EMPLOYEES' RETIREMENT SYSTEM

of the County of Milwaukee

2004 Annual Report of the Pension Board

as of December 31, 2004

901 North 9th Street, Room 210-C
Milwaukee, Wisconsin 53233
Telephone: 278-4207

EMPLOYEE'S RETIREMENT SYSTEM

Milwaukee County

July 20, 2005

Retirement System Members:

We are pleased to present the 2004 Annual Report of your Pension Board. As can be seen, the Retirement System had another good year as the stock market continues to rebound from the lows experienced during the years of 2000 through 2002. Contributions and net investment income exceeded pension benefits and administrative expenses by approximately $57 million. Total assets at the end of the year exceeded $1.5 billion.

The description of the Employees' Retirement System, included in this report, highlights major plan provisions. County ordinances, labor agreements, Pension Board rules and the Governmental Accounting Standards Board prevail over the contents of this report. If you have any questions, please call the Retirement System office at 278-4207.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the Retirement Division at 278-4208 for further information regarding these programs. If you are interested in meeting with a retirement counselor to discuss retirement, please schedule an appointment by calling 278-5127.

Several options are available to members who retire or otherwise leave County service. Before terminating employment, you should become fully informed of the various opportunities so you can make the best choice for your situation.

Each year, Milwaukee County distributes benefit statements reflecting balances as of the end of the previous year. You should be aware that, in the event you ever worked for Milwaukee County on a part-time basis, the benefit statement that you received might slightly overstate your pension service credit total. If it is overstated the pension service credit will be adjusted at the time of your retirement.

Remember to keep your beneficiary designations current by informing the Retirement System Office of any changes. Retired members should also notify the Retirement System Office in writing of any changes in residence or address so that your checks and year-end 1099R statements are properly mailed.

Sincerely,

The Pension Board

COURTHOUSE, ROOM 210-C • 901 NORTH 9TH STREET • MILWAUKEE, WI 53233 • (414) 278-4207

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Members of the Pension
Board of the Employees' Retirement
System of the County of Milwaukee:

We have audited the accompanying statements of plan net assets of the Employees' Retirement System of the County of Milwaukee (the "Retirement System") as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of December 31, 2004 and 2003, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress, employee contributions, and notes to required supplementary information on pages 14 - 16 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the 2004 and 2003 information which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The ten-year historical trend and related information on pages 17 - 19 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
April 14, 2005

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Virchow, Krause" Company, LLP
Certified Public Accountants & Consultants. An Independent Member of Baker Tilly International

Management's Discussion and Analysis
(In Thousands of Dollars)

Management is pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee (ERS or Retirement System) for the years ended December 31, 2004 and 2003.

FINANCIAL HIGHLIGHTS

- Plan net assets for ERS increased $56,662 during the calendar year 2004 compared to an increase of $210,570 for the calendar year of 2003. The increase was primarily due to improved market conditions and an increase in contributions receivable from Milwaukee County.
- Cash and short-term investments fluctuate considerably from year to year. The amount in the General account at the end of 2004 was lower than normal.
- Receivables decreased primarily due to the partial payment of the 2004 lump-sum contribution of $10.0 million in 2004. In prior years the lump-sum contribution was paid in the year following the close of the year in which the lump-sum contribution was accrued.
- Other liabilities decreased due primarily to less pending purchases of securities at the end of 2004 versus 2003
- Withdrawls increased due to the deaths of two active members resulting in large withdrawls of their membership account balances.
- For the year ended December 31, 2004, the rate of return on the investment assets was 14.3% compared to 25.1% for the year ended December 31, 2003.
- There was a net investment gain of $184,521 for the year ended December 31, 2004 versus $288,872 for the year ended December 31, 2003.
- Benefit Payments increased $50.3 million in 2004 versus 2003 due to an increase in retirements from 290 in 2003 to 747 in 2004. This resulted in a $40.0 million increase in dropback lump-sum payments and $10.3 million increase in monthly pension benefits payments.
- As of December 31, 2004 and 2003, the funding ratio (actuarial value of the assets divided by the actuarial accrued liability) for the plan was 79.9% and 84.7% respectively. The funding ratio listed above gives an indication of how well this objective has been met to date. The higher the funding ratio the better the plan is funded. The funding ratio has declined because of investment losses and revisions in the plan benefits.

