

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

We have audited the financial statements of the Seattle City Employees' Retirement System (SCERS) for the year ended December 31, 2015, and have issued our report thereon dated July 11, 2016. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCERS are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2015.

We noted no transactions entered into by SCERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the valuation of investments in private markets, including real estate, hedge fund and private equity investments and the total pension liability. Management relied on the use of outside specialists to help derive these estimates.

The actuarial valuations were based on the actuarial assumptions and methods adopted by the Board. In accordance with GASB 67, the total pension liability of SCERS was calculated as of December 31, 2015 using actuarial valuations as of December 31, 2014.

We evaluated the key factors and assumptions used to develop these estimates in determining that the estimates are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated July 11, 2016.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as SCERS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the additional information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the additional information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated July 11, 2016.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This information is intended solely for the use of the Board of Administration and management of SCERS and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
July 11, 2016

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
Seattle City Employees' Retirement System
Year Ended December 31, 2015

UNCORRECTED ADJUSTMENTS

Effect of misstatements on:

Description	Assets	Liabilities	Net Position	Change in Net Position
Adjustment to non-custodial investments to update valuations to December 31, 2015	\$ 3,426,869			\$ 3,426,869
Net current year misstatements (Iron Curtain Method)	3,426,869	-	-	3,426,869
Net prior year misstatements	-	-	-	-
Combined current and prior year misstatements (Rollover Method)	\$ 3,426,869	\$ -	\$ -	\$ 3,426,869
Financial statement totals	<u>\$ 2,376,106,987</u>	<u>\$ 63,085,824</u>	<u>\$ 2,313,021,163</u>	<u>\$ (9,682,532)</u>
Current year misstatement as a % of financial statement totals (Iron Curtain Method)	0.14%			-35.39%
Current and prior year misstatement as a % of financial statement totals (Rollover Method)	0.14%			-35.39%



July 11, 2016

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, MD 21093

This representation letter is provided in connection with your audits of the financial statements of the Seattle City Employees' Retirement System (the System), which comprise the respective financial position of the System as of December 31, 2015 and 2014, and the respective changes in financial position for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of July 11, 2016, the following representations made to you during your audit.

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated February 8, 2016, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- We acknowledge and have fulfilled our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions used in making those estimates, and we believe the estimates (including those measured at fair value) and the significant assumptions used in making those accounting estimates are reasonable.
- Related party relationships and transactions, including, but not limited to, revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

Seattle City Employees' Retirement System, Kenneth J. Nakatsu, Interim Executive Director
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www.seattle.gov/retirement retirecity@seattle.gov


- No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements. A list of the uncorrected misstatements is attached to the representation letter.
- We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
- Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
- We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- We believe the Plans and trusts established under the Plans are qualified under the appropriate section of the Seattle Municipal Code, and we intend to continue them as qualified plans and trusts.
- With respect to actuarial assumptions and valuations:
 - The System agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total pension liability and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instruction to be given to the System's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the System's actuary.
 - There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
 - There have been no changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - Additional information that you have requested from us for the purpose of the audit.
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts, or abuse whose effects should be considered when preparing financial statements.
- We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral, except as made known to you and disclosed in the financial statements.
- We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to the System and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets) or provisions of contracts whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- Investments, derivative instruments, and other real estate held are properly valued.
- The values of non-readily marketable investments represent good faith estimates of fair value determined by Management. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.

- Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- We acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

Signature:  Title: Interim Executive Director

Signature:  Title: Chief Finance/Operations Officer

SUMMARY OF UNCORRECTED MISSTATEMENTS - AUDIT
Seattle City Employees' Retirement System
Year Ended December 31, 2015

UNCORRECTED ADJUSTMENTS

Effect of misstatements on:

Description	Assets	Liabilities	Net Position	Change in Net Position
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COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

To the Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

In planning and performing our audit of the financial statements of the Seattle City Employees' Retirement System (SCERS) as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the SCERS' internal control over financial reporting (internal control) as a basis for designing 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 SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the SCERS' financial statements will not be prevented, or detected and corrected on a timely basis.

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

Other matters

During our audit, we became aware of other matters that are opportunities to strengthen your internal control and improve the efficiency of your operations. Our comments and suggestions regarding those matters are summarized below.

CENSUS DATA – PENSIONABLE SALARY

Due to payroll system limitations, the actuary was provided budgeted salary for employees of the City of Seattle instead of actual pensionable salaries for use in the actuarial funding valuation report which assists in determining the contribution rates of SCERS. Typically actual pensionable salary information by active member is provided to the actuary to assist in their analysis and calculations as budgets do not necessarily reflect actual results. Actual pensionable salaries were used in the calculation of the total pension liability that is disclosed in the financial statements. The impact from using the budgeted salaries did not have a significant impact on the calculation of the required contributions. However, to ensure the most accurate calculation of the

contributions, we recommend SCERS work with the actuary to verify they are providing them the most accurate and relevant salary information available.

Management's Response – *SCERS will work with our actuary to ensure that we are providing them with the data they require to do an accurate actuarial valuation. If a data set different than what we have provided in the past we will work with internal staff and external partners to obtain and deliver the data required.*

CENSUS DATA – SERVICE CREDITS

SCERS provides the actuary the member date field to calculate a member's accumulated service credit. This field is often difficult to maintain and is generally not used by pension systems for pension liability calculations because it does not incorporate gaps in service. In addition, we also identified member date fields in RIS-II that were not accurate or properly recorded per current SCERS procedures, which have changed over time. Based on discussions with the actuary and management, we determined that there is no significant impact to the financial statements as a result of this finding. To improve the accuracy of the census data, we recommend SCERS work to create a field calculating service credit based on actual payroll activity in order to provide the most accurate reporting in the census. In the interim, we recommend SCERS continue improving the data analytical procedures internally developed to identify and correct member date errors.

Management's Response – *Both in preparation for the Pension Administration System (PAS) project, and to improve our internal operations, SCERS is undertaking a data conversion effort that will result in an accurate assessment of the service credit for each non-retired member. In addition to streamlining the processing of member requests this data conversion will also eliminate the use of the member date field when calculating service credit.*

CENSUS DATA – MISSING MEMBERS

During our audit we matched 100% of the 2015 benefit payment and contribution data to the census data and identified three retirees and one active member that were improperly excluded from the census data. The impact on the actuarial valuation from these missing members was not significant, however, to ensure the most accurate census data is being provided to the actuary, we recommend SCERS compare and reconcile between the pension administration system and the actual activity recorded in the City of Seattle's payroll system.

Management's Response - *While the current method of extracting records from the database and validating it with our actuaries has been sufficient for the needs of the actuarial valuation, it does not reach the level of precision we are aiming for. The PAS project that SCERS is undertaking, specifically the data conversion and actuarial extract programming, will directly address this issue.*

NOTIFICATION OF MEMBER DEATH

SCERS receives notification of member deaths regularly from a national subscription service for all individuals actively receiving a benefit. We identified possible improvements in the notification of member death process. First, we recommend SCERS coordinate with the Washington Health Care Authority to receive data to compare to the SCERS' records to identify deaths timely. This additional source of death notification reporting would provide more complete information for residents of Washington than the current national subscription service. Secondly, we recommend SCERS incorporate vested terminated members and inactive beneficiaries into the review as the current subscription report only includes active benefit recipients. These additional procedures

could improve timely identification of deceased members which would enhance the collection efforts on overpaid benefits and the accuracy of the census data.

