Monroe County Employees' Retirement System

Financial Report
with Supplemental Information
Year Ended December 31, 2015

Monroe County Employees' Retirement System

Contents

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Independent Auditor's Report

To the Board of Trustees
Monroe County Employees'
Retirement System

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position and the related statement of changes in fiduciary net position of Monroe County Employees' Retirement System (the "System"), a pension trust fund of the County of Monroe, Michigan, as of and for the year ended December 31, 2015, 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.

Auditor's Responsibility

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

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

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

To the Board of Trustees
Monroe County Employees'
Retirement System

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of Monroe County Employees' Retirement System as of December 31, 2015 and the changes in fiduciary net position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As explained in Note 1, the financial statements include investments valued at approximately $43,000,000 (23.3 percent of net position) at December 31, 2015, whose fair values have been estimated by management in the absence of readily determinable market values. Management's estimates are based on information provided by investment managers and other means. Our opinion has not been modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Plante & Moran, PLLC

June 3, 2016

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2015	2014
Total assets	$ 183,675,264	$ 191,440,159
Total liabilities	233,048	386,365
Net position restricted for pensions	**$ 183,442,216**	**$ 191,053,794**
Net investment (loss) income	$ (1,133,015)	$ 7,866,098
Total contributions	8,836,515	8,049,604
Retiree pension and annuity benefits	(14,597,298)	(14,044,628)
Refunds of contributions	(484,034)	(303,661)
General and administrative expenses	(233,746)	(154,756)
Net (decrease) increase in net position restricted for pensions	**$ (7,611,578)**	**$ 1,412,657**

Overall Fund Structure and Objectives

Monroe County Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

The System has established asset allocation policies that are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the adopted asset allocation as of December 31, 2015:

Equities	60%
Fixed income	28%
Real estate	5%
Alternatives	5%
Cash and cash equivalents	2%

Investment Results

During the first half of 2015, the major global markets did well in the hopes of increased consumer sentiment and corporate profits bettering their 2014 results. Then global recession and deflation fears set in with oil prices falling, speculation on when the U.S. Federal Open Market Committee (FOMC) will increase the Fed Fund interest rates, China devaluing its currency, political unrest in the South Americas, and a wave of illegal immigrants in Europe. When the FOMC decided not to increase interest rates in the third quarter, the major indices had a correction - down greater than 10 percent - on speculation of economic weakness. As the fears were unrealized, the markets came back in the fourth quarter, finishing the year with the S&P 500 at 1.4 percent; the small-cap index, the Russell 2000, down 4.4 percent; the MSCI EAFE Index - a proxy for international stocks - returned a negative 0.8 percent; and the MSCI Emerging Market Index - a proxy for international emerging market stocks - returned a negative 14.6 percent. The FOMC raised the Fed Fund rates in December and indicated future rate increases, resulting in the Barclays Aggregate Index - a proxy for the U.S. bond market - returning a 0.6 percent for 2015. The total fund returned a negative 0.1percent for the year.

The System's total return must always be considered in a longer-term context. The fund's investment horizon is long term, corresponding to the long-term nature of the System's liabilities. Therefore, the board of trustees establishes an asset allocation policy to control risks and generate expected returns that will enable the System to pay the benefits promised to members and retirees. Accordingly, the board of trustees must make investment decisions that it believes will be the most beneficial to the System over many years, not just one or two years.

Contacting the System's Management

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's office at 840 South Roessler Street, Monroe, Michigan 48161.

Monroe County Employees' Retirement System

Statement of Fiduciary Net Position
December 31, 2015

Assets	
Cash and cash equivalents	$ 4,464,886
Investments:	
U.S. treasuries	10,146,972
Corporate bonds	12,817,450
Hedge fund	11,340,062
Mutual fund	5,325,951
Stocks	107,039,344
Commingled funds	19,467,549
Equity real estate	11,989,080
Receivables:	
Accrued interest and dividend receivable	168,816
Contributions receivable	915,154
Total assets	183,675,264
Liabilities - Accounts payable and accrued expenses	233,048
Net Position - Restricted for pensions	**$ 183,442,216**

The Notes to Financial Statements are an
Integral Part of this Statement.