  The Board of Trustees of ERS has the responsibility for the overall performance of the Pension Fund. The Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification (b) selecting an appropriate number of investment managers to manage the assets within an asset class and monitoring the performance of such investment managers relative to specified benchmarks, and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Fund's assets. The Board is the fiduciary of the Fund and is responsible for carrying out the investment functions solely in the interest of the members and benefit recipients.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Retirement System's financial statements. The financial section is comprised of four components: (1) financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Financial Statements. There are two financial statements presented for the plan. The Statement of Plan Net Assets as of December 31, 2004 and 2003 indicates the net assets available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Net Plan Assets for the year ended December 31, 2004 and 2003 provides a view of the additions and deductions to the plan for the years presented.

Notes to financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

(In Thousands of Dollars)

Required supplementary information. The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status of the plan. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the plan over time.

Other supplementary schedules. The additional schedules (Ten-Year Historical Trend Information, Net Fund Assets, Actual County Contributions, Active Membership Statistics, Retirements and Survivors) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Net Assets	12/31/04	12/31/03	% Change
Assets			
Cash and short-term investments	$ 7,814	$16,063	(51.4%)
Securities lending collateral	111,140	123,309	(9.9)%
Receivables	39,135	51,027	(23.3)%
Investments, at fair value	1,525,318	1,475,003	3.4%
Total Assets	$1,683,407	$1,665,402	1.1%
Liabilities			
Security lending obligations	111,140	123,309	(9.9)%
Other Liabilities	22,155	48,643	(54.5)%
Total Liabilities	133,295	171,952	(22.5)%
Net assets available for benefits	$1,550,112	$1,493,450	3.8%

Retirement System's Changes in Net Assets	2004	2003	% Change
Additions			
Employer Contributions	$35,143	$33,980	3.4%
Member Contributions	712	705	1.0%
Investment Income	184,521	288,872	36.1%
Total Additions	220,376	323,557	31.9%
Deductions			
Benefit Payments	(161,369)	(111,110)	45.2%
Administrative expenses	(2,190)	(1,865)	17.4%
Withdrawals	(155)	(13)	1092.4%
Total deductions	(163,714)	(112,988)	44.9%
Changes in net assets available for benefits	56,662	210,569	73.1%
New assets held in trust for pension benefits:			
Beginning of year	1,493,450	1,282,881	16.4%
End of year	$1,550,112	$1,493,450	3.8%

Reqests for financial information:

The financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of ERS finances and to demonstrate ERS's accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

Milwaukee County ERS
901 N. 9th Street Room 210-C
Milwaukee, WI 53233

STATEMENTS OF PLAN NET ASSETS

	December 31, 2004	December 31, 2003
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 7,813,683	$ 16,063,243
RECEIVABLES		
Receivable for foreign exchange contracts	3,135,624	4,044,188
Accrued interest and dividends	6,484,050	7,659,106
Due from sale of investments	2,773,662	4,128,223
County of Milwaukee	25,266,907	33,934,872
Miscellaneous receivables	1,474,659	1,260,843
TOTAL RECEIVABLES	39,134,902	51,027,232
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	582,860,033	524,452,350
Corporate bonds	492,912,398	427,646,125
International common and preferred stocks	252,654,565	259,425,610
Federal agency and mortgage-backed certificates	57,105,842	118,199,573
International fixed income	42,389,765	56,293,343
US Government and state obligations	26,517,994	32,076,653
Real estate investment trusts	53,745,674	42,645,333
Venture capital	17,132,189	14,263,614
TOTAL INVESTMENTS	1,525,318,460	1,475,002,601
Securities lending - collateral (See Note 5)	111,140,331	123,308,997
TOTAL ASSETS	1,683,407,376	1,665,402,073
LIABILITIES		
Securities lending - collateral (See Note 5)	111,140,331	123,308,997
Payable for foreign exchange contracts	3,186,986	4,101,806
Payable for securities purchased	15,651,266	41,171,049
Miscellaneous payables	2,372,431	2,580,474
Payable to OBRA Retirement Plan	943,973	789,388
TOTAL LIABILITIES	133,294,987	171,951,714
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,550,112,389	$1,493,450,359