Management's Response - SCERS, in collaboration with Vitech and Linea Solutions in their respective roles as our PAS vendor and industry consultant, will evaluate services and options to ensure SCERS gets timely death information in a timely and sustainable way.

SPECIAL BENEFIT PAYMENT REVIEW

During our data analytical procedures, we tested the benefit payment data and identified a benefit overpayment to an active retiree approximating \$2,000. This occurred due to reissuing a payment but failing to void the original check. The City's payroll system does not have the capability of identifying duplicate payments as payments are not linked to specific pension eligible months. Due to this mistake, the 2015 payments reported to the Internal Revenue Service on Form 1099-R for that member were overstated and therefore should be amended by SCERS. To reduce the likelihood of payment error, we recommend a peer review process be performed by Retirement Specialists over all payment adjustments and a summary report be created that is provided to the Benefits Manager for a high-level review and spot checking.

Management's Response – The member identified above will receive an amended 1099-R form. SCERS has since clarified internal processes to ensure peer auditing is performed on payment adjustments and has implemented a procedure to actively manage the outstanding check list.

CASH PROCEDURES

A lockbox system was implemented during 2015 which reduced the number of check payments received at the SCERS office. However, certain payments are still received and processed on location. They are received and recorded by the receptionist, handled and separately recorded by several individuals within accounting and ultimately deposited to the lockbox by an Accounting Technician. There is a risk that these payments are misappropriated while being circulated around the office. We recommend a reconciliation of the initial check log created by the receptionist to the Treasury Department records by an employee independent of the accounting function.

Management's Response – This process has been streamlined so that, after the initial intake by the receptionist, one SCERS employee reconciles the initial check log to the payments received via the lockbox.

SECURITIES LENDING

During the year, the securities lending accounts were not analyzed and reconciled with subsidiary information on a monthly basis. Monthly journal entries and reconciliations ensure timely and accurate interim financial information that can be used to monitor and control operations. In addition, timely reconciliation of accounts is most cost efficient since reconciliation at a later date is often more difficult and time consuming. We recommend SCERS adopt procedures to ensure monthly analysis of securities lending accounts becomes a routine procedure.

Management's Response - In 2015, SCERS began monthly reconciliations with the monthly investment summaries we receive from BNY. To date, SCERS has only received securities lending detailed information on an annual basis. SCERS has asked to begin receiving securities lending detailed information from BNY on a monthly basis and plans to include securities lending as part of our monthly reconciliation process in 2016.

CONTRIBUTIONS

During 2015, SCERS implemented a review of incoming contribution records for potential errors using data analysis. These new procedures revealed various errors in the contribution and participant data that we reviewed and found did not have a significant impact on the financial statements. We identified an active member incorrectly listed as retired and an ineligible employee improperly enrolled in SCERS during our data analysis and noted that the errors were identified by SCERS but were not corrected. We recommend a process be implemented to correct account errors identified during the review of each payroll.

Management's Response - *As was stated, the payroll reconciliation process was implemented during 2015. We will work to more formally implement exception reporting and correction procedures in the near term. In the longer term, these mechanisms are being built into the new PAS.*

The following other matters were identified and communicated in a prior period; remedial action has not yet been taken:

PARTICIPANT RECORDS

We noted certain active member files that could not be located by SCERS either onsite or in storage. We recommend SCERS consider imaging retiree files to reduce the risk of lost information and, in the interim, enforce the use of the current process utilizing tracking cards.

Management's Response - *SCERS has implemented a Customer Request Management (CRM) system to track member service requests and follow the workflow for these requests through all the steps in the process. This system identifies who is working with any given file and is the main source, rather than tracking cards, to locate a member file.*

Despite the CRM system, SCERS still has a largely manual and paper-based process and, despite several improvements made to operating procedures and the tools used for service delivery, the physical file is still the only source of some member information. Because of this, SCERS' continuing reliance on the physical file represents a risk to the system. Ultimately, this risk will be addressed through the implementation of an electronic content management system (ECM) which is a component of the PAS. SCERS is currently in the early stages of development for the ECM component and the current timeline calls for a rollout of this functionality before the end of 2016.

OVERPAYMENTS AND COLLECTIONS

SCERS has procedures around promptly attempting overpayment retrieval from the bank upon notice. However, we noted that a reportable process for tracking overpaid benefit payments does not exist. Overpaid retiree and beneficiary files are manually set aside for review, which makes them difficult to track and report on current uncollected overpayments. We recommend SCERS develop and document a more robust process to track retirees and beneficiaries with overpayments.

We also recommend SCERS formally adopt a collection policy to define when assistance with overpayment collection is deemed necessary. Many systems have found it prudent to retain a collections attorney to track down all amounts greater than a certain dollar threshold and aged beyond a certain time period. Since such attorneys are usually paid a portion of what they collect, they are often effective at collecting overpayments.

Management's Response – SCERS has implemented procedures that limit the likelihood and extent of overpayments, such as producing a physical check instead of a direct deposit when mail to a member is returned and repeated attempts to contact the member are unsuccessful. We will look to implement the tracking of outstanding overpayments in our current CRM system and evaluate if these overpayments can and should be also tracked individually in the City's financial system as accounts receivable. We will also formalize the process for aging these receivables, implementing progressively formal communications, and engaging with a collections agency for outstanding balances.

CITYWIDE CASH

We identified opportunities to strengthen controls surrounding citywide cash. Currently, there is limited review of citywide cash reconciliations as it relates to SCERS along with a limited understanding of the City's accounting processes that affect SCERS. We would recommend an overall review of banking activity performed by the City and how that activity impacts the cash balances of SCERS.

SCERS has not implemented a review of Citywide banking activity as relates to SCERS balances. We recommend SCERS monitor the City's accounting activity as it related to SCERS to assure journal entries to the cash accounts are posted timely and accurately. We also recommend that SCERS review the aging of outstanding checks, especially outstanding benefit payment checks and adopt procedures to address checks that have been outstanding in order to properly void or reissue checks. An outstanding check policy would improve the controls in this area and help reduce the number of outstanding checks.

Management's Response – SCERS has implemented regular review, analysis, and clearing of outstanding checks and will evaluate performing reconciliations with the City's financial system in advance of ultimate integration with the PAS.

SCERS' written responses to the other matters identified in our audit were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various SCERS personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Administration, and others within SCERS, and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Baltimore, Maryland
July 11, 2016

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
Report of Independent Auditors
and Financial Statements with
Required Supplementary Information
and Additional Information

December 31, 2015 and 2014

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
FINANCIAL STATEMENTS	
Statements of Plan Net Position	10
Statements of Changes in Plan Net Position	11
Notes to Financial Statements	12-26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in Net Pension Liability and Related Ratios	27
Schedule of Employer Contributions	28
Schedule of Investment Returns	29
ADDITIONAL INFORMATION	
Schedule of Administrative Expenses	30
Schedule of Investment Expenses	31

INDEPENDENT AUDITORS' REPORT

Board of Administration
Seattle City Employees' Retirement System
Seattle, Washington

Report on the Financial Statements

We have audited the accompanying financial statements of the Seattle City Employees' Retirement System (SCERS), which comprise the statements of plan net position as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 financial position of SCERS as of December 31, 2015 and 2014, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in net pension liability and related ratios, employer contributions, and investment returns. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.



