POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)

Financial Statements and Supplementary Information
For the Years Ended December 31, 2015 and 2014
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Policemen's Annuity and Benefit Fund of Chicago

Report on the Financial Statements

We have audited the accompanying financial statements of Policemen's Annuity and Benefit Fund of Chicago (the Fund), a component unit of the City of Chicago, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's 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 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 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.

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MITCHELL TITUS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2015 and 2014, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The schedule of administrative expenses, schedule of consulting costs and schedule of investment fees are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Mitchell & Titus, LLP

June 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the financial statements of the Policemen's Annuity and Benefit Fund of Chicago (the Fund) and to supplement the information contained therein.

Overview of Financial Statements and Accompanying Information

The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB) and are described below:

- **Statements of Fiduciary Net Position** report the Fund's assets, liabilities, and the resultant net position where assets minus liabilities equal net position held in trust for pension benefits at the end of the year.

- **Statements of Changes in Fiduciary Net Position** show the sources and uses of funds during the calendar year, where additions minus deductions equal the net increase or decrease in net position held in trust for pension benefits for the year.

- **Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a more comprehensive understanding of the data provided in the financial statements. Information contained in the note disclosures includes the Fund's accounting policies, descriptions of pension and health benefits and related liabilities, detail of investments and related risks, fund reserves, and various other relevant topics.

- **Required Supplementary Information** presents detailed required historical information and is presented after the Notes to the Financial Statements. This required supplementary information includes data on the employer's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan; and information on funding progress and employer's contributions for the Health Insurance Supplement and Staff Retiree Health Plan; along with the other information useful in evaluating the fiduciary net position of the Fund.

- **Supplementary Information** presents the detail on costs of maintaining a defined benefit pension plan.

Financial Highlights

- The fiduciary net position of the Fund decreased by $3.1 million, or 0.1%, to $3,058.9 million at December 31, 2015. At December 31, 2014, the fiduciary net position of the Fund decreased by $203.2 million, or 6.2%, to $3,062.0 million from the December 31, 2013 balance of $3,265.2 million.

Financial Highlights *(continued)*

- Fund investment (loss) gain and investment income, net of investment-related expenses was a loss of approximately $(6.0) million during 2015, compared to a gain of approximately $180.7 million during 2014. For 2015, although absolute performance was negative, the Fund outperformed its policy index on a net of fee basis and ranked slightly below its peer median. 2015 was marked by uncertainty caused by several globally significant economic trends; the extension of the U.S. economic cycle, the path of the Federal Reserve's monetary policy tightening, and the extent of the economic slowdown in China. This uncertainty rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets, particularly during the third quarter of 2015. Asset classes with absolute positive performance and performance stronger than their designated benchmarks included U.S. equities, private equity and infrastructure. U.S. equities markets ended a volatile 2015 on a strong note, which was additive to the Fund's portfolio, particularly in smaller capitalization portfolio. The Fund's non-U.S. equity portfolio returned negative for the year due to the market environment, but did outperform its respective benchmark. Negative performance in the fixed income portfolio hurt the portfolio on both a relative and absolute basis. Although the real estate and hedge fund portfolios returns were positive for the year on an absolute basis, they did underperform their respective benchmarks. Finally, the global asset allocation portfolio returned negative for the year, being impacted by the portfolio's non-U.S. exposures.

- The Fund received contributions of $107.6 million from members and $582.3 million from the City of Chicago in 2015, compared to contributions of $95.7 million from members and $187.1 million from the City of Chicago in 2014. The number of active members increased slightly from 2014 to 2015. The increase in member contributions is primarily due to a retroactive wage increase provided to most active members in January 2015, which was reflective of a new employment contract between the City of Chicago and collective bargaining groups for various sworn officers within the Chicago Police Department, with salary increases effective July 1, 2012. The retroactive increases resulted in approximately $8.0 million of additional member contributions in 2015. Also contributing to the increase is the wage increases provided to active members under the terms of the new employment contract. The significant increase in employer contributions is due to enactment of Public Act 096-1495, which requires that the employer, the City of Chicago, finance benefits of the Fund on an actuarial basis commencing with tax levy year 2015. The financing requires that employer contributions, employee contributions and other fund income be sufficient to produce 90% funding by the conclusion of year 2040. Prior to tax levy year 2015, employer contributions were mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior.

Financial Highlights *(continued)*

- Benefit payments, excluding death benefits, increased by approximately $22.7 million in 2015, from $653.8 million in 2014 to $676.5 million in 2015. The average monthly benefit for each retiree has increased. For the last five years of 2011-2015, approximately 2,200 active members have retired; which approximates 23% of the retirees at the end of 2015. Recent retirements generally have higher monthly annuities, as annuities are usually calculated with the last four years of pensionable wages. For example, the average monthly annuity awarded in 2015 was approximately $200 higher than an annuity awarded in 2014. The average monthly annuity awarded in 2015 was approximately $2,500 higher than an annuity awarded in 1995. Thus, while beneficiary levels remained constant between 2014 and 2015, new retirees included in the averages, have earned a significantly higher monthly annuity than, for example, a retiree of 20 or more years prior, who expires during the year. Also contributing to the increase is the annual cost-of-living adjustments provided to retirees born prior to January 1, 1955, and those retirees born after January 1, 1955, who reached 60 years of age in 2015. Payments for cost-of-living adjustments increased by approximately $7.0 million from 2014 to 2015. Death benefits and refunds of employee deductions decreased slightly from 2014 to 2015 by approximately $0.8 million, from $10.5 million to $9.7 million, respectively. The decrease is due to a smaller volume of resignation refunds granted in 2015. Administrative expenses increased by approximately $0.2 million, primarily due to increased salary and benefit expense, as the Fund hired employees in 2015 to replace positions vacant in 2014.

  The funding objective of the Fund is to meet its long-term defined pension benefit obligations. The funding ratio of the Fund on a fair value basis, for purposes of statutory funding under Public Act 96-1495, experienced a decrease, from 27.7% at December 31, 2014 to 27.1% at December 31, 2015. The decrease reflects an increase in the actuarial liability, due to normal cost and interest on the actuarial obligation, while asset values did not increase from 2014 to 2015.

- The Fund adopted GASB Statement No. 67, "Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25", during the year ended December 31, 2014. Adoption of this GASB Statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring pension liabilities. As of December 31, 2015 and 2014, the Fund's funded ratio was 25.4% and 26.0%, respectively.

- In compliance with GASB No. 45, the Fund recognizes a liability for other post-employment benefits (OPEB), which represents health insurance coverage for active and retired Fund employees. Expense of $0.45 million and $0.42 million was recognized in 2015 and 2014, respectively, resulting in a total accrued liability of $2.37 million and $2.08 million as of December 31, 2015 and 2014, respectively.

Fiduciary Net Position

A summary of fiduciary net position is presented below:

Fiduciary Net Position
(In millions)
As of December 31, 2015, 2014, and 2013

				2015–2014 Change	
	2015	2014	2013	$	%
Receivables	$ 591.6	$ 195.3	$ 201.6	$ 396.3	202.9 %
Brokers–unsettled trades	89.8	117.3	146.6	(27.5)	(23.4)
Investments, at fair value	2,520.3	2,970.4	3,097.3	(450.1)	(15.2)
Invested securities lending cash collateral	93.1	288.5	271.9	(195.4)	(67.7)
Total assets	3,294.8	3,571.5	3,717.4	(276.7)	(7.7)
Brokers–unsettled trades	135.5	214.1	173.2	(78.6)	(36.7)
Securities lending payable	93.1	288.5	271.9	(195.4)	(67.7)
OPEB obligation	2.4	2.1	1.8	0.3	14.3
Refunds and accounts payable	4.9	4.8	5.3	0.1	2.1
Total liabilities	235.9	509.5	452.2	(273.6)	(53.7)
Net position	$ 3,058.9	$ 3,062.0	$ 3,265.2	$ (3.1)	(0.1)%

The decrease in fiduciary net position of $3.0 million in 2015 was due to a few factors, including continued liquidation of investments to fund benefit payments and an investment return of (0.41)%. Cash contributions received were approximately $385 million less than benefit payments in 2015. This shortfall was funded through liquidation of invested assets and distributions received through the Fund’s private equity, real estate and infrastructure investment manager vehicles. This liquidation of assets is consistent with 2014 activity, in which contributions from members and the employer were approximately $382 million less than benefits to members. The liquidation of assets is evidenced by the reduction in investment assets of approximately $450 million from December 31, 2014 to 2015. In addition, the assets available for investment lost (0.41%) in 2015, compared to an investment gain of 6.24% in 2014. For 2015, although absolute performance was negative, the Fund outperformed its policy index on a net of fee basis. The year 2015 was marked by uncertainty caused by several globally significant economic trends; the extension of the U.S. economic cycle, the path of the Federal Reserve’s monetary policy tightening, and the extent of the economic slowdown in China. This uncertainty rattled investors, culminating in risk aversion and contributing to a sharp decline in global markets, particularly during the third quarter of 2015.

