information, furnished by the plan's administrative staff, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. We checked the data for internal and year to year consistency, but did not audit the data. As a result, we do not assume responsibility for the accuracy or completeness of the data provided.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

- Solvency Test-Schedule of Funding Progress
- Summary of Benefit Provisions Evaluated or Considered
- Schedule of Retirants and Beneficiaries as of the Valuation Date
- Schedule of Active and Inactive Member Valuation Data
- Summary of Actuarial Assumptions and Methods
- Analysis of Financial Experience – Derivation of Experience Gain (Loss) for Valuation
Years 2011-2015
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funding Progress
- Schedule of Employer Contributions
- Notes to Supplementary Information

Assets are valued on a market related basis that recognizes a portion of each year's investment gain or loss over a closed four-year period.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

The December 31, 2015 valuation was based upon assumptions that were recommended in connection with a 2013 study of System experience. Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, changes in plan provisions, actuarial assumptions/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

Based upon the results of the December 31, 2015 valuation, we are pleased to report to the Board that the Retirement System is meeting its basic financial objective and continues to operate in accordance with actuarial principles of level percent of payroll financing. All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. The signing actuaries are independent of the plan sponsor. Louise Gates and Mark Buis are Members of the American Academy of Actuaries (MAAA), and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



Louise M. Gates, ASA, MAAA



Mark Buis, FSA, MAAA

Enclosures

cc: Rena Hutton (Retirement System Administrator)

SOLVENCY TEST – SCHEDULE OF FUNDING PROGRESS
(DOLLAR AMOUNTS IN THOUSANDS)

| Accrued Liabilities (AL) | | | | | | | | | |
|--------------------------|----------------------------|--|---|------------|-----------------------|---|-------|-------|---------|
| Valuation Date | (1) Member Contribs. | (2) Retirants and Beneficiaries | (3) Active & Inactive Members (Employer Financed Portion) | Total AL | Assets ⁽¹⁾ | Portion of Liabilities Covered by Assets | | | |
| | | | | | | (1) | (2) | (3) | Overall |
| 12/31/96 | \$33,507 | \$ 72,225 | \$ 75,504 | \$ 181,236 | \$ 185,368 | 100 % | 100 % | 105 % | 102 % |
| 12/31/97 | 35,654 | 76,275 | 107,169 | 219,098 | 219,602 | 100 | 100 | 100 | 100 |
| 12/31/98 | 37,900 | 82,258 | 118,498 | 238,656 | 260,877 | 100 | 100 | 119 | 109 |
| 12/31/99 | 39,866 | 85,724 | 120,316 | 245,906 | 307,872 | 100 | 100 | 152 | 125 |
| 12/31/00 | 41,550 | 100,936 | 180,814 | 323,300 | 350,398 | 100 | 100 | 115 | 108 |
| 12/31/01 | 42,226 | 116,552 | 185,819 | 344,597 | 372,737 | 100 | 100 | 115 | 108 |
| 12/31/02 | 44,368 | 128,120 | 200,072 | 372,560 | 375,382 | 100 | 100 | 101 | 101 |
| 12/31/03 | 46,654 | 136,873 | 207,496 | 391,023 | 374,192 | 100 | 100 | 92 | 96 |
| 12/31/04 | 48,487 | 150,664 | 216,013 | 415,164 | 381,495 | 100 | 100 | 84 | 92 |
| 12/31/05 | 54,239 | 169,752 | 212,913 | 436,904 | 424,182 | 100 | 100 | 94 | 97 |
| 12/31/06 | 55,557 | 187,693 | 214,297 | 457,547 | 476,913 | 100 | 100 | 109 | 104 |
| 12/31/07 | 60,118 | 204,470 | 224,239 | 488,827 | 529,876 | 100 | 100 | 118 | 108 |
| 12/31/08 | 62,128 | 221,456 | 235,650 | 519,234 | 528,664 | 100 | 100 | 104 | 102 |
| 12/31/09 | 65,106 | 237,302 | 254,019 | 556,427 | 529,137 | 100 | 100 | 89 | 95 |
| 12/31/10 | 64,922 | 267,120 | 234,792 | 566,834 | 524,731 | 100 | 100 | 82 | 93 |
| 12/31/11 | 67,324 | 252,166 | 214,229 | 533,719 | 514,499 | 100 | 100 | 91 | 96 |
| 12/31/12 | 69,987 | 257,057 | 226,544 | 553,588 | 547,686 | 100 | 100 | 97 | 99 |
| 12/31/13 | 72,209 | 281,206 | 228,451 | 581,866 | 589,527 | 100 | 100 | 103 | 101 |
| 12/31/14 | 74,142 | 297,061 | 236,092 | 607,295 | 628,686 | 100 | 100 | 109 | 104 |
| 12/31/15 | 74,832 | 320,443 | 238,710 | 633,985 | 665,077 | 100 | 100 | 113 | 105 |

(1) Beginning with 12/31/97, funding value of assets is shown.

SUMMARY OF BENEFIT PROVISIONS EVALUATED OR CONSIDERED

(DECEMBER 31, 2015)

Regular Retirement (no reduction factor for age)

Eligibility - Pre 3-1-67 hires: Age 60 with 20 years of service; or, any age with 30 years of service.