CliftonLarsonAllen LLP

Baltimore, Maryland
July 11, 2016

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

This section presents management's discussion and analysis of the Seattle City Employees' Retirement System's (SCERS or the System) financial performance during the years ended December 31, 2015 and 2014. Please read it in conjunction with the accompanying financial statements and the related notes.

The City of Seattle is responsible for establishing and maintaining an internal control structure designed to ensure the protection of assets from loss, theft, or misuse, and to ensure the accounting information generated is adequate to prepare financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance of achieving these objectives.

As a department of the City of Seattle, the Seattle City Employees' Retirement System is subject to this internal control structure. In addition, section 4.36.140.D of the Seattle Municipal Code requires the Board of Administration to annually transmit a report of the financial condition of the System to the City Council.

This report is prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB). Investments are stated at fair value, and revenues include the recognition of unrealized gains and losses. The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenue recognition occurs when earned without regard to the date of collection. Expense recognition occurs when the corresponding liabilities are incurred, regardless of payment date. The basis of contributions to the System follows the principles of level cost financing, with current service financed on a current basis. Milliman Consultants and Actuaries, the consulting actuary, evaluates the funding status of the System.

This report contains the following information:

- 1. Basic Financial Statements** including:
 - a. Statements of Plan Net Position
 - b. Statements of Changes in Plan Net Position
 - c. Notes to the Financial Statements

- 2. Required Supplementary Information** including:
 - a. Schedule of Changes in Net Pension Liability and Related Ratios
 - b. Schedule of Employer Contributions
 - c. Schedule of Investment Returns

- 3. Additional Information** including:
 - a. Schedule of Administrative Expenses
 - b. Schedule of Investment Expenses

The basic financial statements are described as follows:

- The Statement of Plan Net Position shows the account balances at year-end and includes the net position available for future benefit payments. The liabilities for future benefit payments are not included in this statement; however, they are shown in the Schedule of Changes in Net Pension Liability and Related Ratios that is included in the Required Supplementary Information.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

- The Statement of Changes in Plan Net Position shows the sources and uses of funds during the year and illustrates the change in net position from the previous year.
- The Notes to the Financial Statements are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements.

The required supplementary information provides historical trends that help to reflect the ongoing plan perspective and the long-term nature of the defined benefit plan.

- The Schedule of Changes in Net Pension Liability and Related Ratios contains actuarial information about the status of the plan.
- The Schedule of Employer Contributions contains historical trend information regarding the value of the total annual contributions the employer must pay and the actual contributions paid by employers in meeting this requirement.
- The Schedule of Investment Returns contains the investment returns realized on the total portfolio for the years since 2014.

Financial Highlights

- Net position decreased by \$10 million (-0.4%) during 2015. The primary driver was net investment income of \$7 million. Net position increased by \$106 million (4.8%) during 2014. The primary driver was a \$117 million increase in investment assets and receivables.
- Revenue additions to net position for 2015 were \$174 million which includes member and employer contributions of \$167 million and revenue from investment activity totaling \$7 million. Revenue additions to net position for 2014 were \$276 million which includes member and employer contributions of \$154 million and revenue from investment activity totaling \$122 million.
- Expenses (deductions from net position) for 2015 increased by \$13.0 million (7.6%) from 2014. This can be primarily attributed to a \$9.1 million increase in retiree benefits. In 2015, the net increase in the number of retirees receiving benefits was 3.4%. Expenses for 2014 increased by \$8.9 million (5.5%) from 2013. This can be primarily attributed to an \$8.8 million increase in retiree benefits. In 2015, the net increase in the number of retirees receiving benefits was 2.9%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

Plan Net Position

The table below provides a summary of assets and current liabilities for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash, short-term investments and receivables	\$ 170,672,072	\$ 128,978,368	\$ 58,102,260
Investments at fair value	2,154,482,878	2,226,745,449	2,180,184,714
Securities lending collateral	<u>50,952,037</u>	<u>25,231,591</u>	<u>13,595,048</u>
Total assets	<u>2,376,106,987</u>	<u>2,380,955,408</u>	<u>2,251,882,022</u>
Securities lending payable	53,633,431	28,228,622	16,750,032
Other payables	<u>9,452,393</u>	<u>30,023,091</u>	<u>18,223,505</u>
Total liabilities	<u>63,085,824</u>	<u>58,251,713</u>	<u>34,973,537</u>
Total net position	<u>\$ 2,313,021,163</u>	<u>\$ 2,322,703,695</u>	<u>\$ 2,216,908,485</u>

Changes in Plan Net Position

The table below provides a summary of the changes in plan net position and reflects the activities of the fund for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Additions:			
Employer contributions	\$ 101,153,403	\$ 89,988,898	\$ 77,073,667
Member contributions	65,779,216	63,969,504	60,342,581
Net investment income and other income	<u>7,083,633</u>	<u>122,510,195</u>	<u>289,817,661</u>
Total additions	<u>174,016,252</u>	<u>276,468,597</u>	<u>427,233,909</u>
Deductions:			
Retiree benefits	159,349,807	150,239,008	141,424,206
Refunds of contributions	16,137,840	15,103,615	15,278,136
Administrative expenses	<u>8,211,137</u>	<u>5,330,764</u>	<u>5,058,356</u>
Total deductions	<u>183,698,784</u>	<u>170,673,387</u>	<u>161,760,698</u>
Net increase (decrease)	<u>\$ (9,682,532)</u>	<u>\$ 105,795,210</u>	<u>\$ 265,473,211</u>

Revenues - Additions to Net Plan Position

- In 2015, employer contributions increased by \$11.2 million (12.4%) compared to 2014. In 2014, employer contributions increased by \$12.9 million (16.8%) compared to 2013.
- Member contributions increased by \$1.8 million (2.8%) compared to 2014. In 2014, member contributions increased by \$3.6 million (6.0%) compared to 2013.
- Net investment income was \$7.1 million in 2015 compared to \$122.5 million in 2014 and \$289.8 million in 2013.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

Expenses - Deductions from Net Plan Assets

- Retiree benefits increased in 2015 by \$9.1 million (6.1%) compared to 2014, primarily due to the increased number of members making application for retirement and a mandatory 1.5% COLA (Cost of Living Adjustment). As a comparison, retiree benefits increased \$8.8 million (6.2%) in 2014.
- Refunds of contributions increased in 2015 by \$1.0 million (6.8%) compared to amounts paid in 2014. In 2014, refunds decreased \$0.2 million (-1.1%) compared to amounts paid in 2013.