Monroe County Employees' Retirement System

Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2015

Additions	
Investment income (loss):	
Interest and dividends	$ 3,160,995
Net decrease in fair value of investments	(3,470,745)
Less investment-related expenses	(823,265)
Net investment loss	(1,133,015)
Contributions:	
Employer contributions	7,846,805
Supplemental pension benefit contributions	91,781
Participants:	
Regular	855,748
Time purchase	42,181
Total contributions	8,836,515
Total additions	7,703,500
Deductions	
Benefit payments	14,597,298
Refunds of contributions	484,034
Administrative expenses	233,746
Total deductions	15,315,078
Net Decrease in Net Position Held in Trust	(7,611,578)
Net Position Restricted for Pensions - Beginning of year	191,053,794
Net Position Restricted for Pensions - End of year	**$ 183,442,216**

The Notes to Financial Statements are an Integral Part of this Statement.

Note 1 - Summary of Significant Accounting Policies

The following is a summary of significant accounting policies used by Monroe County Employees' Retirement System:

Reporting Entity

Monroe County Employees' Retirement System (the "System") is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System Board of Trustees (the "Board"). The System primarily provides pension, disability, and death benefits, covering substantially all full-time employees of Monroe County and its component units, including the following:

Monroe County Library System
Monroe County Road Commission
Monroe County Agency
Monroe County Community Mental Health Authority

The System was adopted by Monroe County (the "County") pursuant to Michigan Compiled Laws, Section 46.12a. Benefit provisions are established and may be amended by the Board as permitted by county ordinances. The financial statements of the System are also included in the combined financial statement of the County as a pension trust fund. The assets of the pension trust fund include no securities of or loans to the County or any other related party.

Basis of Accounting

The System uses the economic resources measurement focus and the full-accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. System member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Specific Balances and Transactions

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management.

Note 1 - Summary of Significant Accounting Policies (Continued)

Approximately $43,000,000 of investments, or 23.3 percent of the System's net position, as of December 31, 2015 are not publicly traded and therefore do not always have a readily determinable market value.

Management's estimates of these values are based on information provided by investment managers, general partners, real estate advisors, and other means. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ significantly from the values that would have been used had a ready market for these securities existed.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Pension Plan

Plan Administration - The Board administers the Monroe County Employees' Retirement System Pension Plan - a single-employer defined benefit pension plan that provides pensions for substantially all permanent full-time general employees of the County. Benefit terms have been established by contractual agreements between the County and the various employee union representations; amendments are subject to the same process.

Management of the System is vested in the Retirement Board, which consists of nine members - The Monroe County Board of Commissioners (the "County Commission") chair or vice-chair at the discretion of the chair; a county commissioner selected by the County Commission; a citizen, who is an elector of the County, selected by the County Commission; three members of the System, elected by the members of the System; one member of the System appointed by the Monroe County Library Board; one member elected from the Monroe County Road Commission; and one member who is a retiree and beneficiary of the System, elected by the Association of County Retired Employees, Inc.

Plan Membership - At December 31, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	719
Inactive plan members entitled to but not yet receiving benefits	142
Active plan members	713
Total	1,574

Note 2 - Pension Plan (Continued)

Benefits Provided - The System provides retirement, disability, and death benefits. For the County and Monroe County Agency employees, benefit terms are established by negotiations between the County Commission and the employees through collective bargaining agreements and may be amended by the County Commission.

For Monroe County Library System employees, the terms are established by the library administration and library board of trustees. For Monroe County Road Commission employees, the terms are established by the road commission board of trustees through collective bargaining. For Monroe County Community Mental Health Authority employees, the terms are established by the mental health board of trustees through collective bargaining.