Post 3-1-67 hires: Age 65 with 5 years of service; or, any age with 25 years of service.

Annual Amount - Normal retirement benefit: 2% of average final compensation for all years and complete months of service, to a maximum of 100% of AFC.

Average Final Compensation (AFC) - Average earned compensation (excluding compensation for unused vacation and sick leave) during highest 36 months of service out of the last 60 consecutive months of service.

Early Retirement (reduction factor for age)

Eligibility - Age 55 with 5 years of service.

Annual Amount - Same as regular retirement amount but reduced 4% for each full year or portion of a year that payments commence prior to age 65 (age 60 if hired prior to 3-1-67).

Deferred Retirement (vested benefit)

Eligibility - 5 years of service. Benefit begins at age 65 (age 60 if hired prior to 3-1-67) or at age 55 on a reduced basis.

Annual Amount - Same as regular retirement based on service and average final compensation at time of termination.

Duty Disability Retirement

Eligibility - No age or service requirements.

Annual Amount - 40% of average final compensation, reduced if degree of disability is less than total disability.

Non-Duty Disability Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - 2% of average final compensation for each full year of service, plus 1/12 of 2% for each full month of service due to a partial year of service to a maximum of 40% of AFC. Amount is reduced if degree of disability is less than total disability.

SUMMARY OF BENEFIT PROVISIONS EVALUATED OR CONSIDERED

(DECEMBER 31, 2015)

Duty Death Before Retirement

Eligibility - No age or service requirements.

Annual Amount - 20% of average final compensation to an eligible spouse. Payments cease upon death. If there is no eligible spouse, accumulated employee contributions are paid to designated beneficiary. For members eligible under age and service conditions, the benefit is the amount the spouse would have received as a joint annuitant under normal or early retirement conditions.

Non-Duty Death Before Retirement

Eligibility - Any age with 15 years of service.

Annual Amount - Same as duty death.

Post-Retirement Adjustments

Pensions may be adjusted annually (in January) for changes in the Consumer Price Index. Maximum adjustment is 2% per year compounded. The first adjustment is made one year following retirement for those age 65 (60 for pre 3-1-67 hires) or those awarded disability allowances. For all others, the first adjustment is made no earlier than 4 years following retirement.

Post-Retirement Death Benefit

Eligibility – Retiree currently collecting pension benefits from the System.

Amount – A one-time payment of \$5,000 payable upon the death of the retiree. This benefit is payable only upon the death of the retiree, and is payable to the designated beneficiary.

Member Contributions

6% of annual pay.

Employer Contributions

7% of annual payroll effective March 2, 2001 – December 31, 2005.

The actuarially determined contribution rate (up to a maximum of 10% of pay) effective January 1, 2006.

Partial Lump Sum Payment Option

Members who are eligible for Regular Retirement may elect this optional form of payment, which allows for cash at retirement of up to \$30,000. Any remaining monthly retirement benefit is reduced actuarially to reflect the payment of cash at retirement.

**SCHEDULE OF RETIRANTS AND BENEFICIARIES
AS OF THE VALUATION DATE**

| Valuation Date Dec. 31 | No. of Pension Recipients | | | | Total Annual Pensions ⁽²⁾ | % of Payroll | Average Annual Pension | % Incr. in Total Pensions |
|------------------------------|---------------------------|------------|----------|-------|--|-----------------|------------------------------|---------------------------------|
| | Service | Disability | Survivor | Total | | | | |
| 1996 | 634 | 55 | 195 | 884 | \$ 6,507,720 | 9.2 % | \$ 7,362 | 6.1 % |
| 1997 | 634 | 54 | 200 | 888 | 6,818,103 | 9.1 | 7,678 | 4.8 |
| 1998 | 633 | 56 | 202 | 891 | 7,134,692 | 9.0 | 8,008 | 4.6 |
| 1999 | 643 | 56 | 202 | 901 | 7,470,215 | 9.2 | 8,291 | 4.7 |
| 2000 ⁽¹⁾ | 646 | 61 | 203 | 910 | 9,188,323 | 11.4 | 10,097 | 23.0 |
| 2001 | 694 | 63 | 205 | 962 | 10,386,513 | 12.4 | 10,797 | 13.0 |
| 2002 | 725 | 65 | 210 | 1,000 | 11,261,772 | 13.0 | 11,262 | 8.4 |
| 2003 | 731 | 68 | 207 | 1,006 | 11,972,938 | 14.0 | 11,902 | 6.3 |
| 2004 | 773 | 66 | 207 | 1,046 | 13,038,432 | 14.7 | 12,465 | 8.9 |
| 2005 | 796 | 67 | 213 | 1,076 | 14,355,655 | 15.7 | 13,342 | 10.1 |
| 2006 | 823 | 69 | 221 | 1,113 | 15,766,306 | 16.5 | 14,166 | 9.8 |
| 2007 | 854 | 66 | 233 | 1,153 | 17,117,037 | 17.2 | 14,846 | 8.6 |
| 2008 | 894 | 59 | 225 | 1,178 | 18,459,873 | 17.5 | 15,671 | 7.8 |
| 2009 | 936 | 56 | 226 | 1,218 | 19,673,159 | 17.8 | 16,152 | 6.6 |
| 2010 | 995 | 59 | 229 | 1,283 | 21,945,667 | 21.3 | 17,105 | 11.6 |
| 2011 | 1,018 | 56 | 225 | 1,299 | 22,946,844 | 21.0 | 17,665 | 4.6 |
| 2012 | 1,030 | 55 | 239 | 1,324 | 23,757,916 | 20.7 | 17,944 | 3.5 |
| 2013 | 1,062 | 54 | 229 | 1,345 | 25,047,506 | 21.0 | 18,623 | 5.4 |
| 2014 | 1,101 | 55 | 224 | 1,380 | 26,599,897 | 21.4 | 19,275 | 6.2 |
| 2015 | 1,144 | 55 | 223 | 1,422 | 28,481,665 | 22.2 | 20,029 | 7.1 |

(1) Reflects a one-time increase resulting from purchasing power study.