Changes in Fiduciary Net Position

The following table reflects a comparative summary of various changes in fiduciary net position:

Changes in Fiduciary Net Position
(In millions)
Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013	2015–2014 Change $	2015–2014 Change %
ADDITIONS					
Member contributions	$ 107.6	$ 95.7	$ 93.3	$ 11.9	12.4 %
Employer contributions	582.3	187.0	188.9	395.3	211.4
Net investment gain (loss) and investment income	(6.0)	180.7	414.4	(186.7)	(103.3)
Securities lending income	0.7	1.2	0.9	(0.5)	(41.7)
Miscellaneous income	3.1	0.7	0.5	2.4	342.9
Total additions	687.7	465.3	698.0	222.4	47.8
DEDUCTIONS					
Annuity, disability, and death benefits	678.4	655.3	633.8	23.1	3.5
Refunds of contributions	7.8	9.0	8.1	(1.2)	(13.3)
OPEB expense	0.4	0.4	0.4	-	-
Administrative expenses	4.1	3.8	3.9	0.3	7.9
Total deductions	690.7	668.5	646.2	22.2	3.3
Net increase/(decrease)	$ (3.0)	$ (203.2)	$ 51.8	$ 200.2	(98.5)%

The Fund experienced a decrease in fiduciary net position in 2015. The decrease reflects an investment return of (0.41)%, compared to a return of 6.24% in 2014. As mentioned, the Fund continues to liquidate investments to fund benefit payments. The large increase in employer contributions in 2015 versus 2014 is due to an employer receivable of approximately $580 million at December 31, 2015. The 2015 tax levy by the City of Chicago, as provided for in Public Act 096-1495, is scheduled for collection and distribution to the Fund in 2016. Previously, employer contributions to the Fund were mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior.

Investment Activities

The strategic allocation was unchanged in 2015. Long-term targets include: 21% for U.S. Equity, 20% for non-U.S. Equity, 22% for Fixed Income and Cash, 19% for Tactical and Alpha Strategies, 4% for Real Assets, 7% for Private Equity, 5% for Real Estate, and 2% for Infrastructure.

Investment Activities *(continued)*

The Fund continues to prudently implement the strategic allocation approved by the Board of Trustees in late 2010. In 2014, three new fixed income managers were hired to invest in two unconstrained bond funds and a strategic fixed income fund. These new mandates were transitioned in 2015, and the restructuring resulted in the termination of three fixed income managers. As part of the transition, approximately $88 million was liquidated from the fixed income portfolio and used to fund benefit payments. Within the Tactical and Alpha Strategy, the Fund terminated the hedge fund of funds portfolio managers in late 2015. Proceeds of such termination received were used to fund benefit payments. With the U.S. equity allocation, reductions were made throughout the year because of immediate funding requirements.

Investment Returns
Years Ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Total fund (%)	(0.41)%	6.24%	14.51 %
Equities	(1.30)	4.26	25.75
Fixed income	(1.07)	6.03	(1.19)
Alternatives	(5.35)	1.87	8.47
Private capital	9.72	18.03	13.04
Cash and cash equivalents	0.14	0.07	0.11

Private capital consists of investments in private equity, real estate and infrastructure. Alternative investments consist of fund of hedge fund investments and global tactical allocations.

Plan Membership

The following table reflects the Plan membership as of December 31, 2015, 2014 and 2013.

Plan Membership
As of December 31, 2015, 2014 and 2013

				2015–2014	
	2015	2014	2013	Change	%
Retirees and beneficiaries receiving benefits	13,210	13,230	13,159	(20)	(0.2)%
Active employees	12,061	12,020	12,161	21	0.3
Terminated (inactive members) employees entitled to benefits or refunds of contributions	637	630	654	7	1.1
Total	25,908	25,880	25,974	8	0.1 %

Funding Status

The funding ratio of the Fund on a fair value basis, for purposes of statutory funding, experienced a decrease, from 27.7% at December 31, 2014 to 27.1% at December 31, 2015. For accounting purposes, the Fund adopted GASB No. 67 for the year ended December 31, 2014. This accounting standard requires that that projected benefit payments are required to be disclosed to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average 'AA' credit rating. Using this methodology and accounting standard, the funding ratios of the Fund at December 31, 2015 and 2014, were 25.4% and 26.0%, respectively.

The valuations as of December 31, 2015 and 2014, reflect the results of an experience review, completed by the Fund's actuary, of the economic and demographic assumptions of the Fund for the period January 1, 2009, through December 31, 2013. This experience review was completed in early 2015 and based upon the results, several actuarial assumptions were changed in 2014. Significant assumptions that were changed include the investment return and mortality tables. Actuarial information presented as of December 31, 2015 and 2014, reflects these assumption changes.

On December 30, 2010, Governor Pat Quinn signed into law, SB 3538, as part of Public Act 096-1495. This legislation included provisions, which significantly change the method by which contributions to the Fund by the Employer, the City of Chicago, are determined, as well as the level of benefits afforded police officers hired by the City of Chicago after January 1, 2011.

Before Public Act 096-1495, the City of Chicago met its statutory obligation for funding through a tax multiplier calculation that was based upon active member contributions. Public Act 096-1495 changed the City of Chicago funding obligation, effective with tax levy year 2015, such that each year annual actuarially determined employer contributions are to be calculated. Such actuarially determined contributions are to be established that produce a projected funding goal of 90% by the end of 2040, based upon the projected actuarial value of Fund assets and liabilities and application of certain required actuarial methodologies.

Based upon the statutory provisions of PA 096-1495 and related calculations provided by the Fund's actuary, contributions receivable from the City of Chicago as of December 31, 2015, are $580 million, as compared to $184 million receivable as of December 31, 2014, which was calculated on the prior statutorily set multiplier of 2.0 times member contributions. The receivable as of December 31, 2015, which is payable to the Fund as 2015 levy tax revenues are collected from the City of Chicago in 2016, is a significant asset to the Fund.

Effective May 30, 2016, Public Act 096-1495 was changed by Public Act 099-0506. The funding provisions of Public Act 099-0506 are significantly different than those of Public Act 096-1495. Such provisions are not reflected in the financial statements as of December 31, 2015. The new policy provides that beginning with the tax levy year 2015, which will be collected in taxes paid to the Fund in 2016, the City shall levy and collect a tax in an annual amount of $420 million in 2016; $464 million in 2017; $500 million in 2018; $557 million in 2019; and $579 million in 2020. Beginning in tax levy year 2020, which is payable to the Fund in 2021 when the taxes are collected, contributions by the City, along with member contributions and investment income are to be an amount sufficient to produce a funded ratio of 90% by 2055.

Funding Status *(continued)*

The financial statements as of December 31, 2015, do not reflect legislative changes of 2016, including Public Act 099-0506. Due to the passage of Public Act 099-0506, the employer receivable of $580 million at December 31, 2015, which is included in the Statements of Fiduciary Net Position as of December 31, 2015, will not be collected in full. The amount collected will be reduced by approximately $173 million, to an expected collection amount of approximately $407 million. In addition, the change in funding policy is expected to impact the total and net pension liability of the Fund. While the impact on the pension liability has not yet been determined, it is expected to be significant.

Contact Information

This financial report is designed to provide the employer, plan participants, and others with a general overview of the Fund's finances and to show accountability for the monies received. Questions concerning any data provided in this report can be submitted to:

Ms. Regina M. Tuczak
Executive Director
Policemen's Annuity and Benefit
Fund of Chicago
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POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Fiduciary Net Position
As of December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 250	$ 250
Receivables		
Employer tax levies, net of allowance for loss of $26,714,401 in 2015 and $18,177,719 in 2014	579,815,440	184,457,332
Member contributions	4,815,841	4,739,959
Interest and dividends	6,986,788	6,099,084
Accounts receivable—due from brokers	89,831,833	117,341,100
	681,449,902	312,637,475
Investments, at fair value		
U.S. common stock and other equity	460,460,737	474,142,865
Collective investment funds, stock	289,918,902	355,092,681
Collective investment funds, international equities	22,143,930	28,588,836
Collective investment funds, fixed income	125,887,254	191,250,913
Collective investment funds, international fixed income	87,226,783	-
International equity	618,856,305	635,744,045
U.S. bonds and notes	509,988,771	712,982,619
International bonds and notes	37,781,677	7,004,891
Short-term instruments	73,066,300	135,835,426
Infrastructure	38,932,764	36,538,895
Forward contracts and swaps	9,359,323	16,059,481
Hedge fund-of-funds	9,954,440	100,368,762
Real estate	80,387,687	94,281,030
Venture capital and private equity	156,327,767	182,463,748
	2,520,292,640	2,970,354,192
Invested securities lending cash collateral	93,088,584	288,542,319
Total assets	3,294,831,376	3,571,534,236
LIABILITIES		
Refunds and accounts payable	4,868,168	4,756,525
Trade accounts payable—due to brokers	135,551,728	214,140,603
Securities lending cash collateral	93,088,584	288,542,319
OPEB obligation	2,373,859	2,080,467
Total liabilities	235,882,339	509,519,914
Net position held in trust for pension benefits	$ 3,058,949,037	$ 3,062,014,322

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

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Statements of Changes in Fiduciary Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
ADDITIONS		
Contributions		
Employer	$ 582,277,634	$ 187,074,950
Plan member salary deductions	107,626,311	95,675,538
Total contributions	689,903,945	282,750,488
Investment income		
Net (depreciation) appreciation in in the fair value of investments	(51,940,312)	136,126,859
Interest	19,171,732	19,452,054
Dividends	28,870,113	31,592,777
Real estate income	7,159,475	3,547,612
	3,261,008	190,719,302
Investment activity expenses		
Investment management fees	(8,552,490)	(9,304,806)
Custodial fees	(257,093)	(183,532)
Investment consulting fees	(504,207)	(495,364)
Total investment activity expenses	(9,313,790)	(9,983,702)
Net (loss) income from investing activities	(6,052,782)	180,735,600
From securities lending activities		
Securities lending income	776,834	984,565
Borrower rebates	121,757	429,565
Bank fees	(179,604)	(248,437)
Net income from securities lending activities	718,987	1,165,693
Total net investment (loss) income	(5,333,795)	181,901,293
Miscellaneous income	3,091,545	740,305
Total additions	687,661,695	465,392,086
DEDUCTIONS		
Pension and disability benefits	676,482,414	653,779,124
Death benefits	1,909,200	1,566,933
Refunds of employee deductions	7,826,847	8,991,636
	686,218,461	664,337,693
Administrative expenses	4,062,553	3,817,256
OPEB expense	445,966	423,369
Total deductions	690,726,980	668,578,318
Net decrease	(3,065,285)	(203,186,232)
Net position held in trust for pension benefits		
Beginning of year	3,062,014,322	3,265,200,554
End of year	$ 3,058,949,037	$ 3,062,014,322

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Accounting principles generally accepted in the United States, as established by the Governmental Accounting Standards Board (GASB), define a financial reporting entity as consisting of the primary government and its component units, for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit, or a potential for the component unit to provide specific financial benefits to or impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units.