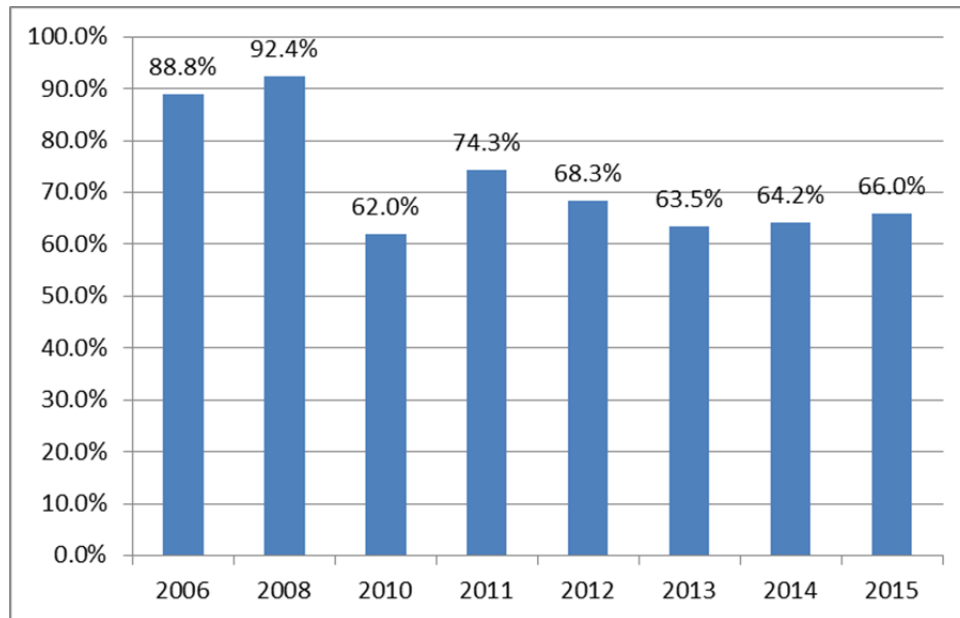
Changes in Plan Membership

The table below reflects the active membership and retiree changes for the years ended December 31:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Retirees and beneficiaries receiving benefits	<u>6,223</u>	<u>6,020</u>	3.4%
Current and terminated employees:			
Current employee members	8,882	8,746	1.6%
Terminated members entitled to, but not yet receiving benefits, Vested	1,220	1,188	2.7%
Terminated members not entitled to benefits beyond contributions and accumulated interest, Non-Vested	<u>977</u>	<u>935</u>	4.5%
Total	<u>11,079</u>	<u>10,869</u>	1.9%

Funding Status

Schedule of Funding Progress
Funding Ratio
As of January 1st Valuation Date



With the January 1, 2011 Valuation and the 2007-2010 Experience Study, the Board of Administration adopted a policy of asset smoothing over a 5-year period. The reported funding ratio as of January 1, 2012 reflects that change. Prior to January 1, 2011, all funding ratios were reported on a market basis.

Funds are accumulated from employer and employee contributions and investment earnings, and are used to pay present and future benefit obligations and administrative expenses. We continue to make a constant effort to achieve a fully funded status, thereby assuring the participants of a financially sound retirement system. In 2015, most active members contributed 10.03% of their salaries to the retirement fund and the City contributed 15.73%.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

Investment Activities

One-year returns on asset classes (gross of fees) and comparative benchmarks are presented in the table below for the years ended December 31. These returns are calculated on a time-weighted rate of return basis:

2015 Investment Performance

Total Portfolio	0.3%
Domestic Equities	1.5%
Benchmark: Russell 3000 Index (Blend)	1.2%
International Equities	(3.9%)
Benchmark: MSCI ACWI ex US IM/ND	(4.6%)
Broad Fixed Income	0.3%
Benchmark: Barclays U.S. Universal Index	0.4%
Private Equity	2.6%
Benchmark: ASP Custom Private Equity Index	3.5%
Real Estate	13.5%
Benchmark: Russell NCREIF Property Index	13.9%
Diversifying Strategies	0.2%
Benchmark: HFRI Fund of Funds Comp. Index	(0.3%)
Cash	0.7%
Benchmark: Citigroup 3-Month T-Bills	0.0%

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended December 31, 2015 and 2014**

2015 Investment Performance

Total Portfolio	5.7%
Domestic Equities	13.1%
Benchmark: U.S. Equities Custom Index	10.1%
International Equities	(5.3%)
Benchmark: MSCI ACWI ex US IM/ND	(3.9%)
Fixed Income	5.6%
Benchmark: Barclays U.S. Universal Index	5.6%
Real Return	7.6%
Benchmark: CPI + 3%	3.7%
Private Equity	(2.1%)
Benchmark: ASP Custom Private Equity Index	16.8%
Real Estate	11.2%
Benchmark: Russell NCREIF Property Index	12.4%
Cash	5.8%
Benchmark: Citigroup 3-Month T-Bills	0.0%

The investments of the System are governed primarily by the prudent investor rule. The prudent investor rule, as set forth by the Revised Code of Washington, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The System invests retirement funds for the long-term, anticipating both good and poor performing financial markets. The overall investment portfolio is positioned in a diversified manner to maximize return given the System's risk tolerance.

Contacting the Seattle City Employees' Retirement System

If you have questions about this report or need additional information, please contact us by telephone at: 206.386.1293 or by e-mail at: city.retirement@seattle.gov or you may mail your questions to:

Seattle City Employees' Retirement System
720 Third Avenue, Suite 900
Seattle, WA 98104

FINANCIAL STATEMENTS

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET POSITION
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash	\$ 8,943,035	\$ 2,726,099
Short-term investments	<u>143,820,761</u>	<u>108,857,640</u>
Total cash and short-term investments	<u>152,763,796</u>	<u>111,583,739</u>
Receivables:		
Members	3,496,137	2,901,009
Employer	4,787,895	4,203,851
Interest and dividends	3,449,203	4,052,719
Sales proceeds receivable	<u>6,175,041</u>	<u>6,237,050</u>
Total receivables	<u>17,908,276</u>	<u>17,394,629</u>
Investments, at fair value:		
Fixed income	604,985,207	549,377,673
Equity	1,163,805,377	1,334,361,774
Real estate	270,796,297	250,403,585
Alternative investments	<u>114,895,997</u>	<u>92,602,417</u>
Total investments, at fair value	<u>2,154,482,878</u>	<u>2,226,745,449</u>
Securities lending collateral	<u>50,952,037</u>	<u>25,231,591</u>
Total assets	<u>2,376,106,987</u>	<u>2,380,955,408</u>
Liabilities:		
Pensions payable and other	2,004,637	2,286,308
Obligations under securities lending	53,633,431	28,228,622
Investment commitments payable	<u>7,447,756</u>	<u>27,736,783</u>
Total liabilities	<u>63,085,824</u>	<u>58,251,713</u>
Net position held in trust for pension benefits	<u>\$ 2,313,021,163</u>	<u>\$ 2,322,703,695</u>

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

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET POSITION
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Contributions:		
Employer	\$ 101,153,403	\$ 89,988,898
Member	<u>65,779,216</u>	<u>63,969,504</u>
Total contributions	<u>166,932,619</u>	<u>153,958,402</u>
Investment activities:		
Investment income:		
Net change in fair value of investments	(22,933,464)	93,680,606
Interest	11,377,655	11,584,482
Dividends	<u>27,836,456</u>	<u>25,542,523</u>
Net investment income	<u>16,280,647</u>	<u>130,807,611</u>
Securities lending activities:		
Securities lending income	56,694	23,941
Borrowing rebates	<u>674,010</u>	<u>216,063</u>
Total securities lending income	730,704	240,004
Securities lending management fees	<u>(182,660)</u>	<u>(59,989)</u>
Net income from securities lending	<u>548,044</u>	<u>180,015</u>
Investment activity expenses:		
Investment management fees	(9,096,421)	(7,802,096)
Investment consultant fees	(295,000)	(333,389)
Investment custodial fees	<u>(353,637)</u>	<u>(341,946)</u>
Total investment activity expenses	<u>(9,745,058)</u>	<u>(8,477,431)</u>
Net income from investment activities	<u>7,083,633</u>	<u>122,510,195</u>
Total additions	<u>174,016,252</u>	<u>276,468,597</u>
Deductions:		
Benefits	159,349,807	150,239,008
Refunds of contributions	16,137,840	15,103,615
Administrative expenses	<u>8,211,137</u>	<u>5,330,764</u>
Total deductions	<u>183,698,784</u>	<u>170,673,387</u>
Net change	(9,682,532)	105,795,210
Net position held in trust for pension benefits		
Beginning of year	<u>2,322,703,695</u>	<u>2,216,908,485</u>
End of year	<u>\$ 2,313,021,163</u>	<u>\$ 2,322,703,695</u>

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

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 1 - Plan Description

The Seattle City Employees' Retirement System (the System) is a multiple employer defined benefit public employee retirement plan, covering employees of the City of Seattle and administered in accordance with Chapter 4.36 of the Seattle Municipal Code. The System is a pension trust fund of the City of Seattle.