(2) Annual pension amounts shown above are reported to the actuary by the City and reflect annual pension payments as of the indicated valuation date.

SCHEDULE OF ACTIVE AND INACTIVE MEMBER VALUATION DATA

| Valuation Date Dec. 31 | Number of | | Annual Payroll ⁽¹⁾ | Active Member Averages | | | Ratio of Active to Retired Members | % Increase/ (Decrease) in Avg Pay |
|------------------------------|-------------------|---------------------|----------------------------------|------------------------|-----------|----------|--|---|
| | Active Members | Inactive Members | | Age | Service | Pay | | |
| 1995 | 2,428 | 16 | \$69,754 | 42.2 yrs. | 10.5 yrs. | \$28,729 | 2.8 | 2.1 % |
| 1996 | 2,401 | 17 | 70,972 | 42.8 | 10.9 | 29,559 | 2.7 | 2.9 |
| 1997 | 2,418 | 19 | 74,752 | 43.3 | 11.1 | 30,908 | 2.7 | 4.6 |
| 1998 | 2,404 | 25 | 79,195 | 43.7 | 11.6 | 32,929 | 2.7 | 6.5 |
| 1999 | 2,453 | 36 | 80,897 | 43.8 | 11.6 | 32,979 | 2.7 | 0.2 |
| 2000 | 2,454 | 41 | 80,503 | 44.0 | 11.6 | 32,805 | 2.7 | (0.5) |
| 2001 | 2,454 | 49 | 83,862 | 44.0 | 11.4 | 34,174 | 2.6 | 4.2 |
| 2002 | 2,374 | 55 | 86,428 | 44.5 | 11.7 | 36,406 | 2.4 | 6.5 |
| 2003 | 2,290 | 61 | 85,666 | 45.2 | 12.3 | 37,409 | 2.3 | 2.8 |
| 2004 | 2,302 | 54 | 88,866 | 45.2 | 12.3 | 38,604 | 2.2 | 3.2 |
| 2005 | 2,312 | 58 | 91,641 | 45.5 | 12.3 | 39,637 | 2.1 | 2.7 |
| 2006 | 2,353 | 62 | 95,504 | 45.5 | 12.1 | 40,588 | 2.1 | 2.4 |
| 2007 | 2,380 | 66 | 99,574 | 45.5 | 12.0 | 41,838 | 2.1 | 3.1 |
| 2008 | 2,422 | 71 | 105,566 | 45.8 | 11.9 | 43,586 | 2.1 | 4.2 |
| 2009 | 2,380 | 73 | 110,408 | 46.3 | 12.3 | 46,390 | 2 | 6.4 |
| 2010 | 2,304 | 81 | 102,915 | 46.4 | 12.3 | 44,668 | 1.8 | (3.7) |
| 2011 | 2,398 | 75 | 109,293 | 46.3 | 12.1 | 45,577 | 1.8 | 2.0 |
| 2012 | 2,459 | 83 | 114,933 | 46.4 | 12.0 | 46,740 | 1.9 | 2.6 |
| 2013 | 2,487 | 82 | 119,457 | 46.4 | 11.9 | 48,032 | 1.8 | 2.8 |
| 2014 | 2,500 | 82 | 124,142 | 46.5 | 11.9 | 49,657 | 1.8 | 3.4 |
| 2015 | 2,586 | 89 | 128,499 | 46.5 | 11.3 | 49,690 | 1.8 | 0.1 |

(1) In thousands of dollars.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Cost Method. The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the individual entry-age actuarial cost method and has the following characteristics.

- (i) The annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's pension at time of retirement.
- (ii) Each annual normal cost is a constant percentage of the member's year by year projected compensation.

The entry-age actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation between the entry age of the member and the assumed exit ages.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting System assets from the actuarial accrued liability determines the unfunded actuarial accrued liability.

Experience Gains and Losses. Experience gains and losses are the difference between actual experience and the experience anticipated by the actuarial assumptions during the period between two actuarial valuation dates. The recognition of gains and losses is based on the provisions of the Retirement System ordinance.

Asset Valuation Method. The funding value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased-in over a closed 4-year period. During periods when investment performance exceeds the assumed rate, funding value of assets will tend to be lower than market value. During periods when investment performance is less than the assumed rate, funding value of assets will tend to be greater than market value. The funding value of assets is unbiased with respect to market value. At any time it may be either greater or less than market value. If assumed rates are exactly realized for 4 consecutive years, it will become equal to market value.