Based on the above criteria, the Policemen's Annuity and Benefit Fund of Chicago (the Fund, or PABF) is considered to be a component unit of the City of Chicago (the City). The Fund is part of the City's financial reporting entity and is included in the City's fiduciary statement of net assets as pension trust funds.

Basis of Accounting

The Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Investments

The Fund is authorized to invest in bonds, notes, and other direct obligations of the U.S. Government and U.S. Government agencies; corporate bonds, debentures, and notes; certain notes secured by mortgages, including pass-through securities; common and preferred stocks; certain pooled funds; limited partnerships; real estate; derivatives; currencies and other types of investment vehicles as set forth in the Illinois Compiled Statutes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Method Used to Value Investments

Investments are reported at 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. Fixed-income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued at estimated fair value as determined by the general partner, based upon appraisals provided by the investment manager. Hedge fund, venture capital, private equity, infrastructure, and certain opportunistic investments are reported at estimated fair value as determined by the general partner of the investment vehicle.

Furniture and Office Equipment

Furniture and office equipment are not capitalized as they are immaterial and are charged to expenses in the year of purchase.

Administrative Expenses

Administrative expenses are recorded as incurred and are budgeted and approved by the Fund's Board of Trustees. Administrative expenses are funded by employer contributions.

Income Taxes

Income earned by the Fund is not subject to federal income taxes.

Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statements of fiduciary net position at fair value. Securities received as collateral are reported as assets only if the Fund is able to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of fiduciary net position.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recent Accounting Pronouncements

The following standards were adopted by the Fund during 2015 and 2014:

GASB Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*, was established to provide improved financial reporting by state and local government pension plans. The Fund adopted GASB Statement No. 67 beginning with its December 31, 2014 financial statements. The adoption of this statement had no effect on the Fund's fiduciary net position, but changed the approach for measuring the pension liability and required certain changes to note disclosures and required supplementary information. The adoption of GASB Statement No. 67 resulted in elimination of certain actuarial disclosures related to the pension plan's funding progress, and the addition of disclosures related to the pension plan's net pension liability and changes thereof, employer's contribution and money-weighted rate of return for the pension plan investments.

Other accounting standards that the Fund is currently reviewing for applicability and potential impact on the financial statements include:

GASB's codification standard on *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The Statement also provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2016.

GASB's codification standard on *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* addresses improvements to the usefulness of information about pensions included in the general purpose external financial reports of a government employer for making decisions and assessing accountability. The Statement also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans.* The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2017.

GASB's codification standard on *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The provisions of the new standard will be effective for the Fund beginning with its year ending December 31, 2017.

NOTE 2 PENSION PLAN

Plan Description and Contribution Information

Policemen's Annuity and Benefit Fund of Chicago is the administrator of a defined benefit, single-employer pension plan with a defined contribution minimum for the purpose of providing benefits to the police officers of the City and their widows and children. Any City employee employed under the provisions of the municipal personnel ordinance as police service is covered by the Fund. The defined benefits, as well as the employer and employee contribution levels, are mandated in Illinois Compiled Statutes (40 ILCS Act 5, Article 5) and may be amended only by the Illinois State Legislature. The Fund is governed by an eight-member Board of Trustees (four appointed by the City, three elected by the policemen, and one elected by the annuitants) whose duties are to administer the Fund under the Illinois Pension Code. The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2015 and 2014 were $1,086,607,979 and $1,074,333,318, respectively. At December 31, 2015 and 2014, the Fund membership consisted of the following:

	2015	2014
Active employees	12,061	12,020
Retirees and beneficiaries currently receiving benefits	13,210	13,230
Terminated employees entitled to benefits or a refund of contributions, but not yet receiving them	637	630
	25,908	25,880

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or older with at least 10 years of service are entitled to receive a money purchase annuity and partial City contributions if less than 20 years of service have been completed. The mandatory retirement age for a participant is 63. Employees age 50 or older with at least 20 years of service are entitled to receive a minimum formula annuity of 2.5% per year for the first 20 years of service, plus 2.5% per year for each following year or fraction thereof times the final average salary (highest average annual salary for any four consecutive years within the last 10 years of service immediately preceding the date of retirement). The annuity shall not exceed 75% of the highest average annual salary.

The monthly annuity increases by 3% of the original annuity at the first of the month following the later of the attainment of age 55 or the first anniversary of retirement, and by 3% on each January 1 thereafter, if the recipient was born before January 1, 1955.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

If the recipient was born after January 1, 1955, the monthly annuity increases by 1.5% of the original annuity at the first of the month following the later of the attainment of age 60 or the first anniversary of retirement, and 1.5% on each January 1 thereafter, but will not exceed a total of 30%.

Members first hired after January 1, 2011, are subject to different provisions within their defined benefit pension plan. The new provisions include a minimum retirement age of 55, a final average salary calculation based upon 96 consecutive months within the last 120 months of employment, an annual salary cap for purposes of calculating a pension benefit, and cost-of-living increases for a pension benefit that include considerations related to the consumer price index for urban consumers.

Covered employees are required to contribute 9.0% of their salary to the Fund. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City is required by state statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by two annually.

Applicable to the 2014 fiscal year, the total annual actuarial required contribution to the Fund (financed by the employees and the City) is equal to the normal cost plus interest only on the unfunded actuarial accrued liabilities determined using the entry age normal method. This actuarial cost method amortizes the costs of the participants' benefits over the entire career of each member as a level of percentage of compensation. The employer contribution required for interest only on the unfunded actuarial accrued liabilities results in a decreasing annual employer cost expressed as a percentage of payroll as future payrolls increase. Since the tax levy is expressed as a multiple of the total salary deductions made two years prior, the City is effectively contributing a level annual percentage of payrolls.

Commencing with the City tax levy year beginning in 2015, legislation in place at December 31, 2015, requires that the City finance plan benefits on an actuarial basis annually. The funding policy requires that future employer contributions, employee contributions and other Fund income are sufficient to produce a funding goal of 90% by the fiscal year end 2040, based upon the actuarial value of Fund assets and application of certain required actuarial assumptions and methodologies.

NOTE 2 PENSION PLAN *(continued)*

Plan Description and Contribution Information *(continued)*

The actuarial calculation utilized and reported to the City for its tax levy beginning in 2015 requires that assets are marked-to-market at March 30, 2011, and the actuarial value of assets be based upon a five-year smoothing of investment gains and losses incurred in fiscal years ending after March 30, 2011. The actuarial value of assets at December 31, 2015, reflects that assets were marked to the fair market value of assets at January 1, 2012, and all related investment gains and losses through January 1, 2012, were recognized. Investment gains and losses for the years ended December 31, 2012, 2013, 2014 and 2015, are recognized at a rate of 20% per year over a five-year period. For purposes of the actuarial asset valuation, resetting the actuarial value of assets to the fair market value of assets at January 1, 2012, instead of March 30, 2011, does not impact the statutory contribution requirement for 2015.

The total pension liability at December 31, 2015, and 2014, was $12,032,733,000 and $11,773,430,559, respectively. The plan fiduciary net position at December 31, 2015, and 2014, was $3,058,949,037 and $3,062,014,322, respectively. The net pension liability at December 31, 2015, and 2014, was $8,973,783,963, and $8,711,416,237, respectively. The Single Discount Rate of 7.15% required by GASB Statement No. 67 as of December 31, 2015, was based on a long-term expected rate of return on pension plan investments of 7.50% and a long-term municipal bond rate of 3.57%. The Single Discount Rate of 7.15% as of December 31, 2014, was based on a long-term expected rate of return on pension plan investments of 7.50% and a long-term municipal bond rate of 3.56%.

NOTE 3 HEALTH INSURANCE SUPPLEMENT

Plan Description and Contribution Information

The City offers group health benefits to annuitants and their eligible dependents through the City's health care plans.

Premiums are established by the City, with the City paying a significant portion of the cost of health coverage and the remaining amount paid by all annuitants participating in the City's health care plans. Currently, the Fund pays the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans, up to a maximum of $95 per month from July 1, 2009 through December 31, 2016, for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $65 per month from July 1, 2009 through December 31, 2016, for each annuitant who is qualified to receive Medicare benefits. These subsidy rates expire on December 31, 2016.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Plan Description and Contribution Information *(continued)*

The disclosures herein assume that for valuation purposes the subsidy rates for the health insurance supplement in effect at December 31, 2015, and 2014, will end on December 31, 2016.

The supplemental payments by the Fund are included in employer contributions on the statements of changes in fiduciary net position. The supplemental health care benefits are not dependent upon inflation, as the benefits paid are a fixed dollar amount.

The health insurance supplement is financed with current contributions on a pay-as-you-go basis. There is no separate healthcare account or assets to pay the health insurance supplement.