(A schedule of funding progress is presented on page 14)

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2004	Year Ended December 31, 2003
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	$ 35,143,178	$ 33,980,592
Plan participants	711,322	704,758
	35,854,500	34,685,350
INVESTMENT INCOME		
Net appreciation in fair value of investments	146,747,299	244,387,710
Interest and dividends	40,888,887	47,403,322
Security lending income	1,621,222	1,479,342
Other income	706,730	588,005
Total investment income	189,964,138	293,858,379
Less: Securities lending rebates and fees	(1,330,435)	(1,189,283)
Investment expense	(4,112,409)	(3,797,072)
Net investment income	184,521,294	288,872,024
TOTAL ADDITIONS	220,375,794	323,557,374
DEDUCTIONS:		
Benefits paid to retirees and beneficiaries	(161,368,700)	(111,109,514)
Administrative expenses	(2,190,542)	(1,865,308)
Withdrawal of membership accounts	(154,522)	(12,999)
TOTAL DEDUCTIONS	(163,713,764)	(112,987,821)
NET CHANGE IN PLAN NET ASSETS:	56,662,030	210,569,553
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	1,493,450,359	1,282,880,806
End of year	$1,550,112,389	$1,493,450,359

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

(1) Description of Retirement System –

The following brief description of the provisions of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") is provided for financial statement purposes only. Participants should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreement for more complete information.

The Retirement System is a single-employer plan that was created to encourage qualified personnel to enter and remain in the service of the County of Milwaukee (the "County") by providing for a system of retirement, disability and death benefits to or on behalf of its employees. By the passage of Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. It did so by the passage of Section 201.24 of the General Ordinance of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board. The Pension Board consists of nine members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), three employee members elected by the employee participants, two members appointed by the County Board chairperson and one retiree-elected member.

	As of December 31	
Participants –	**2004**	**2003**
Retiree and beneficiaries currently receiving benefits		
and terminated employees not yet receiving benefits	**8,729**	**8,254**
Current employees –		
Vested	**3,673**	**4,107**
Non Vested	**1,307**	**1,358**
Total participants	**13,709**	**13,719**

Contributions –

The Retirement System is substantially noncontributory. However, participants meeting certain criteria have the option to contribute to membership accounts. In addition, the County contributes to membership accounts of most employee participants enrolled prior to 1971. Member account balances are as follows:

	As of December 31	
	2004	**2003**
Membership accounts –		
Participants and County contributed	**$ 7,458,574**	**$15,663,298**
Voluntary savings accounts	**1,002,973**	**882,918**

Contributions due from the County to the Retirement System consist of amounts sufficient to fund the annual normal cost and interest on and amortization of the unfunded or overfunded actuarial accrued liability. A substantial portion of the current year's contribution is paid to the Retirement System in the following year.

The County makes contributions to the Retirement System based upon actuarially determined contribution requirements, as well as additional contributions made at the discretion of the County Board. Actuarially determined contribution requirements are set during the County's budget process. The data available for the determination is based upon the prior fiscal year's demographics. The actuarially determined contribution requirements set during the budgeting process may differ from the annual required contribution (ARC) for the current period as a result of changes in the plan provisions implemented subsequent to approval of the County budget. During the year, the Retirement System accrues only those contributions that the County is statutorily required to pay. This consists of those contributions that were included in the County's current year's budget and any additional contributions that may have been committed at the discretion of the County Board. For 2004 and 2003, the County contribution recorded by the Retirement System was $1,894,974 and $8,738,267 greater than the ARC for 2004 and 2003, respectively.