The actuarial assumptions were based upon the results of an experience study for the System covering the period January 1, 2008 through December 31, 2012. A report dated December 4, 2013 presented the results of the experience study. The actuarial assumptions represent estimates of future experience.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Investment Return (net of expenses).

The rate of investment return assumed in the valuation was seven and one-half percent (7.5%) per year, compounded annually net of investment and administrative expenses. The assumed real rate of return over wage inflation is 3.75% per year.

Wage Inflation.

The wage inflation rate assumed in this valuation was 3.75% per year. The wage inflation rate is defined to be the portion of total pay increases for an individual that are due to macroeconomic forces including productivity, price inflation, and labor market conditions. The wage inflation rate does not include pay changes rated to individual merit and seniority effects.

Salary Increase Rates.

These assumptions are used to project current pays to those which will determine average final compensation.

| Sample Years of Service | Annual Rate of Merit and Longevity |
|--|---|
| 1 | 3.50 % |
| 2 | 3.50 |
| 3 | 3.50 |
| 4 | 3.50 |
| 5 | 3.50 |
| 6 | 3.50 |
| 7 | 3.50 |
| 8 | 3.50 |
| 9 | 3.50 |
| 10 | 3.50 |
| 11 | 3.50 |
| 12 | 3.50 |
| 13 | 3.50 |
| 14 | 3.00 |
| 15+ | 0.00 |

The active member population is assumed to remain constant. For purposes of financing the unfunded liabilities, total payroll is assumed to grow at a rate of 3.75% per year.

Price inflation.

The assumed rate of price inflation used in this valuation was 3.00% per year.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Mortality Table: The mortality assumption is used to measure the probabilities of a member dying before retirement and the probability of each benefit payment being made. The RP 2000 mortality table projected to 2010 was used in this valuation of the System. Sample statistics are shown below. This table was first used in the December, 31, 2013 valuation.

| Sample Ages | Value at Retirement of \$1 Monthly for Life | | Future Life Expectancy (Years) | |
|----------------|--|----------|-----------------------------------|-------|
| | Men | Women | Men | Women |
| 50 | \$145.07 | \$147.77 | 31.81 | 34.12 |
| 55 | 137.01 | 140.54 | 27.13 | 29.40 |
| 60 | 126.76 | 131.37 | 22.62 | 24.85 |
| 65 | 114.46 | 120.37 | 18.40 | 20.57 |
| 70 | 100.44 | 107.75 | 14.56 | 16.65 |
| 75 | 84.54 | 93.62 | 11.08 | 13.11 |
| 80 | 67.75 | 78.15 | 8.09 | 9.96 |

Rates of Retirement: Rates of retirement are used to measure the probabilities of an eligible member retiring during the next year, and are summarized below. These rates were first used for the December 31, 2013 valuation.

| Age of Member | Percent of Eligible Members Retiring During Next Year | Years of Service | Percent Retiring |
|------------------|--|---------------------|---------------------|
| 55 | 6% | 25 | 15% |
| 56 | 6 | 26 | 10 |
| 57 | 6 | 27 | 10 |
| 58 | 6 | 28 | 10 |
| 59 | 6 | 29 | 10 |
| 60 | 6 | 30 | 10 |
| 61 | 6 | 31 | 10 |
| 62 | 6 | 32 | 10 |
| 63 | 6 | 33 | 10 |
| 64 | 6 | 34 | 10 |
| 65 | 40 | 35 | 10 |
| 66 | 25 | 36 | 10 |
| 67 | 25 | 37 | 10 |
| 68 | 30 | 38 | 10 |
| 69 | 40 | 39 | 10 |
| 70 | 100 | 40 | 20 |
| | | 41 | 10 |
| | | 42 | 20 |
| | | 43 | 10 |
| | | 44 | 10 |
| | | 45 | 100 |

The service based retirement rates were applied to those members first eligible to retire under "25 and out". The age based retirement rates were applied to members retiring under '65/5' or the Plan's early retirement condition.

The probability of retiring at age 70 was assumed to be 100% regardless of service.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Rates of Separation from Active Membership.

This assumption measures the probabilities of a member terminating employment. The rates do not apply to members who are eligible to retire

| <u>Sample Ages</u> | <u>Years of Service</u> | <u>% of Active Members Separating within Next Year</u> |
|------------------------|-----------------------------|--|
| ALL | 0 | 25.00% |
| | 1 | 17.00 |
| | 2 | 12.00 |
| | 3 | 8.00 |
| | 4 | 6.00 |
| 25 | 5 & Over | 7.00 |
| 30 | | 6.00 |
| 35 | | 4.75 |
| 40 | | 3.50 |
| 45 | | 2.40 |
| 50 | | 1.50 |
| 55 | | 1.00 |
| 60 | | 1.00 |

Rates of Disability.

This assumption measures the probabilities of a member becoming disabled.

| <u>Age of Member</u> | <u>% of Active Members During Next Year</u> | |
|--------------------------|---|----------------|
| | <u>Males</u> | <u>Females</u> |
| 25 | 0.08% | 0.06% |
| 30 | 0.09 | 0.07 |
| 35 | 0.11 | 0.09 |
| 40 | 0.14 | 0.13 |
| 45 | 0.21 | 0.19 |
| 50 | 0.62 | 0.57 |
| 55 | 0.97 | 0.86 |
| 60 | 1.10 | 0.96 |

Disabled life mortality is measured by the RP 2000 mortality table projected to 2010 at time of disability.