The System is administered by the Retirement System Board of Administration (the Board). The Board consists of seven members including the Chair of the Finance Committee of the Seattle City Council, the City of Seattle Finance Director, the City of Seattle Personnel Director, two active members and one retired member of the System who are elected by other system members, and one outside board member who is appointed by the other six board members. Elected and appointed board members serve for three-year terms.

All employees of the City of Seattle are eligible for membership in the System with the exception of uniformed police and fire personnel who are covered under a retirement system administered by the State of Washington. Employees of METRO and the King County Health Department who established membership in the System when these organizations were City of Seattle departments were allowed to continue their System membership (there are currently fewer than 50 members in this category). There are currently 6,223 retirees and beneficiaries receiving benefits, and 8,882 active members of the System. There are 1,220 terminated, vested employees entitled to future benefits.

The System provides retirement, death, and disability benefits. Retirement benefits vest after five years of credited service, while death and disability benefits vest after ten years of service. Retirement benefits are calculated as 2% multiplied by years of creditable service, multiplied by average salary, based on the highest 24 consecutive months. The benefit is actuarially reduced for early retirement. The System provides post-retirement benefit increase including an automatic 1.5% annual COLA increase and a 65% restoration of purchasing power benefit.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting - These financial statements have been prepared with an "economic resources" measurement focus on the accrual basis of accounting in accordance with generally accepted accounting principles, as prescribed by the Government Accounting Standards Board.

Use of Estimates in Preparing Financial Statements - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the System to make estimates and assumptions that affect the reported amounts of assets, liabilities, additions and deductions to net position held in trust for pension benefits and disclosure of contingent assets and liabilities at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters (Continued)

Cash and Short Term Investments - The System classifies cash on deposit in financial institutions and cash on deposit in the City of Seattle's internal cash management pool as cash. The System also recognizes certain short-term highly liquid securities with an original maturity of three months or less as short-term investments.

Method Used to Value Investments - Plan investments are reported at fair value. Fair value is defined as the amount at which an investment could be exchanged in a current arm's length transaction between willing parties in which the parties each act knowledgeably and prudently. All investments are valued based on objective, observable, unadjusted quoted market prices in an active market on the measurement date, if available. In the absence of such data, valuations are based upon those of comparable securities in active markets. For illiquid or hard to value investments such as real estate, private equity, and other private investments, valuations are based upon data provided by the respective investment managers. These private asset valuations are generally based upon estimated current values and/or independent appraisals.

Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest and dividend income earned, less investment expense, plus income from securities lending activities, less deduction for security lending expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Securities and securities transactions are reflected in the financial statements on a trade-date basis. Investments are made in accordance with the Prudent Person Rule as defined by the State of Washington RCW 35.39.060.

Federal Income Tax Status - The System is a qualified plan under section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under section 501(a).

Contributions - Employee and employer contributions are reported in the year they are due to the System.

Benefits and Refunds of Contributions - Benefits and refunds of contributions are recognized when due and payable in accordance with the System's policy.

Reclassifications - Certain 2014 amounts have been reclassified in conformity with the 2015 presentation. These reclassifications had no effect on net position or changes therein.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 3 - Contributions

Member and employer contributions rates are established by the Seattle Municipal Code Chapter 4.36.

The employer contribution rate is determined by the actuarial formula identified as the Entry Age Cost Method. The formula determines the amount of contributions necessary to fund the current service cost, representing the estimated amount necessary to pay for benefits earned by the employees during the current service year and the amount of contributions necessary to pay for prior service costs. Total required contributions, including amounts necessary to pay administrative costs, are determined through annual actuarial valuations.

Actuarially determined contribution rates were 10.03% for most members in 2015 and 2014 and 15.73% and 14.31% for the employers in 2015 and 2014. There are no long-term contracts for contributions outstanding and currently no legally required reserves. See Note 8 for additional information on assumptions used in calculating the actuarially determined contribution rates.

Note 4 - Cash

SCRS' policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation (FDIC) and Washington Public Deposit Protection Commission (PDPC) insurance. FDIC insures the cash deposits up to \$250,000. As provided by the State of Washington RCW 43.84, the PDPC collateralizes deposits in excess of \$100,000. The bank balances of deposits of a FDIC institution as of the balance sheet date are insured.

Note 5 - Investments

Investment policy - The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the SCERS Board by a majority vote of its members. It is the policy of the SCERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2015:

Asset Class	Target Allocation
Equity	
Public Equity	48.0%
Private Equity	9.0%
Fixed Income	
Broad Fixed Income	18.0%
Credit Fixed Income	5.0%
Real Assets	
Real Estate	12.0%
Infrastructure	3.0%
Diversifying Strategies	5.0%
Total	100.0%

Note 5 – Investments (Continued)

Money-weighted rate of return – As of December 31, 2015, the return for the System, based on a money-weighted rate of return methodology was 0.26%.

Short Term Investments - Short term investments include a Short-term Investment Fund (STIF), which is a collective trust that may include certificates of deposit, treasury bills, and mutual funds. The Alternative Investments category currently includes derivatives, hedge funds and private equity funds.

Commingled Funds – The System invests in various commingled funds where it has an ownership interest in a pool of securities alongside other fund holders. For those commingled funds that are anticipated to be held by the System on a long-term basis, the following tables in this Section reflect the System's pro rata ownership of the constituent securities in these commingled funds. The System's investments in commingled funds that are anticipated to be held on a temporary basis are not reflected in this manner.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of a financial institution or a bank, the System will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The System mitigates custodial credit risk by having its investment securities held by the System's custodian (BNY Mellon) and registered in the System's name. The System's short-term investments are created through daily sweeps of excess cash by the System's custodian, and invested in a vehicle managed by the custodian.

Credit Risk - Credit risk is the risk that an issuer, or other counterparty, to an investment will not fulfill its obligations. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that at least 70 percent of the net asset value of a manager's portfolio be invested in investment-grade securities. Managers do not have authority to depart from their guidelines. A summary of the credit ratings of the System's fixed income investments is provided on pages 22 and 23.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that investments in any one issuer may not exceed 5 percent of the net asset value of a manager's portfolio. Managers do not have authority to depart from their guidelines.