Contributions - Article 9, Section 24 of the State of Michigan Constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the pension board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the union contracts and plan provisions. For the year ended December 31, 2015, the active member contribution rate ranged from 0.0 percent to 5.0 percent of annual pay and the contribution as a percentage of payroll for the various departments was 26.19 percent for the general County, 37.77 percent for Monroe County Agency, 29.40 percent for the sheriff's office, 14.00 percent for Monroe County Library System, 22.72 percent for Monroe County Road Commission, and 21.59 percent for Central Dispatch. The Monroe County Community Mental Health Authority's contributions are expressed in dollars and the required contribution was $609,357.

Note 2 - Pension Plan (Continued)

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The System's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that manages 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 Percentage
Equities	60%
Fixed income	28%
Real estate	5%
Alternative	5%
Cash or cash equivalents	2%

Rate of Return - For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.17) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with state law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions, which are received throughout the year; the System maintains a record of the amount contributed by each employee and that crediting of interest shall be the rate of interest per annum, compounded annually, as reflected in the 10-year U.S. Treasury rate for the prior calendar year ending on December 31. For any employee who terminates before vesting in the pension plan, his or her balance is returned to him or her; for those who stay until retirement, the balance is transferred into the retiree reserve.

Note 2 - Pension Plan (Continued)

The balances of the reserve accounts at December 31, 2015 are as follows:

Retiree reserve (as of the beginning of the year)	$ 151,121,000
Employee reserve	7,375,617

Net Pension Liability of the System

The net pension liability of the County has been measured as of December 31, 2015 based on benefits in force as of that date and is composed of the following:

Total pension liability	$ 269,349,289
Plan fiduciary net position	183,442,216
System's net position liability	$ 85,907,073
Plan fiduciary net position as a percentage of the total pension liability	68.11 %

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2014, which used update procedures to roll forward the estimated liability to December 31, 2015. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3%	
Salary increases	3.5-5.5%	Average, including inflation
Investment rate of return	7%	Net of pension plan investment expense, including inflation

Mortality rates were based on the Fully Generational RP-2014 Blue Collar Mortality Table for males and females, using Projection Scale MP-2014.

Discount Rate - The discount rate used to measure the total pension liability as of December 31, 2015 was 7 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 2 - Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method, in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2015 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment note, are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Equities	5.46 %
Fixed income	4.50 %
Real estate	7.60 %
Alternatives	4.50 %
Cash or cash equivalents	1.00 %

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the County, calculated using the discount rate of 7.00 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00 percent) or 1 percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability of the System	$ 119,437,777	$ 85,907,073	$ 57,907,580

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed $250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments according to Michigan Public Act 347 of 2012. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities.

At December 31, 2015, the System had the following investments and maturities:

Investment Type	Fair Value	Less than One Year	1-5 Years	6-10 Years
U.S. treasuries	$ 10,146,972	$ -	$ 1,045,370	$ 9,101,602
Corporate bonds	12,817,450	755,444	12,062,006	-
Total	$ 22,964,422	$ 755,444	$ 13,107,376	$ 9,101,602

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 347 of 2012 and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

As of December 31, 2015, the System's investments in debt securities were rated by Standard & Poor's as follows:

Investment Type	AA+	A	A-	AAA	BBB+	BBB	BBB-
U.S. treasuries	$ 10,146,972	$ -	$ -	$ -	$ -	$ -	$ -
Corporate bonds	707,973	868,602	1,142,700	361,874	4,149,264	3,089,839	2,497,198
Total	$ 10,854,945	$ 868,602	$1,142,700	$ 361,874	$ 4,149,264	$ 3,089,839	$ 2,497,198

Concentration of Credit Risk - The System's investment policy requires that no manager will hold more than 5 percent of its portion of the total fund in any single company and no more than 5 percent may be held in any single common stock. At December 31, 2015, the System's investment portfolio was not concentrated.