Marriage Assumption. 80% of the population is assumed to be married for purposes of death-in-service benefits.

Forfeitures. All vested terminated members who terminate close to retirement were assumed to elect a deferred retirement while those terminating with less service were assumed to elect a refund of their contributions in lieu of deferred retirement benefits.

**ANALYSIS OF FINANCIAL EXPERIENCE
DERIVATION OF EXPERIENCE GAIN (LOSS)
FOR VALUATION YEARS 2011 - 2015**

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below, along with a year by year historic comparison.

| | Amounts Shown are Expressed in Thousands of Dollars | | | | |
|---|--|-------------|-------------|-------------|-------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| (1) UAAL* at start of year | \$ (21,391) | \$ (7,661) | \$ 5,902 | \$ 79,423 | \$ 42,103 |
| (2) Normal cost | 15,767 | 15,170 | 14,550 | 15,252 | 14,470 |
| (3) Actual member and employer contributions | 15,812 | 15,608 | 17,827 | 17,292 | 14,953 |
| (4) Interest accrual on (1), (2) and (3) | (1,606) | (591) | 320 | 6,272 | 3,349 |
| (5) Expected UAAL before changes: (1) + (2) - (3) + (4) | (23,042) | (8,690) | 2,945 | 83,655 | 44,969 |
| (6) Increase due to benefit/assumption changes | 7,149 | 0 | 3,568 | (65,947) | 0 |
| (7) Increase due to revised actuarial methods | 0 | 0 | 0 | 0 | 0 |
| (8) Expected UAAL after changes: (5) + (6) + (7) | (15,893) | (8,690) | 6,513 | 17,708 | 44,969 |
| (9) Actual UAAL at end of year | (31,092) | (21,391) | (7,661) | 5,902 | 79,423 |
| (10) Gain (loss): (8) - (9) | 15,199 | 12,701 | \$ 14,174 | \$ 11,806 | (34,454) |

* *Unfunded Actuarial Accrued Liability (UAAL).*

Note: Benefit changes were reflected in the 2012 gain/loss but adopted retroactively for the 2011 valuation.

A detailed analysis of gain or loss by source is not available for the years shown above.

**SCHEDULE OF
RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
COMPARATIVE STATEMENT**

| Year Ended Dec. 31 | Added to Rols ⁽²⁾ | | Removed from Rols | | Rolls End of Year | | | % Incr. in Benefits |
|-----------------------------------|-------------------------------------|---|------------------------------|----------------------------|--------------------------|----------------------------|---------------------------------|--------------------------------|
| | No. | Annual Benefits ⁽¹⁾ | No. | Annual Benefits | No. | Annual Benefits | Avg. Annual Benefits | |
| 2007 | 95 | \$1,989,651 | 55 | \$638,920 | 1,153 | \$ 17,117,037 | \$ 14,846 | 8.6 % |
| 2008 | 85 | 2,109,746 | 60 | 766,910 | 1,178 | 18,459,873 | 15,671 | 7.8 |
| 2009 | 86 | 1,905,592 | 46 | 692,306 | 1,218 | 19,673,159 | 16,152 | 6.6 |
| 2010 | 120 | 3,059,254 | 55 | 786,746 | 1,283 | 21,945,667 | 17,105 | 11.6 |
| 2011 | 70 | 1,778,917 | 54 | 777,740 | 1,299 | 22,946,844 | 17,665 | 4.6 |
| 2012 | 74 | 1,467,021 | 49 | 655,949 | 1,324 | 23,757,916 | 17,944 | 3.5 |
| 2013 | 86 | 2,215,300 | 65 | 925,710 | 1,345 | 25,047,506 | 18,623 | 5.4 |
| 2014 | 95 | 2,483,415 | 60 | 931,024 | 1,380 | 26,599,897 | 19,275 | 6.2 |
| 2015 | 102 | 2,868,873 | 60 | 987,105 | 1,422 | 28,481,665 | 20,029 | 7.1 |

(1) Includes post retirement cost-of-living adjustments.

(2) Includes reported data corrections.

SCHEDULE OF FUNDING PROGRESS⁽¹⁾

| Actuarial Valuation Date December 31, | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b)-(a) | Funded Ratio (a)/(b) | Active Member Covered Payroll (c) | UAAL as a Percentage of Active Member Covered Payroll ((b-a)/c) |
|--|--|---|--------------------------------------|----------------------------|---|---|
| 2005 # | \$424,182 | \$436,904 | \$ 12,722 | 97.1 % | \$ 91,641 | 13.9 % |
| 2006 | 476,913 | 457,547 | (19,366) | 104.2 | 95,504 | (20.3) |
| 2007 | 529,876 | 488,827 | (41,049) | 108.4 | 99,574 | (41.2) |
| 2008 | 528,664 | 519,234 | (9,430) | 101.8 | 105,566 | (8.9) |
| 2009 | 529,137 | 556,427 | 27,290 | 95.1 | 110,408 | 24.7 |
| 2010 | 524,731 | 566,834 | 42,103 | 92.6 | 102,915 | 40.9 |
| 2011 ^{*#} | 514,499 | 533,719 | 19,220 | 96.4 | 109,293 | 17.6 |
| 2012 | 547,686 | 553,588 | 5,902 | 98.9 | 114,933 | 5.1 |
| 2013 # | 589,527 | 581,866 | (7,661) | 101.3 | 119,457 | (6.4) |
| 2014 | 628,686 | 607,295 | (21,391) | 103.5 | 124,142 | (17.2) |
| 2015 # | 665,077 | 633,985 | (31,092) | 104.9 | 128,499 | (24.2) |

(1) Dollar amounts are in thousands.