At December 31, 2015, and 2014, the number of annuitants or surviving spouses who had subsidized health insurance totaled 10,405 and 10,676, respectively. Of the 2,805 and 2,554 remaining annuitants or surviving spouses, at December 31, 2015, and 2014, respectively, substantially all were eligible for subsidized health insurance, subject to their election of such benefits at a future date, and successful completion of the City's enrollment procedures, which includes certificate of insurability or an annual exam. Additionally, of the 637 and 630 terminated employees entitled to benefits or a refund, at December 31, 2015, and 2014, respectively, approximately 52 and 57 of the terminated employees were eligible for subsidized health insurance, subject to their election of such benefits at a future date and successful completion of the City's enrollment procedures. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The estimated City contribution represents the expected benefit payments for the health insurance supplement. In 2015 and 2014, the Fund received contributions of $9,441,534 and $9,657,123, respectively. Contributions to the health insurance supplement are equal to the insurance premium payments to the City. There were no net assets available for the health insurance supplement at December 31, 2015, or 2014.

NOTE 3 HEALTH INSURANCE SUPPLEMENT *(continued)*

Funded Status and Funding Progress

The funded status of the Fund's health care plans as offered by the City as of December 31, 2015, and 2014, which are the most recent actuarial valuation dates, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/15	-	$ 9,255,090	$ 9,255,090	0.00	1,086,607,979	0.85%
12/31/14	-	18,762,125	18,762,125	0.00	1,074,333,318	1.75

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, present multi-year trend information regarding the actuarial values of the Healthcare Insurance Fund assets and the ratios to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation dates	December 31, 2015, and 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	December 31, 2015: 2 year Closed – period for FY 2015 and beyond; December 31, 2014: 3 year closed period for FY 2014 and beyond
Asset valuation method	No assets (pay-as-you-go)
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% – per year, plus additional percentage related to service
Healthcare cost trend rate	0.0% (fixed dollar subsidy)
General inflation rate	3.0%

NOTE 4 CASH AND INVESTMENT RISK

Cash

The bank balance and carrying amount of the Fund's deposits at December 31, 2015 were $546,216 and $(156,201), respectively; and $553,685 and ($748,533) at December 31, 2014, respectively. These balances excluded $250 of petty cash. The bank balance at December 31, 2015, and 2014 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

Investment Policy

The Trustees assume the responsibility for establishing the Fund's investment policy. The Fund's overall investment policy is based on the following principles established by the Trustees:

- Maintain a long-term investment horizon for the Fund
- Diversify investments across several asset classes

The Trustees have indicated interest in developing a risk policy statement in parallel to the Fund's investment policy. The policy would highlight those risks managed at the Fund level and those managed by external managers. The risk policy would also state the types of risks that are monitored and how they are measured. Until such policy is developed by PABF staff and adopted by the Board, there is no formal policy relating to specific investment-related risks.

Money-Weighted Rate of Return

For the years ended December 31, 2015 and 2014, the annual money-weighted rate of return on the plan investments, net of investment expense, was (0.41)% and 6.24%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Summary

The following table presents a summary of the Fund's investments by type at December 31, 2015 and 2014.

	2015	2014
U.S. Government and agency fixed income	$ 241,404,326	$ 352,303,045
U.S. corporate fixed income	306,366,120	367,684,464
U.S. common collective fixed-income funds	93,919,509	60,605,016
Global common collective fixed-income funds	119,194,529	130,645,897
Global common collective equity funds	192,123,048	200,696,300
U.S. equities	460,460,737	474,142,865
U.S. common collective stock funds	97,795,855	154,396,381
International equity common collective funds	22,143,930	28,588,836
Foreign equities	618,856,305	635,744,045
Pooled short-term investment funds	21,458,105	55,097,459
Infrastructure	38,932,764	36,538,895
Real estate	80,387,687	94,281,030
Venture capital	156,327,767	182,463,748
Forward contracts and swaps	9,359,323	16,059,481
Hedge fund-of-funds	9,954,440	100,368,762
Cash and cash equivalents	51,608,195	80,737,968
Total investments at fair value	$ 2,520,292,640	$ 2,970,354,192

There are no individual investments held by the Fund that represented 5% or more of net position held in trust for pension benefits, except for the Fund's investment in the MFO GMO Global Asset Allocation Fund, which amounted to $192,123,048 and $200,696,300 at December 31, 2015, and 2014, respectively, and the NTGI Collective Russell 1000 Index Fund, which amounted to $154,396,381 at December 31, 2014. There are no insurance contracts excluded from plan assets.

The Fund's investments were managed by approximately 45 external investment managers during 2015 and 2014, with additional services provided by an external investment consultant. The Fund does not employ any internal investment managers, therefore its investments are not managed internally. The Fund does not have a formal policy regarding the credit risk of its external managers or investment consultant.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk and foreign currency risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statements of fiduciary net position.

Interest rate risk—Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund does not have a formal policy regarding interest rate risk. The Fund attempts to mitigate its exposure to fair value loss arising from increasing interest rates by diversifying its fixed-income investment strategy and by allocation to several investment managers. The Fund engaged six and five such managers in 2015 and 2014, respectively. Each investment manager is required to determine the maturities of all fixed-income securities in their portfolio. Additionally, guidelines are provided to the external investment managers, including a target duration range that is consistent with each investment manager's respective strategy.

The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

At December 31, 2015, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	Fair Value	Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	$ 45,757,765	$ -	$ 17,350,613	$ 5,326,369	$ 23,080,783
Bank loans	9,112,825	-	6,459,360	2,653,465	-
Collateralized bonds	435,204	-	-	435,204	-
Commercial mortgage-backed securities	25,073,132	-	414,325	1,234,335	23,424,472
Corporate bonds	202,328,988	6,303,857	69,517,915	82,812,623	43,694,593
Corporate convertible bonds	808,538	-	208,500	-	600,038
Government agency securities	10,704,270	266,052	7,247,574	2,802,773	387,871
Government bonds	113,245,899	4,648,557	67,892,840	26,497,116	14,207,386
Government mortgage-backed securities	116,377,994	-	1,308,860	1,205,228	113,863,906
Index-linked government funds	1,076,163	84,423	171,449	468,440	351,851
Municipal principal bonds	12,085,968	952,960	2,816,984	2,856,522	5,459,502
Non-government-backed collateralized mortgage obligations	10,583,643	-	477,254	1,179,480	8,926,909
Other fixed income	180,057	180,057	-	-	-
	$ 547,770,446	$ 12,435,906	$ 173,865,674	$ 127,471,555	$ 233,997,311

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

At December 31, 2014, the Fund had the following investments and maturities related to certain fixed-income securities (bonds and notes):

		Investment Maturities			
Investment Type	Fair Value	Less than 1 Year	1 to 6 Years	7 to 10 Years	More than 10 Years
Asset-backed securities	$ 72,626,358	$ 2,963	$ 29,990,646	$ 12,883,729	$ 29,749,020
Collateralized bonds	436,832	-	-	-	436,832
Commercial mortgage-backed securities	48,792,690	-	374,937	1,250,816	47,166,937
Corporate bonds	221,247,437	11,516,205	82,380,828	54,000,807	73,349,597
Government agency securities	6,656,486	-	3,668,954	2,870,381	117,151
Government bonds	160,910,542	2,009,218	110,608,974	20,692,986	27,599,364
Government mortgage-backed securities	173,300,033	-	916,127	4,325,715	168,058,191
Index-linked government funds	11,435,983	-	8,947,303	1,600,202	888,478
Municipal principal bonds	8,030,968	302,082	589,051	217,640	6,922,195
Non-government-backed collateralized mortgage obligations	16,550,180	-	941,962	1,545,178	14,063,040
	$ 719,987,509	$ 13,830,468	$ 238,418,782	$ 99,387,454	$ 368,350,805

Credit risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. One measure of credit risk is the quality ratings issued by national ratings agencies such as Moody's Investors Services (Moody's) and Standard & Poor's Financial Services. The Fund does not have a formal policy in regard to aggregate credit quality of fixed income holdings. The Fund utilizes external investment management firms to invest in fixed income securities and credit quality is addressed within the guidelines of the mandate for each of the managers. If a holding falls below specific guideline requirements, the manager will either sell the security or will inform the Fund of the lower rating and why the manager believes that it is prudent to continue to hold the security as they believe that the security will return to minimum constraints.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Rates were obtained from Moody's:

	Fair Value	
	2015	**2014**
Quality Rating		
Aaa	$ 151,621,876	$ 225,064,875
Aa	21,161,232	20,701,342
A	41,638,499	62,991,626
Baa	88,647,244	129,307,597
Ba	40,373,438	15,754,882
B	24,982,806	1,509,945
Not rated	47,719,657	57,402,405
Caa through C	7,357,786	14,140,958
Total credit risk of U.S. corporate fixed income	423,502,538	526,873,630
U.S. govt. fixed income securities- explicitly guaranteed	123,828,050	192,475,540
U.S. govt. agency securities-not rated	439,858	638,339
	$ 547,770,446	$ 719,987,509

Custodial credit risk: Custodial credit risk applies to investments, cash, and certificates of deposit. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For cash and certificates of deposit, custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned. As of December 31, 2015, and 2014, cash deposits of $1,531,144 and $1,131,708, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. The Fund does not have a formal policy regarding custodial credit risk.