Benefits –

The normal retirement benefit is a monthly pension for the life of the participant. For deputy sheriff participants with less than 30 years of service, the normal retirement age is 57. For all other participants the normal retirement age is 60, although some labor agreements require a minimum of 5 years creditable service at age 60. Active participants are also eligible to retire when their age added to their years of service equals 75. Several Union contracts require an employee to be a member prior to a stated date in order to qualify for the rule of 75. The normal retirement benefit payable to a participant whose membership began prior to

January 1, 1982, is equal to 2.5% for deputy sheriffs and elected officials, and 2% for all other participants, of the participant's three-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. The amount of normal retirement benefits payable for a participant whose membership began after January 1, 1982 is as follows: 2.5% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired before July 1, 1995; 2% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired after June 30, 1995; 2% for elected officials; 2% for firefighters and non-represented firefighters beginning January 1, 1999; and 1.5% for all other participants, of the participant's five-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. Each year after retirement, the amount of monthly benefit is increased by an amount equal to 2% of the benefit paid for the first full month of retirement. The maximum benefit, excluding any post-retirement increases, payable to a participant cannot exceed the sum of 80% of the participant's final average monthly salary.

As of January 1, 2001, certain plan changes became effective, except for represented deputy sheriffs. These changes are noted below:

- The County will pay the accrued sick allowance in full upon retirement for those participants hired prior to January 1, 1994. Previously, a member received both a cash payment from the County and pension service credit for a portion of the accrued sick allowance.
- A bonus of 7.5% per year, up to a maximum of 25%, is added to the Final Average Salary for those employees whose membership in the Employee's Retirement System began before January 1, 1982, or July 1, 1995 for a non-represented Deputy Sheriff.
- All service credit earned after January 1, 2001 will be credited with an additional .5% multiplier for those employees whose membership in the Employee's Retirement System began after December 31, 1981, or June 30, 1995 for a non-represented Deputy Sheriff. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 shall be credited with an additional .5% multiplier.
- A "back drop" payment option was established that would permit an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member would be entitled to from a prior date (back drop date) to the date that the member terminates employment plus compounded interest. The back drop date must be at least one year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit based on the back drop date once the member terminates employment.

The following changes were made effective as of the stated dates:

- Effective March 15, 2002, the County will pay non-represented employees for the first 400 hours of accrued sick allowance and 16% of any sick allowance in excess of 400 hours. No pension service credit is added for this accrued sick allowance payout.
- Non-represented employees and elected officials hired on or after March 15, 2002 are not eligible to receive the drop back pension benefit.
- Individuals elected after March 15, 2002 are not eligible to receive the additional .5% pension benefit multiplier.
- Effective January 1, 2003, the pension benefit for employees who became members after December 31, 1981 shall be based upon a final average salary equal to the three highest consecutive years of earnings instead of the five highest consecutive years of earnings, except for represented sheriffs.

A participant who meets the requirements for an accidental or ordinary disability benefit is entitled to an amount equal to the normal retirement benefit, but not less than 60% of a participant's final average salary for accidental disability. Fifteen years of credited service is required to apply for ordinary disability.

A participant who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The participant would be entitled to a benefit equal to the normal retirement benefit with a lifetime reduction of 5% for each year prior to the normal retirement date.

Effective January 1, 2001, a participant is vested upon attaining 5 years of creditable pension service. Most participants are immediately vested upon attaining age 60. A vested participant is eligible for a deferred pension beginning as of the member's normal retirement date.

Upon the death of an employee participant and usually after one year of service, which varies by labor agreement, a spouse with one dependent child, as defined in the Ordinance, will receive 40% of the deceased participant's salary, reduced by an amount equal to Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. The total benefit, if there are more than five eligible children, generally cannot exceed 90% of the prior salary level.