Changes in methods and assumptions.

* Plan provision changes.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Valuation Date December 31, | Annual Required Contribution ⁽¹⁾ |
|-----------------------------------|---|
| 2006 | \$8,323,183 |
| 2007 | 7,019,982 |
| 2008 | 5,911,702 |
| 2009 | 5,564,582 |
| 2010 | 6,077,150 |
| 2011 | 8,377,304 |
| 2012 | 10,372,658 |
| 2013 | 9,938,793 |
| 2014 | 8,435,432 |
| 2015 | 7,915,510 |

(1) For the plan year ending on the valuation date.

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

| | |
|-----------------------------|--------------------------|
| Valuation Date | December 31, 2015 |
| Actuarial Cost Method | Individual Entry Age |
| Amortization Method | Level Percent of payroll |
| Amortization Period | 26 years closed |
| Asset Valuation Method | 4-year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return* | 7.5% |
| Projected Salary Increases* | 3.75% - 7.25% |
| *Includes Wage Inflation | 3.75% |
| Cost-of-Living Adjustments | Up to 2.0% per year |

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Statistical



This section of the Oklahoma City Employee Retirement System's (System) Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about overall financial health. This information has not been audited by the independent auditor.

Financial Trends

These schedules contain trend information to help the reader understand how the System's financial performance and well-being changed over time. The schedules include the schedule of changes in fiduciary net position for the last ten years.

Benefit Information

These schedules contain data to help the reader understand how the information in the System's financial report relates to the benefits provided to members. The schedules include the schedule of benefit and refund deductions from net position by type and the schedule of average benefit payments for the last ten years, as well as, the schedule of retired benefit type as of the actuarial date.

**SCHEDULE OF CHANGES
IN FIDUCIARY NET POSITION
Last Ten Fiscal Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| | Fiscal Year | | | | |
|--|------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| <u>ADDITIONS</u> | | | | | |
| Member contributions | \$7,562,163 | \$7,668,356 | \$7,421,749 | \$7,163,848 | \$6,284,934 |
| Employer contributions | 7,411,117 | 8,207,083 | 8,871,692 | 11,320,094 | 7,132,772 |
| As a percentage of covered payroll (1) | 5.88% | 6.44% | 7.15% | 9.49% | 8.56% |
| Investment income, net of expenses | (4,840,459) | 25,206,761 | 94,658,124 | 63,652,351 | 83,749,300 |
| Other revenues and transfers | 68,029 | 130,719 | 95,319 | 189,958 | 204,707 |
| Total additions | <u>10,200,850</u> | <u>41,212,919</u> | <u>111,046,884</u> | <u>82,326,251</u> | <u>97,371,713</u> |
| <u>DEDUCTIONS</u> | | | | | |
| Benefits | 29,712,236 | 27,913,256 | 26,311,079 | 24,827,093 | 23,286,808 |
| Refunds of contributions | 1,131,613 | 1,166,506 | 1,037,043 | 903,029 | 819,060 |
| Administrative expenses | 397,730 | 445,438 | 461,529 | 468,753 | 429,338 |
| Total deductions | <u>31,241,579</u> | <u>29,525,200</u> | <u>27,809,651</u> | <u>26,198,875</u> | <u>24,535,206</u> |
| Change in net position | <u>(\$21,040,729)</u> | <u>\$11,687,719</u> | <u>\$83,237,233</u> | <u>\$56,127,376</u> | <u>\$72,836,507</u> |

| | Fiscal Year | | | | |
|--|----------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| <u>ADDITIONS</u> | | | | | |
| Member contributions | \$6,455,918 | \$6,520,844 | \$6,163,902 | \$5,888,169 | \$5,649,836 |
| Employer contributions | 5,585,595 | 5,464,178 | 7,211,608 | 8,479,329 | 7,837,510 |
| As a percentage of covered payroll (1) | 6.77% | 5.04% | 6.16% | 7.94% | 7.12% |
| Investment income, net of expenses (2) | 43,651,980 | (84,311,983) | (18,921,048) | 67,632,169 | 32,771,726 |
| Other revenues and transfers | 459,817 | 500,973 | 541,652 | 196,654 | 158,718 |
| Total additions | <u>56,153,310</u> | <u>(71,825,988)</u> | <u>(5,003,886)</u> | <u>82,196,321</u> | <u>46,417,790</u> |
| <u>DEDUCTIONS</u> | | | | | |
| Benefits | 21,573,879 | 19,693,836 | 18,796,264 | 17,207,351 | 15,954,635 |
| Refunds of contributions | 921,698 | 996,700 | 850,590 | 730,076 | 770,019 |
| Administrative expenses | 390,512 | 429,296 | 381,455 | 446,968 | 480,628 |
| Total deductions | <u>22,886,089</u> | <u>21,119,832</u> | <u>20,028,309</u> | <u>18,384,395</u> | <u>17,205,282</u> |
| Change in net position | <u>\$33,267,221</u> | <u>(\$92,945,820)</u> | <u>(\$25,032,195)</u> | <u>\$63,811,926</u> | <u>\$29,212,508</u> |

- (1) Prior to July 1, 2008, the employer contribution rate changed in January 1 of each year. The policy was changed in 2009 to change the rate on July 1 of each year.
- (2) Investment income was significantly affected by declines in market values in 2009 and 2008 in conjunction with national economic recessions.
- (3) Due to a reduction in workforce, covered payroll decreased in fiscal year 2004 causing a reduction in member and employer contributions for that year.