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of investments by requiring managers of foreign investments to maintain diversified portfolios. The Fund's equity and fixed-income portfolios include investments that are subject to foreign currency risk. Such investments include non-U.S. equities, government bonds, corporate bonds, and derivative instruments. Additionally, some of the Fund's investment managers at least partially hedge foreign currency exchange risk. The Fund's exposure to foreign currency risk is as follows:

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Investment Risks *(continued)*

	Fair Value 2015	Fair Value 2014
Currency		
Australian Dollar	$ 8,450,019	$ 11,050,417
Brazilian Real	9,375,535	15,237,093
British Pound Sterling	130,696,329	67,095,129
Canadian Dollar	14,059,611	15,725,060
Chinese Yuan Renminbi	(440,150)	(1,492,774)
Colombian Peso	753,448	1,015,869
Costa Rican Colon	54,426	-
Czech Koruna	2,224,550	2,340,050
Danish Krone	4,608,638	3,260,712
Dominican Peso	-	4
Euro Currency Unit	102,395,450	96,577,715
Hong Kong Dollar	54,361,326	69,390,154
Hungarian Forint	(35)	576,211
Indian Rupee	11,117,581	9,929,822
Indonesian Rupiah	7,126,204	5,990,184
Japanese Yen	91,502,259	89,830,272
Malaysian Ringgit	2,928,119	1,859,817
Mexican Peso	9,272,775	9,686,030
New Israeli Shekel	3,060,474	2,847,974
New Romanian Leu	(621)	377,183
New Taiwan Dollar	16,101,627	16,350,000
New Zealand Dollar	333,106	131,100
Nigerian Naira	-	(34,439)
Norwegian Krone	2,114,275	3,695,179
Peruvian Nuevo Sol	(1,199)	2,809
Philippine Peso	2,855,735	-
Polish Zloty	1,767,174	1,576,467
Qatari Rial	47,114	50,708
Russian Ruble	129,168	337,017
Singapore Dollar	(441,097)	2,232,781
South African Rand	6,521,332	9,406,880
South Korean Won	18,284,714	18,104,930
Swedish Krona	10,196,595	11,542,308
Swiss Franc	26,371,298	26,591,749
Thai Baht	1,609,988	2,356,705
Turkish Lira	6,699,182	8,393,434
Uruguayan Peso	7,872	465,710
Total investments in foreign currency	$ 544,142,822	$ 502,500,260

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose payoff depends on the value of an underlying instrument such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in the underlying element of the derivative will cause the value of a financial instrument to decrease or become more costly to settle. Most of the derivative transactions executed by the Fund's investment managers are related to currency through foreign exchange contracts, the vast majority of which is for hedging purposes, and interest rates through interest rate futures and forward contracts, the purpose of which is mostly duration management. In addition to derivative transactions executed directly by the Fund's investment managers, the Fund also holds interests in collective funds, hedge funds, and private equity funds, which may engage in derivative transactions. The Fund does not directly purchase derivatives with borrowed funds.

Futures contracts: The Fund's external investment managers enter into futures contracts in the normal course of investing activities to manage market risk associated with the Fund's fixed-income investments and to achieve overall investment portfolio objectives. These contracts involve elements of market risk in excess of amounts recognized in the statements of fiduciary net position. The credit risk associated with these contracts is minimal, as they are traded on organized exchanges and settled daily.

At December 31, 2015, the Fund had interest rate futures contracts to purchase U.S. Treasury securities and Euro Dollars with notional amounts of $23,531,800 and $5,935,156, respectively. At December 31, 2015, the Fund also had interest rate futures contracts to sell U.S. Treasury securities and Euro Dollars with notional amounts of $66,810,100 and $5,905,712, respectively. At December 31, 2014, the Fund had interest rate futures contracts to purchase U.S. Treasury securities and UK Treasury securities with notional amounts of $46,748,633 and $729,441, respectively. At December 31, 2014, the Fund also had interest rate future contracts to sell U.S. Treasury securities and German Treasury securities with notional amounts of 13,384,984 and $7,593,914, respectively.

The fair value of futures contracts in the statements of fiduciary net position was zero at December 31, 2015 and 2014, as settlements are by cash daily.

The Fund had net investment (losses) earnings of ($239,359) and $1,508,682 on futures contracts in 2015 and 2014, respectively. These (losses) earnings are accounted for as net (depreciation) appreciation in fair value of investments.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

Interest rate and credit default swaps: The Fund's external investment managers utilize interest rate and credit default swaps in the management of the Fund's fixed-income portfolio. Swap agreements are contractual agreements between two or more parties in which each party agrees to exchange sets of cash flows based on certain agreed-upon parameters. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. Gains and losses on swaps are determined based on fair values and are recorded in the statements of changes in fiduciary net position. The notional value of credit default swaps was $64,249,508 and $105,811,288 as of December 31, 2015 and 2014, respectively. The notional value of interest rate swaps was $1,004,595 and $0 as of December 31, 2015 and 2014, respectively. The fair value of swaps outstanding at December 31, 2015 and 2014 was a net asset (liability) of $200,810 and $(378,304), respectively. Investment loss from holdings and sales of interest rate and credit default swaps was $1,135,932 and $2,428,100 in 2015 and 2014, respectively. These losses are included in net (depreciation) appreciation in fair value of investments in the statements of changes in fiduciary net position.

Foreign exchange contracts: The Fund's external investment managers utilize foreign currency forward contracts, primarily for hedging purposes. Foreign currency forward contracts are contractual agreements to buy or sell a specific amount of a foreign currency at a certain date for an agreed price. As the fair value of the underlying foreign currency varies from the contractual agreed price, the Fund records an unrealized gain or loss. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates. The Fund had pending foreign currency purchases and sales that included positions with various currencies primarily including Australian dollars, Brazilian real, British pound sterling, Canadian dollars, Chinese yuan renminbi, Colombian pesos, Czech koruna, Danish krone, Euros, Hong Kong dollars, Hungarian forint, Indian rupee, Indonesian rupiah, Japanese yen, Malaysian ringgit, Mexican pesos, New Israeli shekel, New Romanian leu, New Taiwan dollar, New Zealand dollar, Nigerian naira, Norwegian krone, Peruvian Nuevo sol, Phillippine peso, Polish zloty, Romanian new leu, Russian ruble, Singapore dollars, South African rand, South Korean won, Swedish krona, Swiss francs, Taiwan dollar, Thai baht, Turkish lira, U.S. dollars, and Uruguayan peso at December 31, 2015 and 2014. Total pending foreign currency forward purchases and (sales) had notional values of $64,582,115 and $(64,691,317), respectively, at December 31, 2015, and $48,425,836 and $(48,450,832), respectively, at December 31, 2014.

The Fund had a net unrealized (loss) on pending foreign currency forward contracts of $(109,202) and $(14,996) at December 31, 2015 and 2014, respectively, which is reflected in the fair value of the investments on the statements of fiduciary net position. Investment income from holdings and sales of foreign currency forward contracts was $1,175,988 and $503,997 in 2015 and 2014, respectively.

NOTE 4 CASH AND INVESTMENT RISK *(continued)*

Derivatives *(continued)*

Forward interest rate contracts: The Fund's external investment managers entered into forward contracts to purchase or sell bond securities during 2015 and 2014. Forward contracts are contracts for delayed delivery of securities in which the seller agrees to make delivery at a specified future date of a specified instrument, at a specified price or yield. The holder is exposed to credit risk for nonperformance and to market risk for changes in interest rates.

These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statements of fiduciary net position. The Fund's external investment managers attempt to mitigate this credit risk through structured trading with reputable parties.

At December 31, 2015, the Fund held forward contracts to buy U.S. TIPS (Treasury Inflation Protected Securities) and U.S. government bonds with fair values of $7,973,666, and the Fund also held forward contracts to (sell) U.S. Treasury notes with fair values of $8,032,951. At December 31, 2014, the Fund held forward contracts to buy Canadian government bonds, U.S. TIPS (Treasury Inflation Protected Securities) and U.S. government bonds with fair values of $14,089,070, and the Fund also held forward contracts to (sell) Canadian government bonds and U.S. Treasury notes with fair values of $14,540,430. The unrealized gain on these contracts was $18,838 and $38,144 at December 31, 2015 and 2014, respectively. Investment (loss) from holdings and sales of interest rate forward contracts was $(318,664) and $(358,584) in 2015 and 2014, respectively. These losses are included in net (depreciation) appreciation in fair value of investments in the statements of changes in fiduciary net position.

Investment Management Fees

Investment management fees from equity and fixed income managers, including most of the collective funds, are included in investment management fees on the statements of changes in fiduciary net position. Investment management fees from funds of short-term investments, infrastructure, hedge, real estate, venture capital and private equity are reflected in the net investment income from such investment products. Such investment management fees are not significant to the financial statements.

NOTE 5 SECURITIES LENDING PROGRAM

State statutes and Board of Trustees policies permit the Fund to lend some of its securities to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. At December 31, 2015, the Fund's securities lending agent was Deutsche Bank AG, New York Branch (Deutsche Bank). At December 31, 2014, the Fund's master custodian, Northern Trust Bank was the securities lending agent. At each respective year end, securities were loaned for collateral that may include cash, U.S. government securities, and irrevocable letters of credit at 102% of the fair value of the loaned securities plus any accrued interest for U.S. securities and 105% for non-U.S. securities. At December 31, 2015, the contract with Deutsche Bank provides for indemnification for the Fund with respect to any shortfall between liquidation proceeds and the fair market value of: (1) in respect to lending transactions, the securities subject to such transaction, or (2) in the case of reverse transactions, the amount of cash deposited with a counterparty with respect to such transaction. The terms of liquidation proceeds, fair market value and reverse transactions are more specifically defined in the agency securities lending agreement.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the Fund's loans is 1 day and 154 days, as of December 31, 2015 and 2014, respectively. At December 31, 2015, cash collateral was reinvested in indemnified repurchase agreements which had an interest sensitivity of 83.55 days. At December 31, 2014, cash collateral was reinvested in the securities lending agent's Core USA Collateral Pool, which had a weighted-average life, as measured by interest sensitivity, of 39 days. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2015 and 2014 were as follows:

	2015	2014
Fair value of securities loaned	$ 90,964,784	$ 282,464,957
Fair value reinvested of cash collateral from borrowers	93,088,584	288,542,319
Fair value of non-cash collateral from borrowers	-	1,502,256

As of December 31, 2015 and 2014, the Fund had limited credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Fund.