The total benefit includes Social Security benefits. Upon attaining age 60, the spouse will receive 50% of the normal retirement benefit based upon service projected to age 60 of the employee participant. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased participant's final average salary, but not to exceed $2,000. Deputy sheriffs are covered by special provisions if their death occurs as a result of an accident in actual performance of duty.

Currently, employee participants may choose between several options when retiring. The available options are:

- Maximum This option is a pension benefit that is payable over the life of the participant and ceases upon the participant's death;
- Membership Account Refund This option is an actuarially reduced pension benefit that ceases upon the death of the participant. This option, however, guarantees that the participant will receive the total balance in his/her Membership Account as of the retirement date. The Membership Account balance is reduced each month by an actuarial determined amount. Any balance remaining upon the participant's death will be paid to the participant's beneficiary. Generally, only participants hired prior to 1971 have a Membership Account and, therefore, are the only employees eligible for this option;
- 25% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;
- 50% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;
- 75% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;
- 100% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;
- 10-Year Certain This option is a reduced pension benefit payable over the life of the participant but is guaranteed for a period of 10-years, in the event that the participant should die within 10 years after the retirement date.
- Board Discretion This option is at the discretion of the Pension Board and is the payment of a benefit in a form other than those set forth above provided that payments in such other form shall be the actuarial equivalent of the benefit otherwise payable. An administrative charge is assessed for each calculation performed under this option.

Benefits of $161.4 million and $111.1 million were paid in 2004 and 2003, respectively, including periodic pension benefit payments of $110.4 million and $100.1 million and dropback lump-sum pension benefit payments of $51.0 million and $11.0 million in 2004 and 2003,respectively.

(2) Summary of Significant Accounting Policies:

Basis of Accounting –

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred.

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships are valued at estimated fair value, as provided by the Retirement System's venture capital investment manager. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method.

A summary of investments at cost is as follows:

	As of December 31 2004	2003
Domestic common and preferred stocks	$ 474,813,617	$ 452,414,375
Corporate bonds	463,771,911	404,453,674
International common and preferred stocks	180,421,974	208,755,009
Federal agency and mortgage-backed certificates	56,360,389	115,272,505
International fixed income	34,777,186	48,115,527
US Government, State & Local obligations	26,631,073	32,033,442
Real estate investment trusts	37,949,837	33,390,468
Venture capital	26,387,224	24,376,514
Cash and cash equivalents	7,747,121	16,021,251
Total investments at cost	**$1,308,860,332**	**$1,334,832,765**

Valuation of International Securities –

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,053,714 and $1,052,422 in 2004 and 2003, respectively.

Use of Estimates –

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

(3) Income taxes –

The Internal Revenue Service ruled on July 23, 2001, that the Plan was in compliance with Section 401(a) of the Internal Revenue Code (IRC), and, therefore, is a tax-qualified plan. The Retirement System has been subsequently amended. Management believes that the Plan continues to be in compliance with the IRC and maintains its tax-qualified status.

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability over a 30 year period in 2004. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $35,143,178 and $33,980,592 were recorded in 2004 and 2003, respectively. The 2004 and 2003 contributions were greater than the total actuarial required contribution using the Aggregate Entry Age Normal method of funding with normal cost computed as a level percentage of pay. See the Schedule of Employer Contributions in the Required Supplementary Information. The County's contributions to the Retirement System were 16.8% and 14.6% of annual covered payroll for 2004 and 2003, respectively.

Milwaukee County agreed to issue Pension Obligation bonds in early 2004 in the amount of $18.6 million to pay the unamortized contribution variances for 2001, 2002 and 2003. The $18.6 million is included in the 2003 County contributions of $33,980,592 for 2003.