**SCHEDULE OF BENEFIT AND REFUND
DEDUCTIONS FROM NET POSITION BY TYPE
Last Ten Calendar Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| Year <u>Ending (1)</u> | <u>Age & Service Benefits</u> | | <u>Disability Benefits Retirants</u> | | <u>Total Benefits (2)</u> | <u>Separation Refunds</u> |
|---------------------------|-----------------------------------|------------------|--------------------------------------|-----------------|---------------------------|---------------------------|
| | <u>Retirants</u> | <u>Survivors</u> | <u>Duty</u> | <u>Non-Duty</u> | | |
| 6/30/2016 | \$26,131,784 | \$2,781,979 | \$246,305 | \$402,168 | \$29,562,236 | \$1,131,613 |
| 12/31/2014 | 23,188,546 | 2,780,818 | 254,383 | 376,150 | 26,599,897 | 1,219,379 |
| 12/31/2013 | 21,704,920 | 2,741,337 | 258,581 | 342,668 | 25,047,506 | 1,070,270 |
| 12/31/2012 | 20,484,825 | 2,688,606 | 240,528 | 343,957 | 23,757,916 | 995,842 |
| 12/31/2011 | 19,868,406 | 2,473,567 | 246,933 | 357,938 | 22,946,844 | 1,099,826 |
| 12/31/2010 | 18,812,865 | 2,472,410 | 225,454 | 434,938 | 21,945,667 | 899,878 |
| 12/31/2009 | 16,753,895 | 2,322,037 | 219,526 | 341,310 | 19,636,768 | 947,693 |
| 12/31/2008 | 15,698,808 | 2,166,615 | 235,047 | 359,403 | 18,459,873 | 807,503 |
| 12/31/2007 | 14,363,581 | 2,110,784 | 242,636 | 400,036 | 17,117,037 | 587,439 |
| 12/31/2006 | 13,167,750 | 1,941,098 | 259,535 | 397,923 | 15,766,306 | 982,008 |

- (1) Beginning in 2016, information is presented on a fiscal year basis. In years prior to 2016, calendar year has been used to correspond with the actuarial analysis and will not tie to the financial statements.
(2) Total benefits does not include death benefits.

**SCHEDULE OF RETIRED
MEMBERS BY BENEFIT TYPE
As of December 31, 2015**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| <u>Amount of Monthly Benefit</u> | <u>Number of Retirants</u> | <u>Type of Retirements (1)</u> | | | | | | <u>Life</u> | <u>Death Benefit</u> | <u>Option Selected (2)</u> | | |
|----------------------------------|----------------------------|--------------------------------|-------------------|-------------------|------------------|------------------|------------------|-------------------|----------------------|----------------------------|-------------------|-------------------|
| | | <u>1</u> | <u>2</u> | <u>3</u> | <u>4</u> | <u>5</u> | <u>6</u> | | | <u>Opt. 1</u> | <u>Opt. 2</u> | <u>Opt. 3</u> |
| Deferred | 89 | - | - | - | - | - | - | - | - | - | - | - |
| \$1-250 | 22 | 4 | 7 | 7 | 1 | 3 | - | 9 | - | 7 | - | 6 |
| 251-500 | 108 | 23 | 46 | 24 | 4 | 8 | 3 | 53 | 2 | 27 | 4 | 22 |
| 501-750 | 155 | 38 | 55 | 44 | 13 | 3 | 2 | 60 | 8 | 40 | 10 | 37 |
| 751-1,000 | 151 | 45 | 53 | 29 | 13 | 6 | 5 | 62 | 9 | 32 | 13 | 35 |
| 1,001-1,250 | 140 | 46 | 55 | 24 | 4 | 3 | 8 | 73 | 1 | 34 | 9 | 23 |
| 1,251-1,500 | 108 | 59 | 27 | 16 | - | 1 | 5 | 45 | - | 33 | 10 | 20 |
| 1,501-1,750 | 156 | 112 | 23 | 13 | 3 | 3 | 2 | 68 | - | 41 | 20 | 27 |
| 1,751-2,000 | 105 | 91 | 7 | 6 | - | - | 1 | 41 | - | 30 | 12 | 22 |
| Over 2,000 | <u>477</u> | <u>441</u> | <u>12</u> | <u>15</u> | <u>7</u> | <u>-</u> | <u>2</u> | <u>218</u> | <u>-</u> | <u>125</u> | <u>44</u> | <u>90</u> |
| | <u>1,511</u> | <u>859</u> | <u>285</u> | <u>178</u> | <u>45</u> | <u>27</u> | <u>28</u> | <u>629</u> | <u>20</u> | <u>369</u> | <u>122</u> | <u>282</u> |