NOTE 6 UNFUNDED INVESTMENT COMMITMENTS

The Fund had unfunded commitments of approximately $77 million and $84 million at December 31, 2015, and 2014, respectively, in connection with real estate, infrastructure, and private equity investments.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN

Plan Description

The Policemen's Annuity and Benefit Fund of Chicago (PABF), as an employer, administers a single-employer defined benefit post-retirement healthcare plan (Staff Retiree Health Plan). The Staff Retiree Health Plan provides lifetime health and dental insurance for eligible retirees and their spouses through PABF's group health insurance plan, which covers both active and retired members. As of December 31, 2015, 12 retirees were in the Staff Retiree Health Plan and 18 active employees could be eligible at retirement. As of December 31, 2014, 10 retirees were in the Staff Retiree Health Plan and 18 active employees could be eligible at retirement. Benefit subsidy provisions have been established by PABF's Board of Trustees. The amount of the subsidy varies according to a retiree's years of service with PABF and the coverages elected. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements. For 2015 and 2014, PABF contributed approximately $152,574 and $123,263, respectively, to the Staff Retiree Health Plan for current premiums, inclusive of an implicit subsidy of $16,921 and $10,661, for 2015 and 2014, respectively. Members receiving benefits contributed approximately $80,802 or 52.9%, of the total premiums, for 2015, and approximately $50,197 or 40.7%, of the total premiums for 2014.

Annual OPEB Cost and Net OPEB Obligation

PABF's annual Other Post-Employment Benefit (OPEB) expense is calculated based on the Annual Required Contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The amortization period is open.

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Annual OPEB Cost and Net OPEB Obligation *(continued)*

The following table shows the components of PABF's annual OPEB cost for 2015 and 2014, the amount actually contributed to the Staff Retiree Health Plan, and changes in PABF's net OPEB obligation to the Staff Retiree Health Plan:

	2015	2014
Annual required contribution	$ 429,179	$ 409,004
Interest on net OPEB obligation	93,621	80,116
Adjustment to annual required contribution	(76,834)	(65,751)
Annual OPEB expense	445,966	423,369
Employer contributions made	(152,574)	(123,263)
Increase in net OPEB obligation	293,392	300,106
Net OPEB obligation at beginning of year	2,080,467	1,780,361
Net OPEB obligation at end of year	$ 2,373,859	$ 2,080,467

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Staff Retiree Health Plan, and the net OPEB obligation for 2015, 2014 and 2013 are as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	$ 445,966	34.2%	$2,373,859
12/31/2014	423,369	29.1	2,080,467
12/31/2013	406,183	26.7	1,780,361

Funded Status and Funding Progress

The funded status of PABF's Staff Retiree Health Plan as of December 31, 2015, and 2014, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/15	-	$ 5,883,114	$ 5,883,114	0.00	$ 1,476,561	444.3%
12/31/14	-	5,538,553	5,538,553	0.00	1,304,207	424.7

NOTE 7 POST-RETIREMENT BENEFITS OF THE FUND—STAFF RETIREE HEALTH PLAN *(continued)*

Funded Status and Funding Progress *(continued)*

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Staff Retiree Health Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, present multi-year trend information on the actuarial values of assets of the Staff Retiree Health Plan and its ratio to the AAL for benefits.

Actuarial Methods and Assumptions

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

For the December 31, 2015 and 2014 actuarial valuations, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the employer's assumed return on its assets and at December 31, 2015, and 2014, an annual healthcare cost trend rate of 8.5% starting 2015, reduced by increments of 0.5 percentage point per year to an ultimate rate of 5.0% after eight years. At December 31, 2015, and 2014, the wage inflation assumption was 3.75%. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30-year open period.

NOTE 8 RESERVES

The Fund maintains several reserves, as required by the Illinois Pension Code and Board policy. The following are brief descriptions of the reserves:

City Contribution Reserve

	2015	2014
Balances, at December 31	$ 1,895,040,460	$ 2,046,631,796

NOTE 8 RESERVES *(continued)*

City Contribution Reserve *(continued)*

The City Contribution Reserve is maintained for the payment of the City's portion of future retirement benefits for active and inactive participants. Interest at 3% is credited to this reserve annually. When the amount of annuity for a policeman or widow is fixed, the City Contribution Reserve is charged with the amount of the present value of retirement benefit and the Annuity Payment Reserve is credited with such amount.

The City Contribution Reserve does not equal the present value of expected retirement benefits. The reserve is maintained on a cost basis, in accordance with the Illinois Pension Code.

Salary Deduction Reserve

	2015	2014
Balances, at December 31	$ 1,469,066,967	$ 1,412,729,397

The Illinois Pension Code requires the Fund to maintain separate accounts for each policeman for the amounts of salary deductions with interest at 3% per year. When a policeman retires, the amount of his annuity is charged to the Salary Deduction Reserve and credited to the Annuity Payment Reserve. If a policeman takes a separation refund, his salary deductions are refunded to him and charged to the Salary Deduction Reserve. This reserve is fully funded.

Annuity Payment Reserve

	2015	2014
Balances, at December 31	$ 2,365,036,932	$ 2,291,357,499

When the amount of annuity has been fixed, the present value of expected benefit is transferred from the City Contribution Reserve and the Salary Deduction Reserve to the Annuity Payment Reserve for the payment of annuity. All age and service annuities, widow's annuities, and refunds are charged to this reserve.

Annually, the actuary calculates the present value of all annuities. The Investment and Interest Reserve will transfer amounts to the Annuity Payment Reserve to ensure that the balance in the Annuity Payment Reserve equals the present value of annuities. This reserve is fully funded.

NOTE 8 RESERVES *(continued)*

Prior Service Annuity Reserve

	2015	2014
Balances, at December 31	$ (1,269,600,342)	$ (1,442,209,251)

The Prior Service Annuity Reserve is increased by the City's contributions for policemen and widows' prior service annuities and all prior service annuities payable to policemen and widows are charged to this reserve. This reserve included an unfunded liability of $8,101,813,286 and $8,093,873,233 as of December 31, 2015 and 2014, respectively.

Gift Reserve

	2015	2014
Balances, at December 31	$ 13,173,046	$ 13,317,832

The Gift Reserve is maintained for gifts, grants, bequests, or other amounts received by the Fund. The Board of Trustees determines the use of these funds. Interest is credited to the Gift Reserve annually.

Investment and Interest Reserve

All gains and losses from investments and investment earnings are recorded in the Investment and Interest Reserve. Interest due to the City Contribution Reserve, Salary Deduction Reserve, Prior Service Annuity Reserve, Gift Reserve, and Supplementary Payment Reserve is transferred from the Investment and Interest Reserve to those reserves.

Ordinary Death Benefit Reserve

	2015	2014
Balances, at December 31	$ (30,193,539)	$ (27,235,320)

Amounts contributed by policemen and the City for death benefits are credited to the Ordinary Death Benefit Reserve. Death benefit payments are charged to this reserve. At December 31, 2015 and 2014, the Ordinary Death Benefit Reserve had a deficit.

NOTE 8 RESERVES *(continued)*

Automatic Increase Reserve

	2015	2014
Balances, at December 31	$ (1,384,021,889)	$ (1,233,025,033)

The Automatic Increase Reserve is credited with amounts deducted from the salaries of policemen and matching contributions by the City for automatic increase in annuity with interest thereon. Payments of increased annuities and salary deduction refunds for increase in annuity are charged to this reserve. At December 31, 2015 and 2014, the Automatic Increase Reserve had a deficit.

Supplementary Payment Reserve

	2015	2014
Balances, at December 31	$ 447,402	$ 447,402

The Supplementary Payment Reserve receives amounts transferred from the Investment and Interest Reserve for supplemental increases in annuity for certain eligible retirees. This reserve is fully funded.

The following reserves have a $0 balance at December 31, 2015, and 2014. City contributions are allocated to these reserve accounts in amounts equal to payments made on an annual basis.

Child's Annuity Reserve

Amounts contributed by the City for child's annuity are credited to the Child's Annuity Reserve, and payments of child's annuity are charged to this reserve.

Duty Disability Reserve

The Duty Disability Reserve is increased by the City's contributions for duty disability benefits, child's disability benefits, and compensation annuities and is decreased by the payments of these benefits.

Ordinary Disability Reserve

Amounts contributed by the City for ordinary disability benefits are credited to the Ordinary Disability Reserve. Payments of ordinary disability benefits are charged to this reserve.

Hospitalization Fund Reserve

The health care premiums are paid from the tax levies and are credited to the reserve for Group Hospitalization Fund. Premium payments to the City are charged against this reserve.

NOTE 8 RESERVES *(continued)*

Expense Reserve

Amounts contributed toward the cost of administration are credited to the Expense Reserve, while expenses of administration are charged to this reserve.

NOTE 9 NET PENSION LIABILITY OF THE FUND

The components of the net pension liability at December 31, 2015, and 2014, were as follows:

	2015	2014
Total pension liability	$ 12,032,733,000	$ 11,773,430,559
Plan fiduciary net position	3,058,949,037	3,062,014,322
Fund's net pension liability	$ 8,973,783,963	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	25.42%	26.01%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015 and 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.75% per year, plus additional percentage related to service
Investment rate of return	7.5%
Cost of living adjustments	For members hired before January 1, 2011: 3.0% (1.5% for retirees born after January 1, 1955, to a maximum of 30%) For members hired on or after January 1, 2011: 1/2 of CPI-U, maximum 3.0%

Mortality rates were based on the Sex Distinct Retirement Plans 2014 Total Employee and Healthy Annuitant mortality tables weighted 108% and 97% for post-retirement males and females, respectively, and 85% and 115% for pre-retirement males and females, respectively.