Note 4 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The System is currently evaluating the impact this standard will have on the financial statements when adopted, during the System's year ending December 31, 2016.

Required Supplemental Information

Monroe County Employees' Retirement System

Required Supplemental Information
Schedule of Changes in the System Net Pension Liability and Related Ratios
Last Fiscal Year
(schedule is built prospectively upon implementation of GASB Statement No. 67)

	2015	2014
Total Pension Liability		
Service cost	$ 3,901,674	$ 4,475,473
Interest	18,114,296	17,360,575
Differences between expected and actual experience	(1,665,060)	-
Changes in assumptions	4,100,832	-
Benefit payments, including refunds	(15,081,332)	(14,348,289)
Net Change in Total Pension Liability	9,370,410	7,487,759
Total Pension Liability - Beginning of year	259,978,879	252,491,120
Total Pension Liability - End of year	**$ 269,349,289**	**$ 259,978,879**
Plan Fiduciary Net Position		
Contributions - Employer	$ 7,938,586	$ 7,275,798
Contributions - Member	897,929	773,806
Net investment (loss) income	(1,133,015)	7,866,098
Administrative expenses	(233,746)	(154,756)
Benefit payments, including refunds	(15,081,332)	(14,348,289)
Net Change in Plan Fiduciary Net Position	(7,611,578)	1,412,657
Plan Fiduciary Net Position - Beginning of year	191,053,794	189,641,137
Plan Fiduciary Net Position - End of year	**$ 183,442,216**	**$ 191,053,794**
System's Net Pension Liability - End of year	**$ 85,907,073**	**$ 68,925,085**
Plan Fiduciary Net Position as a Percent of Total Pension Liability	68.11 %	73.49 %
Covered Employee Payroll	$ 34,514,128	$ 33,045,751
System's Net Pension Liability as a Percent of Covered Employee Payroll	248.9 %	208.6 %

Monroe County Employees' Retirement System

Required Supplemental Information
Schedule of County Contributions
Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	$ 7,938,586	$ 7,275,798	$ 7,169,324	$ 7,114,103	$ 5,994,825	$ 5,938,425	$ 5,547,369	$ 5,938,425	$ 4,910,784	$ 3,170,195
Contributions in relation to the actuarially determined contribution (includes supplemental pension benefit funding)	7,938,586	7,275,798	7,169,324	7,114,103	5,994,825	5,938,425	5,547,369	5,938,425	4,910,784	3,170,195
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$34,514,128	$33,045,751	$37,587,747	$38,891,988	$42,893,135	$43,961,798	$43,152,156	$41,821,305	$41,047,874	$38,712,508
Contributions as a percentage of covered employee payroll	23.0 %	22.0 %	19.1 %	18.3 %	14.0 %	13.5 %	12.9 %	14.2 %	12.0 %	8.2 %

Notes to Schedule of County Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation Date	Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for FY 2015 were determined based on the actuarial valuation as of December 31, 2013. The most recent actuarial valuation for funding purposes was as of December 31, 2014.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Liabilities were amortized using a 25-year level percent of payroll with the exception of Monroe County Community Mental Health Authority liabilities that were amortized using a level-dollar method for the valuation as of December 31, 2012.
Remaining amortization period	25
Asset valuation method	Seven-year adjusted market value
Inflation	3.0%
Salary increases	3.5%-5.5% vary by employee group
Investment rate of return	7.0% (net of investment expenses)
Retirement age	Experience-based table of rates specific to the type of eligibility condition
Mortality	The Fully Generational RP-2014 Blue Collar Mortality Table for males and females, using Projection Scale MP-2014
Other information	None

Required Supplemental Information
Schedule of Investment Returns
Last Ten Fiscal Years
(schedule is built prospectively upon implementation of GASB Statement No. 67)

	2015	2014
Annual money-weighted rate of return, net of investment expense	(0.17)%	5.65 %