- (1) Type of Retirement
1 - Normal retirement for age and service
2 - Early retirement
3 - Survivor payments – death after retirement
4 - Survivor payments - death in service
5 - Duty disability retirement
6 - Non-duty disability retirement
- (2) Option Selected
Life - Single life
Death Benefit - 20% of average final compensation
Opt. 1 - 100% of retiree’s benefit payable to survivor
Opt. 2 - 75% of retiree’s benefit payable to survivor
Opt. 3 - 50% of retiree’s benefit payable to survivor

**SCHEDULE OF AVERAGE
BENEFIT PAYMENTS (1)
Last Ten Calendar Years**

**OKLAHOMA CITY EMPLOYEE
RETIREMENT SYSTEM**

| | Years of Credited Service (2) | | | | | |
|----------------------------------|--------------------------------------|--------------|--------------|--------------|--------------|------------|
| | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ |
| Period 1/1/15 to 12/31/15 | | | | | | |
| Average Monthly Benefit | \$401 | \$1,103 | \$996 | \$1,717 | \$2,738 | \$3,554 |
| Final Average Salary | 3,507 | 4,888 | 3,602 | 4,386 | 5,562 | 5,493 |
| Number of Active Retirants | 7 | 3 | 12 | 6 | 30 | 25 |
| Period 1/1/14 to 12/31/14 | | | | | | |
| Average Monthly Benefit | \$319 | \$835 | \$1,010 | \$1,970 | \$2,422 | \$3,126 |
| Final Average Salary | 3,424 | 3,496 | 3,482 | 4,978 | 4,921 | 5,025 |
| Number of Active Retirants | 6 | 10 | 7 | 7 | 23 | 24 |
| Period 1/1/13 to 12/31/13 | | | | | | |
| Average Monthly Benefit | \$441 | \$958 | \$1,280 | \$1,734 | \$2,288 | \$3,470 |
| Final Average Salary | 3,649 | 4,295 | 4,516 | 4,747 | 4,888 | 5,223 |
| Number of Active Retirants | 6 | 10 | 7 | 10 | 20 | 15 |
| Period 1/1/12 to 12/31/12 | | | | | | |
| Average Monthly Benefit | \$709 | \$1,011 | \$1,730 | \$1,461 | \$2,284 | \$3,073 |
| Final Average Salary | 4,912 | 4,836 | 5,705 | 4,158 | 4,821 | 4,864 |
| Number of Active Retirants | 1 | 3 | 5 | 15 | 16 | 8 |
| Period 1/1/11 to 12/31/11 | | | | | | |
| Average Monthly Benefit | \$547 | \$1,227 | \$1,894 | \$2,405 | \$2,322 | \$3,230 |
| Final Average Salary | 4,607 | 4,094 | 6,646 | 6,568 | 4,572 | 4,844 |
| Number of Active Retirants | 7 | 3 | 4 | 4 | 18 | 13 |
| Period 1/1/10 to 12/31/10 | | | | | | |
| Average Monthly Benefit | \$562 | \$646 | \$1,235 | \$1,732 | \$2,182 | \$2,996 |
| Final Average Salary | 3,909 | 3,269 | 4,387 | 4,741 | 4,588 | 4,853 |
| Number of Active Retirants | 2 | 9 | 7 | 8 | 42 | 24 |
| Period 1/1/09 to 12/31/09 | | | | | | |
| Average Monthly Benefit | \$328 | \$795 | \$1,095 | \$1,711 | \$1,933 | \$2,891 |
| Final Average Salary | 2,415 | 3,468 | 3,538 | 4,778 | 4,091 | 4,775 |
| Number of Active Retirants | 2 | 6 | 10 | 6 | 25 | 20 |
| Period 1/1/08 to 12/31/08 | | | | | | |
| Average Monthly Benefit | \$431 | \$616 | \$983 | \$1,380 | \$2,084 | \$3,006 |
| Final Average Salary | 3,589 | 3,018 | 3,600 | 4,071 | 4,374 | 4,672 |
| Number of Active Retirants | 6 | 5 | 11 | 7 | 31 | 8 |
| Period 1/1/07 to 12/31/07 | | | | | | |
| Average Monthly Benefit | \$326 | \$993 | \$1,253 | \$1,625 | \$1,943 | \$2,477 |
| Final Average Salary | 2,314 | 3,935 | 4,328 | 4,612 | 4,031 | 4,033 |
| Number of Active Retirants | 3 | 4 | 10 | 5 | 31 | 13 |
| Period 1/1/06 to 12/31/06 | | | | | | |
| Average Monthly Benefit | \$414 | \$860 | \$1,124 | \$1,524 | \$1,809 | \$3,812 |
| Final Average Salary | 3,548 | 3,742 | 3,953 | 4,029 | 3,756 | 5,623 |
| Number of Active Retirants | 3 | 6 | 8 | 5 | 36 | 7 |

(1) Retirement Effective Dates 1/1/06 to 12/31/15

(2) No benefits are earned for 0-4 years of credited services.

Other



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Oklahoma City Employee Retirement System
Oklahoma City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma City Employee Retirement System (System) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

December 21, 2016
Wichita, Kansas