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Actuarial Assumptions *(continued)*

The long-term expected rate of return on pension plan investments was determined under 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 class. These rates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target allocation as of December 31, 2015 and 2014, are summarized in the following tables:

December 31, 2015:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21%	6.1%
Non-U.S. Equity	20	7.8
Fixed Income	22	1.7
Global Asset Allocation	12	5.1
Private Equity	9	8.2
Hedge Funds	7	4.0
Real Estate	5	4.6
Real Assets	4	4.2
Total	100%	

December 31, 2014:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	21%	5.6%
Non-U.S. Equity	20	7.1
Fixed Income	22	1.1
Global Asset Allocation	12	4.0
Private Equity	7	9.0
Hedge Funds	7	3.7
Real Estate	5	4.1
Real Assets	4	4.3
Infrastructure	2	5.4
Total	100%	

NOTE 9 NET PENSION LIABILITY OF THE FUND *(continued)*

Single Discount Rate

As of December 31, 2015 and 2014, a Single Discount Rate of 7.15% was used to measure the total pension liability. This Single Discount Rate was based on an expected rate of return on pension plan investments of 7.50% for 2015 and 2014 and a municipal bond rate of 3.57% and 3.56%, respectively. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between statutory contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments only through the year 2063. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2063, and the municipal bond rate was applied to all benefit payments after that date.

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan's net pension liability, calculated using a Single Discount Rate of 7.15%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1-percentage-point lower or 1-percentage-point higher:

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption as of December 31, 2015:

1% Decrease 6.15%	Single Discount Rate Assumption 7.15%	1% Increase 8.15%
$ 10,402,347,972	$ 8,973,783,963	$ 7,771,126,657

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption as of December 31, 2014:

1% Decrease 6.15%	Single Discount Rate Assumption 7.15%	1% Increase 8.15%
$ 10,123,094,063	$ 8,711,416,237	$ 7,524,223,623

NOTE 10 DEFERRED COMPENSATION PLAN

The Fund offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Fund, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is managed by a third-party administrator.

The assets of the plan were placed in trust accounts with the plan administrator for the exclusive benefit of participants and their beneficiaries and are not considered assets of the Fund.

NOTE 11 LEASE AGREEMENT

The Fund leases its office facilities under a noncancellable agreement. The current lease expires at June 30, 2016, and has been renewed for sixteen years through 2032. The new lease agreement includes an abatement clause during the term of the new lease.

Office rental expense amounted to $256,505 and $252,566 for the years ended December 31, 2015, and 2014, respectively.

Future minimum rental payments, net of abatement provisions under the office lease at December 31, 2015, are as follows:

Year	Amount
2016	$ 129,073
2017	-
2018	141,122
2019	340,744
2020	347,559

NOTE 12 RISK MANAGEMENT

The Fund is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance to reduce its exposure to risk of loss. There is no significant change in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 13 SUBSEQUENT EVENT

Effective January 1, 2011, Public Act 96-1495 (PA-1495) required the City to finance fund benefits on an actuarial basis commencing with the City tax levy year beginning in 2015. The funding policy of PA-1495 required future employer contributions, employee contributions and other Fund income to be sufficient to produce a funding goal of 90% by fiscal year end 2040. Based upon the statutory provisions of PA-1495 and the application of required actuarial assumptions and methodologies utilized by the Fund's actuary, contributions receivable from the City as of December 31, 2015, are $580 million. Taxes levied by the City relevant to the Fund are collected and paid to the Fund in the subsequent year.

Effective May 30, 2016, Public Act 096-0506 (PA-0506) became law and replaced PA-1495. The funding provisions of PA-0506 are significantly different than those of PA-1495. Such provisions are not reflected in the financial statements as of December 31, 2015. The new policy provides that beginning with the tax levy year 2015, which will be collected in taxes paid to the Fund in 2016, the City shall levy and collect a tax in an annual amount of $420 million in 2016; $464 million in 2017; $500 million in 2018; $557 million in 2019; and $579 million in 2020. Beginning in tax levy year 2020, which is payable to the Fund in 2021 when the taxes are collected, contributions by the City, along with member contributions and investment income are to be an amount sufficient to produce a funded ratio of 90% by 2055.

The financial statements as of December 31, 2015, do not reflect legislative changes of 2016, including PA-0506. Due to the enactment of PA-0506, the employer receivable of $580 million at December 31, 2015, which is included in the Statements of Fiduciary Net Position as of December 31, 2015, will not be collected in entirety. The amount collected will be reduced by approximately $173 million, to an expected collection amount of approximately $407 million. The expected collection amount in net of a 4% allowance approximating $13 million. This results in a decrease in the Fiduciary Net Position held in trust for pension benefits at December 31, 2015, to approximately $2,886 million. In addition, the change in funding policy is expected to impact the total and net pension liability of the Fund at December 31, 2015. While the impact on the pension liability has not yet been determined, it is expected to be significant.

REQUIRED SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Changes in Net Pension Liability
For the Years Ended December 31, 2015 and 2014
(Unaudited)

	2015	2014
Total pension liability		
Service cost, including pension plan administrative expense	$ 213,584,647	$ 199,435,084
Interest on the total pension liability	832,972,131	791,693,017
Difference between expected and actual experience	(105,968,891)	-
Assumption changes	-	845,070,287
Benefit payments	(668,950,080)	(645,688,934)
Refunds	(7,826,847)	(8,991,636)
Pension plan administrative expense	(4,508,519)	(4,240,625)
Net change in total pension liability	259,302,441	1,177,277,193
Total pension liability – beginning	11,773,430,559	10,596,153,366
Total pension liability – ending **(a)**	12,032,733,000	11,773,430,559
Plan fiduciary net position		
Employer contributions	572,836,100	177,417,827
Employee contributions	107,626,311	95,675,538
Pension plan net investment (loss) income	(5,333,795)	181,901,293
Benefit payments	(668,950,080)	(645,688,934)
Refunds	(7,826,847)	(8,991,636)
Pension plan administrative expense	(4,508,519)	(4,240,625)
Other	3,091,545	740,305
Net change in plan fiduciary net position	(3,065,285)	(203,186,232)
Plan fiduciary net position – beginning	3,062,014,322	3,265,200,554
Plan fiduciary net position – ending **(b)**	3,058,949,037	3,062,014,322
Net pension liability – ending (a)-(b)	$ 8,973,783,963	$ 8,711,416,237

The above information was required beginning in 2014. Information for the next 10 years will be presented in future years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Notes to Schedule of Changes in Net Pension Liability
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Beginning of year total pension liability for 2015 used a Single Discount Rate of 7.15% and the benefit provisions and funding policy in effect as of the December 31, 2014, funding valuation. The Single Discount Rate of 7.15% was based on a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2014 funding valuation for the years 2015 through 2063 and c) a long-term municipal bond rate as of December 31, 2014 of 3.56% for subsequent years.

End of year total pension liability for 2015 uses a Single Discount Rate of 7.15% and the benefit provisions and funding policy in effect as of the December 31, 2015 funding valuation. The Single Discount Rate of 7.15% was based on a) a long-term expected rate of return on pension plan investments of 7.50% used in the December 31, 2015 funding valuation and a long-term municipal bond rate as of December 30, 2015 of 3.57% for subsequent years.

The increase in total pension liability for 2015 reflects the change in the long-term municipal bond rate from 3.56% as of December 31, 2014, to 3.57% as of December 30, 2015. This change was measured at the end of the year using a Single Discount Rate of 7.15%. There were no changes in assumptions, methods, plan provisions or statutory funding policy during the plan year ending December 31, 2015.

This supplementary information does not reflect Public Act 099-0506 which was effective May 30, 2016, and significantly defers the level of plan sponsor required contributions. This deferral of contributions will impact the total and net pension liability as reported at December 31, 2015. While the impact on the pension liability has not yet been determined, it is expected to be significant. In addition to the deferral of contributions, approximately $173 million of the contribution receivable, which is included in the Plan Fiduciary Net Position at December 31, 2015, will not be realized. This would result in a decrease in the Plan Fiduciary Net Position at December 31, 2015, to approximately $2,886 million.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Net Pension Liability
As of December 31, 2015 and 2014
(Unaudited)

	2015	**2014**
Total pension liability	$12,032,733,000	$11,773,430,559
Plan fiduciary net position	3,058,949,037	3,062,014,322
Net pension liability	$ 8,973,783,963	$ 8,711,416,237
Plan fiduciary net position as a percentage of total pension liability	25.42%	26.01%
Covered employee payroll	$ 1,086,607,979	$ 1,074,333,318
Net pension liability as a percentage of covered employee payroll	825.85%	810.87%

The above information is required beginning in 2014. Information for the next 10 years will be presented in future years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Contributions—Pension
Last 10 Years
(Unaudited)

Year Ended	Actuarially Determined Contribution (a)*	Actual Contribution (b)	Contribution Deficiency (Excess) (c) = (b)-(a)	Covered Payroll (d)	Actual Contribution as a % of Covered Payroll (e) = (b)/(d)	Statutory Contribution (f)	Statutory Contribution Deficiency/ (Excess) (g) = (f)-(b)**
12/31/06	$ 262,657,025	$150,717,705	$111,939,321	$1,012,983,634	14.88%	$157,591,000	$ 6,873,296
12/31/07	312,726,608	170,598,268	142,128,341	1,038,957,026	16.42%	170,112,293	(485,975)
12/31/08	318,234,870	172,835,805	145,399,065	1,023,580,667	16.89%	175,080,814	2,245,009
12/31/09	339,488,187	172,043,784	167,444,403	1,011,205,359	17.01%	177,333,569	5,289,785
12/31/10	363,624,570	174,500,507	189,124,063	1,048,084,301	16.65%	177,060,837	2,560,330
12/31/11	402,751,961	174,034,600	228,717,361	1,034,403,526	16.82%	176,068,606	2,034,006
12/31/12	431,010,173	197,885,552	233,124,621	1,015,170,686	19.49%	204,329,314	6,443,762
12/31/13	474,177,604	179,521,259	294,656,345	1,015,426,128	17.68%	182,716,690	3,195,431
12/31/14	491,651,208	178,158,132	313,493,076	1,074,333,318	16.58%	178,773,877	615,745
12/31/15	785,500,836	575,927,645	209,573,191	1,086,607,979	53.00%	583,421,466	7,493,821