Note 5 – Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. The Retirement Board provides each of the System's Broad Fixed Income investment managers with a set of investment guidelines. These guidelines specify eligible investments, minimum diversification standards, and applicable investment restrictions necessary for diversification and risk control. In general, these guidelines require that the weighted average duration of the security holdings of a manager's portfolio not vary from that of the applicable benchmark by more than 20 percent. Managers do not have authority to depart from their guidelines. A summary of the maturities of the System's fixed income investments is provided on pages 20 and 21.

The fixed income portfolio is primarily managed by four external money management firms. Managers have agreed to a set of guidelines that provide ranges and limits for varying types of securities that may be held within the portfolio. A consultant is hired to measure performance and monitor the investment style. The Investment Committee reviews the consultant's results quarterly.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The System's currency risk exposures, or exchange rate risk, primarily reside within the non-U.S. equity and fixed income investment holdings. The System expects these managers to maintain adequately diversified portfolios to limit foreign currency and security risk.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 – Investments (Continued)

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2015, is summarized in the following table.

Currency Type	Equity	Fixed Income	Derivatives	Cash	Total
Australian Dollar	\$ -	\$ -	\$ (14,258)	\$ -	\$ (14,258)
Canadian Dollar	-	-	2,243,101	-	2,243,101
Chinese Yuan Renminbi	-	452,800	(654,510)	-	(201,710)
Danish Krone	-	-	10,484	-	10,484
Euro Currency Unit	-	146	(5,029,941)	349,472	(4,680,323)
Japanese Yen	-	-	-	27,896	27,896
Mexican Peso	-	2,452,170	3,896,662	83,431	6,432,263
Norwegian Krone	-	-	5,649	-	5,649
Polish Zloty	-	1,211,098	27,674	-	1,238,772
Pound Sterling	-	-	-	1,530	1,530
Swedish Krona	-	-	14,893	23,999	38,892
Swiss Franc	-	-	22,757	127,973	150,730
Total	\$ -	\$ 4,116,214	\$ 522,511	\$ 614,301	\$ 5,253,026

The System's exposure to foreign currency risk in U.S. dollars as of December 31, 2014, is summarized in the following table.

Currency Type	Equity	Fixed Income	Derivatives	Cash	Total
Australian Dollar	\$ 1,141,827	\$ -	\$ 4,062,374	\$ 19,059	\$ 5,223,260
Brazil Real	-	(1,476)	(27,623)	-	(29,099)
Canadian Dollar	-	717,850	8,700,730	6,590	9,425,170
Columbian Peso	-	560,553	(555,224)	-	5,329
Danish Krone	2,434,401	2,336,600	(3,303,226)	3,584	1,471,359
Euro Currency Unit	22,713,984	12,006,124	(10,570,506)	155,743	24,305,345
Hong Kong Dollar	6,842,068	-	(4,054,212)	24,289	2,812,145
Hungarian Forint	-	-	5,514	-	5,514
Indian Rupee	-	-	1,158,506	-	1,158,506
Israeli Shekel	-	-	531,078	62	531,140
Japanese Yen	5,325,096	201,102	11,251,909	14,039	16,792,146
Mexican New Peso	-	4,331,428	(1,278,420)	170,947	3,223,955
New Zealand Dollar	-	2,199,187	(1,624,088)	27,934	603,033
Norwegian Krone	8,215,377	-	(6,929,488)	231	1,286,120
Polish Zloty	-	-	2,290	-	2,290
Pound Sterling	23,151,493	17,901,666	(21,728,329)	1,315	19,326,145
Singapore Dollar	1,050,744	-	248,905	2,999	1,302,648
South Korean Won	-	-	2,904	-	2,904
Swedish Krona	2,048,254	759,310	54,935	485	2,862,984
Swiss Franc	6,032,773	-	2,379,905	49,834	8,462,512
Total	\$ 78,956,017	\$ 41,012,344	\$ (21,672,066)	\$ 477,111	\$ 98,773,406

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 – Investments (Continued)

Derivatives - Foreign exchange forward contracts are periodically employed by the System to hedge currency risk of investments in foreign currencies. Generally, derivatives are subject both to market and to counterparty risk. The derivatives used by the System typically have no greater risk than their physical counterparts and, in many cases, are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the “other party” to a contract will default, is managed by careful screening of counterparties. Derivative securities are priced and accounted for at fair value. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

The System’s pending derivative transactions as of December 31, 2015 are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ 1,280,126	\$ 538	\$ 1,284,051	\$ (18,722)	\$ (18,184)
Canadian Dollar		-	2,429,638	(186,537)	(186,537)
Chinese Yuan Renminbi	665,480	9,639	1,341	(8)	9,631
Danish Krone		-	12,251	(1,768)	(1,768)
Euro Currency Unit	9,697,048	486,264	4,276,003	(95,160)	391,104
Mexican New Peso	337,557	10,934	4,282,092	(58,807)	(47,873)
Norwegian Krone		-	10,669	(5,020)	(5,020)
Polish Zloty		-	28,831	(1,158)	(1,158)
Swedish Krona		-	15,148	(255)	(255)
Swiss Franc	-	-	23,457	(700)	(700)
Total	<u>\$ 11,980,211</u>	<u>\$ 507,375</u>	<u>\$ 12,363,481</u>	<u>\$ (368,135)</u>	<u>\$ 139,240</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 – Investments (Continued)

The System's pending derivative transactions as of December 31, 2014 are summarized in the following table.

<u>Currency Type</u>	<u>Purchases</u>	<u>Unrealized Gain/Loss</u>	<u>Sells</u>	<u>Unrealized Gain/Loss</u>	<u>Total Unrealized Gain/Loss</u>
Australian Dollar	\$ 7,184,808	\$ 14,308	\$ 11,507,361	\$ (274,487)	\$ (260,179)
Brazil Real	89,956	2,408	60,957	(1,032)	1,376
Canadian Dollar	1,201,114	6,422	10,016,444	(121,026)	(114,604)
Columbian Peso	591,210	25,669	12,873	(2,556)	23,113
Danish Krone	3,713,259	108,031	309,197	(7,195)	100,836
Euro Currency Unit	34,931,154	702,124	24,100,289	(441,765)	260,359
Hong Kong Dollar	4,054,998	786	-	-	786
Hungarian Forint	300,858	22,123	303,124	(18,876)	3,247
Indian Rupee	-	-	1,175,662	(17,155)	(17,155)
Israeli Shekel	-	-	535,587	(4,509)	(4,509)
Japanese Yen	15,773,777	74,557	27,145,273	(194,143)	(119,586)
Mexican New Peso	1,354,593	66,262	9,962	(50)	66,212
New Zealand Dollar	3,484,950	(12,763)	1,862,745	10,880	(1,883)
Norwegian Krone	9,085,550	798,836	1,430,071	(72,846)	725,990
Polish Zloty	194,131	11,869	196,132	(11,581)	288
Pound Sterling	39,983,884	65,809	18,129,997	59,747	125,556
Singapore Dollar	-	-	256,200	(7,295)	(7,295)
South Korean Won	228,900	1,100	227,851	2,851	3,951
Swedish Krona	765,917	41,626	831,525	(52,300)	(10,674)
Swiss Franc	300,064	4,936	2,751,374	(76,341)	(71,405)
Total	<u>\$ 123,239,123</u>	<u>\$ 1,934,103</u>	<u>\$ 100,862,624</u>	<u>\$ (1,229,679)</u>	<u>\$ 704,424</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 - Investments (Continued)