* *The Fund's Statutory Funding does not conform to Actuarial Standards of Practice; therefore, the 2015 actuarially determined contribution is equal to the normal cost plus a 30-year closed level dollar amortization of the unfunded actuarial liability. Prior to 2015, the actuarially determined contribution was equal to the "ARC", which was equal to the normal cost plus a 30-year open level percent amortization of the unfunded actuarial liability.*

** *Excludes amount paid for health insurance supplement beginning in 2006.*

Valuation Date:	December 31, 2015 and 2014
Notes:	Statutory contribution rates are calculated as of December 31, which is 12 months prior to the end of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method:	Projected-Unit Credit
Amortization Method:	Prior to 2015, the total City contribution is generated by a tax equal to 2.00 times the contributions by the policemen to the Fund two years prior to the year of the tax levy. Beginning in tax levy year 2015, the Statutory Contributions are equal to a level percentage of pay contribution determined so that the Plan attains a 90% funded ratio by the end of 2040 on an open group basis.
Remaining Amortization Period:	Not applicable. An amortization payment is not directly calculated. The amortization payment is the difference between the total statutory contribution and the employer normal cost contribution.
Asset Valuation Method:	Five-year smoothed market
Inflation:	3.0%
Salary Increases:	Salary increase rates based on age-related productivity and merit rates plus inflation.
Postretirement Benefit Increases:	A retiree born before January 1, 1955, with at least 20 years of service or receiving a mandatory retirement minimum annuity, receives an increase of 3% of the original annuity, starting on the first of the month following the first anniversary of his retirement or the first of the month following attainment of age 55, whichever is later, and shall not be subject to a 30% maximum increase. For retirees born after January 1, 1955, automatic increases are 1.5% of the original annuity, commencing at age 60, or the first anniversary of retirement, if later, to a maximum of 30%. For participants that first became members on or after January 1, 2011, increases are equal to the lesser of 3% and 50% of CPI-U of the original benefit, commencing at age 60.
Investment Rate of Return:	7.5% as of the December 31, 2015 and 2014 valuations.
Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2014, valuation pursuant to an experience study for the period January 1, 2009 through December 31, 2013.

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date *(continued)***:**

Mortality:	Post-Retirement Healthy mortality rates: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 108% for males and 97% for females.
	Pre-retirement mortality rates: Sex Distinct Retirement Plans 2014 Total Employee mortality table weighted 85% for males and 115% for females.
	Disabled Mortality: Sex Distinct Retirement Plans 2014 Healthy Annuitant mortality table weighted 115% for males and 115% for females.
Other:	The valuation is based on the statutes in effect as of December 31, 2015, and does not consider the impact of Public Act 099-0506, which was enacted on May 30, 2016 and does impact the 2015 statutory contribution.

Methods and Assumptions Used for Accounting Purposes as of the Valuation Date:

Actuarial Cost Method:	Entry Age Normal
Asset Method:	Market value
Discount Rate:	7.15% as of the December 31, 2015 and 2014 valuations

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Money-Weighted Rate of Return—Pension
(Unaudited)

Year Ended	Annual Money-Weighted Rate of Return, Net of Investment Expense
12/31/15	(0.41)%
12/31/14	6.24 %

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Health Insurance Supplement
Last 6 Years
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/10	$ -	$ 164,796,449	$ 164,796,449	0.00%	$ 1,048,084,301	15.72%
12/31/11	-	165,954,869	165,954,869	0.00	1,034,403,526	16.04
12/31/12	-	168,811,118	168,811,118	0.00	1,015,170,686	16.63
12/31/13	-	28,375,681*	28,375,681	0.00	1,015,426,128	2.79
12/31/14	-	18,762,125	18,762,125	0.00	1,074,333,318	1.75
12/31/15	-	9,255,090	9,255,090	0.00	1,086,607,979	0.85

* *Due to Public Act 98-0043, effective June 28, 2013, it is assumed for valuation purposes that the health insurance supplement in effect prior to June 30, 2013 will end on December 31, 2016 for all employee annuitants and their future surviving spouses.*

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Health Insurance Supplement
Last 6 Years
(Unaudited)

	Contributions			
Year Ended	Annual Required	Actual Employee	Actual Employer	Percentage Contributed
12/31/10	$ 10,659,006	$ -	$ 9,354,163	87.76%
12/31/11	10,538,116	-	9,591,394	91.02
12/31/12	10,473,478	-	9,765,686	93.24
12/31/13	10,429,882	-	9,847,310	94.41
12/31/14	9,723,621	-	9,657,123	99.32
12/31/15	9,632,405	-	9,441,534	98.02

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Notes to Required Supplementary Information—Health Insurance Supplement
For the Years Ended December 31, 2015 and 2014
(Unaudited)

Valuation date	December 31, 2015 and 2014
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent
Remaining amortization period	2 years closed-period for 2015 and beyond; 3 years closed-period for 2014 and beyond
Actuarial assumptions	
OPEB investment rate of return	4.5%
Projected salary increases	3.75% - per year, plus additional percentage related to service
Healthcare cost trend rate	0.00% (fixed-dollar subsidy)
General inflation rate	3.0%

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Funding Progress—Staff Retiree Health Plan
Last 6 Years
(Unaudited)

Actuarial Valuation Date	GASB Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
12/31/10	$ -	$ 5,588,688	$ 5,588,688	0.00%	$ 1,486,848	375.9%
12/31/11	-	5,971,137	5,971,137	0.00	1,553,756	384.3
12/31/12	-	6,376,689	6,376,689	0.00	1,623,675	392.7
12/31/13	-	5,212,127	5,212,127	0.00	1,276,471	408.3
12/31/14	-	5,538,553	5,538,553	0.00	1,304,207	424.7
12/31/15	-	5,883,114	5,883,114	0.00	1,476,561	444.3

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Required Supplementary Information
Schedule of Employer Contributions—Staff Retiree Health Plan
Last 6 Years
(Unaudited)

	Contributions			
Year Ended	**Annual Required**	**Actual Employee**	**Actual Employer**	**Percentage Contributed**
12/31/10	$ 434,005	$ -	$ 127,630	29.4%
12/31/11	453,535	-	133,373	29.4
12/31/12	478,309	-	169,882	35.5
12/31/13	394,221	-	108,262	27.5
12/31/14	409,004	-	123,263	30.1
12/31/15	429,179	-	152,574	35.6

Valuation date	December 31, 2013
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions	
OPEB investment rate of return	4.5% per year
Wage inflation	3.75% per year
Healthcare cost trend rate	8.5% per year, graded down to 5.0% per year, ultimate trend in 0.5% increments

SUPPLEMENTARY INFORMATION

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Administrative Expenses
For the Years Ended December 31, 2015 and 2014

	2015	2014
Administrative expenses		
Actuary services	$ 94,325	$ 125,038
Benefits disbursement	211,239	209,764
Equipment service and rent	178,369	162,310
External auditors	53,600	37,000
Fiduciary insurance	131,285	139,794
Legal services	389,745	442,729
Medical consultants	466,348	403,884
Miscellaneous	328,414	274,843
Occupancy and utilities	262,441	258,427
Personnel salaries and benefits	1,927,138	1,741,726
Postage	8,500	10,702
Supplies	11,149	11,039
	$ 4,062,553	$ 3,817,256

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Consulting Costs
For the Years Ended December 31, 2015 and 2014

	2015	2014
Payments to consultants		
External auditors	$ 53,600	$ 37,000
Medical consultants	466,348	403,884
Legal services	389,745	442,729
Actuary service	94,325	125,038
Investment manager fees	8,552,490	9,304,806
Master trustee fees	257,093	183,532
Consulting fees	504,207	495,364
	$ 10,317,808	$ 10,992,353

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
(A Component Unit of the City of Chicago)
Schedule of Investment Fees
For the Years Ended December 31, 2015 and 2014

	2015	2014
Investment managers		
Acadian Asset Management	$ 756,419	$ 744,370
Artisan Partners	873,049	866,212
Dearborn Partners LLC	-	129,668
Denali Advisors	229,037	218,678
Earnest Partners	808,477	885,056
European Investors	823	69,698
Fisher Investments	801,342	821,926
Great Lakes Advisors	371,872	258,422
Holland Capital Management	329,467	302,741
ING Clarion	92,544	87,781
Invesco Capital Management	281,250	468,750
JP Morgan Fleming Asset Management	-	153,746
Lazard Asset Management	541,458	601,439
LM Capital Group	162,841	97,077
MacKay Shields LLC	106,401	-
Manulife Asset Management	247,710	-
Montag & Caldwell	264,500	82,920
Northern Trust Global Investments - Index Funds	21,197	59,891
Taplin, Canida, & Habacht	39,479	168,804
UBS Global Asset Management	426,697	842,861
Wellington Management	461,060	529,415
Wells Capital Management	403,281	498,702
William Blair & Co.	1,333,586	1,416,649
Total investment manager fees	8,552,490	9,304,806
Investment consultants		
Elkins McSherry Inc.	20,000	15,000
NEPC LLC	484,207	480,364
Total investment consultants fees	504,207	495,364
Master custodian		
The Northern Trust Company	257,093	183,532
Total investment fees	**$ 9,313,790**	**$ 9,983,702**