As of December 31, 2015, the fixed income portfolio of the System had the following investment maturities:

Investment	Fair Value	Investment Maturities (in years)				N/A *
		<1	1 - 5	6 - 10	>10	
Fixed income						
Agencies	\$ 5,910,966	\$ 7,220	\$ 3,942,888	\$ 8,067	\$ 1,952,791	\$ -
Asset Backed Security	24,438,890	-	6,663,897	7,660,687	10,114,306	-
Commingled Funds	117,905,090	-	-	-	-	117,905,090
Corporate Debt	159,045,389	4,141,202	61,694,195	53,989,273	30,427,091	8,793,629
Derivatives	(2,988,640)	(906)	-	99,093	(29,802)	(3,057,025)
Foreign Sovereign	22,840,121	2,724,751	4,736,830	11,777,424	3,601,116	-
Mortgage Backed Security	135,151,524	65,541	8,895,336	6,443,401	119,747,246	-
Municipal	4,913,533	-	309,543	553,242	4,050,747	-
Treasury Notes and Bonds	137,768,334	4,312,083	43,277,402	55,348,603	34,830,246	-
Total Fixed Income	\$ 604,985,207	\$ 11,249,891	\$ 129,520,091	\$ 135,879,790	\$ 204,693,741	\$ 123,641,694

* Note - Amounts primarily relate to commingled funds and therefore a weighted average was not available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 - Investments (Continued)

As of December 31, 2014, the fixed income portfolio of the System had the following investment maturities:

Investment	Fair Value	Investment Maturities (in years)				N/A *
		<1	1 - 5	6 - 10	>10	
Fixed income						
Agencies	\$ 8,157,990	\$ -	\$ 4,964,091	\$ 873,161	\$ 2,320,738	\$ -
Asset Backed Security	23,641,132	-	4,817,574	7,342,792	11,480,766	-
Commingled Funds	17,238,994	-	-	-	-	17,238,994
Corporate Debt	149,153,924	20,535,195	51,085,966	42,274,088	25,551,155	9,707,520
Derivatives	(548,775)	-	(182,444)	18,368	(414,872)	30,173
Foreign Sovereign	59,717,836	506,365	10,555,525	26,155,346	22,500,600	-
Mortgage Backed Security	141,285,782	1,859,825	5,119,027	7,950,971	126,355,959	-
Municipal	4,858,995	-	438,321	426,418	3,994,256	-
Treasury Notes and Bonds	<u>145,871,795</u>	<u>2,302,092</u>	<u>61,983,680</u>	<u>55,429,696</u>	<u>26,356,714</u>	<u>(200,387)</u>
Total Fixed Income	\$ <u>549,377,673</u>	\$ <u>25,203,477</u>	\$ <u>138,781,740</u>	\$ <u>140,470,840</u>	\$ <u>218,145,316</u>	\$ <u>26,776,300</u>

* Note - Amounts primarily relate to commingled funds and therefore a weighted average was not available.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 - Investments (Continued)

As of December 31, 2015, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
Agencies	\$ 5,910,966	\$ -	\$ 5,732,622	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 178,344
Asset Backed Security	24,438,890	9,737,931	6,415,989	570,546	248,212	851,345	762,242	2,244,988	3,607,637
Commingled Funds	117,905,090								117,905,090
Corporate Debt	159,045,389	1,793,786	7,904,086	35,848,805	68,236,628	21,778,238	8,690,011	3,067,961	11,725,875
Derivatives	(2,988,640)								(2,988,641)
Foreign Sovereign	22,840,121	395,542	2,100,040	8,273,928	3,289,691	2,726,452		161,990	5,892,477
Mortgage Backed Security	135,151,524	971,077	81,410,052	3,413,491	2,181,159	664,631	1,819,896	3,603,369	41,087,850
Municipal	4,913,533	1,222,011	2,096,458	1,106,790	130,405	14,262	57,560		286,047
Treasury Notes and Bonds	<u>137,768,334</u>	<u>-</u>	<u>137,766,313</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,021</u>
Total Fixed Income	<u>\$ 604,985,207</u>	<u>\$ 14,120,347</u>	<u>\$ 243,425,560</u>	<u>\$ 49,213,560</u>	<u>\$ 74,086,095</u>	<u>\$ 26,034,928</u>	<u>\$ 11,329,709</u>	<u>\$ 9,078,308</u>	<u>\$ 177,696,700</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 5 - Investments (Continued)

As of December 31, 2014, the fixed income portfolio of the System had the following investment ratings:

Investment	Fair Value	Ratings							
		AAA	AA	A	BBB	BB	B	CCC& Below	Not Rated
Fixed income									
Agencies	\$ 8,157,990	\$ -	\$ 7,991,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 166,924
Asset Backed Security	23,641,132	8,841,933	6,830,414	679,225	431,045	918,339	1,190,926	1,779,375	2,969,875
Commingled Funds	17,238,994								17,238,994
Corporate Debt	149,153,924	654	9,926,893	56,267,256	52,209,495	11,063,216	5,617,264	1,526,918	12,542,228
Derivatives	(548,775)								(548,775)
Foreign Sovereign	59,717,836	3,815,597	6,166,348	7,304,363	7,049,458	1,406,340			33,975,730
Mortgage Backed Security	141,285,782	2,931,168	90,606,607	3,452,183	3,538,599	530,665	1,937,698	3,560,129	34,728,733
Municipal	4,858,995	905,047	1,863,372	1,828,263	17,995	13,623	42,393		188,303
Treasury Notes and Bonds	145,871,795	-	146,069,966	-	-	-	-	-	(198,172)
Total Fixed Income	\$ 549,377,673	\$ 16,494,399	\$ 269,454,666	\$ 69,531,290	\$ 63,246,592	\$ 13,932,183	\$ 8,788,281	\$ 6,866,422	\$ 101,063,840

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

Note 6 – Securities Lending Transactions

Under the authority of State of Washington RCW 41.28.005 and the Seattle Municipal Code 4.36.130, the System's Board of Administration adopted investment policies that define eligible investments, which include securities lending transactions. Through a custodial agent, the System participates in a securities lending program whereby securities are lent for the purpose of generating additional income to the System. The System lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must meet or exceed 102% of the market value of the securities lent, providing a margin against a decline in the market value of the collateral, and is limited to a volume of less than \$75 million. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income it is due on the securities lent. Cash and U.S. government securities were received as collateral for these loans. The System invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the System must return the cash collateral to the borrower upon the expiration of the loan. Gross income from securities lending transactions are recorded in the operating statements as well as the various fees paid to the institution that oversees the lending activity.

As of December 31, 2015, the fair value of securities on loan was \$52,498,078. Associated cash collateral totaling \$53,702,631 was received. The fair market value of the reinvested collateral was \$50,952,037 at December 31, 2014, which includes an unrealized loss totaling \$2,681,394.

As of December 31, 2014, the fair value of securities on loan was \$27,013,522. Associated cash collateral totaling \$28,228,622 was received. The fair market value of the reinvested collateral was \$25,231,591 at December 31, 2013, which includes an unrealized loss totaling \$2,997,032.

Note 7 – Commitments

The System has entered into capital commitments to fund partnership interests in certain alternative investments. At December 31, 2015, the System has unfunded commitments of \$309,460,359 to these partnerships.

Note 8 – Net Pension Liability

The components of the net pension liability as of December 31, 2015 were as follows:

Total Pension Liability	\$3,612,173,272
Plan Fiduciary Net Position	<u>2,313,021,163</u>
Net Pension Liability	<u>\$1,299,152,109</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability 64.0%

This information is an integral part of the accompanying financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

NOTE 8 – Net Pension Liability (Continued)

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods including the measurement period:

Investment Rate of Return:	7.50% compounded annually, net of expenses
Salary Increases:	4.00%

* The actuarial assumptions used in the January 1, 2015 valuation, and the mortality tables included in Appendix A of the valuation, were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2013.

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 geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 (see discussion of pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	
Public Equity	4.63%
Private Equity	6.25%
Fixed Income	
Broad Fixed Income	0.75%
Credit Fixed Income	3.55%
Real Assets	
Real Estate	3.25%
Infrastructure	3.25%
Diversifying Strategies	3.25%

This information is an integral part of the accompanying financial statements.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
Years Ended December 31, 2015 and 2014

NOTE 8 – Net Pension Liability (Continued)

The above table reflects the expected (30 year) real rate of return for each major asset class. The expected inflation rate is projected at 3.25% for the same time period.

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and the participating governmental entity contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those 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 on projected benefit payment to determine the total pension liability.

Sensitivity of the net pension liability. The following presents the net pension liability of the System, calculated using the discount rate of 7.50%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
\$1,740,175,209	\$1,299,152,109	\$928,111,691

REQUIRED SUPPLEMENTARY INFORMATION

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Total pension liability		
Service Cost	\$ 100,415,811	\$ 94,017,562
Interest	254,539,867	241,885,785
Benefit changes	-	-
Difference between expected and actual experience	1,983,005	-
Changes of assumptions	-	-
Benefits payments	(159,349,807)	(150,239,208)
Refunds of contributions	(16,137,840)	(15,103,615)
Net change in total pension liability	<u>181,451,036</u>	<u>170,560,524</u>
Total pension liability - beginning	<u>3,430,722,236</u>	<u>3,260,161,712</u>
Total pension liability - ending (a)	<u>3,612,173,272</u>	<u>3,430,722,236</u>
Plan net position		
Contributions - employer	101,153,403	89,988,898
Contributions - member	65,779,216	63,969,504
Net investment income	7,083,633	122,510,395
Benefits payments	(159,349,807)	(150,239,208)
Administrative expense	(8,211,137)	(5,330,764)
Refunds of contributions	(16,137,840)	(15,103,615)
Other	-	-
Net change in plan net position	<u>(9,682,532)</u>	<u>105,795,210</u>
Plan net position - beginning	<u>2,322,703,695</u>	<u>2,216,908,485</u>
Plan net position - ending (b)	<u>2,313,021,163</u>	<u>2,322,703,695</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,299,152,109</u>	<u>\$ 1,108,018,541</u>
Ratio of plan net position to total pension liability – (b) / (a)	64.03%	67.70%
Covered employee payroll	\$ 641,686,504	\$ 630,926,000
Net pension liability as a percentage of covered-employee payroll	202.46%	175.62%

Note: Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined employer contribution	\$ 100,415,811	\$ 94,017,562	\$ 83,770,119	\$ 67,061,747	\$ 72,346,935	\$ 93,923,454	\$ 46,933,422	\$ 46,245,324	\$ 40,114,562	\$ 37,754,849
Actual employer contributions	101,153,403	89,988,898	77,073,667	62,515,432	50,301,263	45,224,787	46,650,169	45,961,040	40,299,506	37,939,358
Annual contribution deficiency (excess)	(737,592)	4,028,664	6,696,452	4,546,315	22,045,672	48,698,667	283,253	284,284	(184,944)	(184,509)
Covered-employee payroll	641,686,504	630,926,000	597,900,000	567,800,000	557,000,000	563,200,000	580,900,000	572,400,000	501,900,000	472,500,000
Actual contributions as a percentage of covered-employee payroll	15.76%	14.26%	12.89%	11.01%	9.03%	8.03%	8.03%	8.03%	8.03%	8.03%

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of January 1, one year prior to the fiscal year in which the contributions will apply.

Methods and Assumptions used to determine contribution rates for fiscal year 2015 are:

Actuarial cost method	Individual Entry Age Normal
Amortization method	Level percent
Remaining amortization period	Closed 30 years as of January 1, 2013 Valuation
Asset valuation method	5 years smoothed, Non-asymptotic
Inflation	3.25%
Salary increases	4.00%, differs slightly from actuarial valuation due to exclusion of 0.50% active membership growth assumption for GASB calculations.
Investment rate of return	7.50%, net of pension plan investment expense, and gross of administrative expenses
Cost of Living Adjustments	As noted in the January 1, 2015 actuarial valuation.

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT RETURNS

	<u>2015</u>	<u>2014</u>
Total Portfolio	0.26%	5.67%

Note: These returns are calculated on a money-weighted rate of return basis. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

ADDITIONAL INFORMATION

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
Years Ended December 31, 2015 and 2014

	Budget	Actual Expense	
	<u>2015</u>	<u>2015</u>	<u>2014</u>
Personnel Services			
Salaries	\$ 1,821,931	\$ 2,225,744	\$ 1,799,298
Benefits	<u>676,937</u>	<u>761,465</u>	<u>591,828</u>
Total Personnel Services	<u>2,498,868</u>	<u>2,987,209</u>	<u>2,391,126</u>
Maintenance and Operations			
Professional Services	6,879,692	3,232,194	1,132,389
Office rent	220,385	246,358	209,299
Data processing and central costs	1,697,846	1,326,362	1,270,343
Office supplies and other expenses	277,903	301,260	236,716
Postage and telephone	57,720	51,950	45,673
Travel	66,760	55,807	34,004
Training	<u>19,177</u>	<u>9,997</u>	<u>11,214</u>
Total Maintenance and Operations	<u>9,219,483</u>	<u>5,223,928</u>	<u>2,939,638</u>
Total Administrative Expenses	<u>\$ 11,718,351</u>	<u>\$ 8,211,137</u>	<u>\$ 5,330,764</u>

SEATTLE CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF INVESTMENT EXPENSES
For Year Ended December 31, 2015

Investment Management Fees:

Adams Street	\$ 606,622
AEW Core Property Trust	567,931
Babson Tower Square	21,681
Bison Capital Equity Partners	3,101
BlackRock	201,427
Capital Point Partners	55,799
Capri	3,983
Carlyle Realty	207,525
DFA International	316,089
Dover Street	75,392
Fisher	493,791
Heitman American	520,704
JP Morgan	2,699,082
Nogales Investors	25,631
Oaktree	42,938
Parametric Delta Shift	446,814
PCCP	69,176
PIMCO	850,133
Pugh	187,784
Q-BLK Strategic Partners	286,670
Reams	260,495
RhumbLine	118,054
Russell	295,259
Smith Whiley	24,744
TA Realty Associates	235,334
TCW Crescent	39,367
Western Asset	440,895
Total Investment Management Fees	<u>9,096,421</u>

Performance Measurement:

NEPC LLC	295,000
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Custodial Services:

Bank of New York Mellon	<u>353,637</u>
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Total Investment Expenses 9,745,058

Securities Lending Services:

Bank of New York Mellon	\$ 182,660
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