The 2004 and 2003 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2003 and 2002. These amounts, less the $18.6 million payment of the unamortized contributions variances, were included in the County's 2004 and 2003 budgets. The Retirement System as of December 31, 2004 and 2003 reflected the unpaid portion of the 2004 and 2003 contributions as a contribution receivable.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.5%, compounded annually in 2004 and 9.0% compounded annually in 2003, (b) projected salary increases averaging 5.5% per year compounded annually, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2004 and 2003.

(5) Investments –

Investment Concentrations –

The Retirement System has the following investments (other than those issued or guaranteed by the U.S. Government) that represent 5 percent or more of the plan net assets at December 31, 2004:

- The Mellon Capital Management Employee Benefit Stock Index Fund of $108.088 million.
- The Mellon Capital Management Employee Benefit Aggregate Bond Index Fund of $205.319 million.
- The Mellon Capital Management Employee Benefit Large Cap Growth Stock Index Fund of $91.889 million.
- The GMO International Intrinsic Value Fund III of $106.633 million.

Cash –

The following table presents the Retirement System's total deposits as of December 31, 2004:

	Schedule of Cash (in thousands of dollars)	
	Carrying Value	**Bank Balance**
Deposits with banks	**$2,666**	**$7,319**
Money market deposits held at bank	**5,148**	**5,148**
Total Deposits	**$7,814**	**$12,467**

The difference between the carrying values and bank balances are due to outstanding checks and deposits not yet processed by the bank.

Other Investments –

The following table presents the total investments held at December 31, 2004, categorized to give an indication of the level of risk assumed by the Retirement System. Investments not evidenced by securities are not categorized. The categories for investments are:

1. Insured or registered securities, or securities held by the custodian in the Retirement System's name.
2. Uninsured and unregistered, with the securities held by the custodian, in the Retirement System's name.
3. Uninsured and unregistered, with the securities held by the custodian, but not in the Retirement System's name.

The Retirement System does not hold any Category 2 or 3 investments.

The Retirement System's deposits have been categorized to give an indication of the level of custodial credit risk assumed. This risk categorization does not reflect market risk. The categories are:

1. Insured or collateralized with securities held by the Retirement System or by its agent in the Retirement System's name
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Retirement System's name
3. Uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Retirement System's name.

The Retirement System does not hold any Category 2 or 3 deposits.

Schedule of Investments and Deposits by Custodial Credit Risk

	Total Fair Value
Investments - Category 1	
Domestic and preferred common stocks	**$ 582,860,033**
Corporate bonds	**492,912,398**
International common and preferred stocks	**252,654,565**
Federal agency and mortgage-backed certificates	**57,105,842**
Real estate investment trusts	**53,745,674**
International fixed income	**42,389,765**
US Government Obligations	**26,517,994**
TOTAL	**$1,508,186,271**
Investments - Not categorized	
Venture capital	**$17,132,189**
Deposits - Category 1	
Deposits	**$ 7,813,683**

Security Lending –

The Retirement System participates in a security lending program for the lending of corporate bonds, equity and government securities to qualified brokers. Collateral received for securities loaned consists primarily of cash. Other forms of collateral are letters of credit and government agency securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of the securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The net investment income earned on collateral is divided between the custodian, as a fee for its services under the program, and the Retirement System, according to agreed-upon rates. For 2004 and 2003, the net investment income realized from security lending was $290,787 and $ 290,059, respectively.

Securities loaned and the collateral held were as follows:

	As of December 31 2004	2003
Fair Value of Securities Loaned:	$111,029,752	$124,046,792
Fair Value of Collateral:	$114,405,849	$127,553,855
Percentage Collateral to Securities Loaned:	103.04%	102.83%

The collateral received from security lending transactions are recorded as assets at quoted fair value on the financial statement date. The Retirement System records an identical amount as a liability, representing the obligation of the Retirement System to return the collateral at the time the borrower of the Retirement System's securities returns those securities.

The collateral received from securities lending transactions includes cash of $111,140,331 and $123,308,997 and U.S. Treasury securities of $3,265,518 and $ 4,244,858 for the years ended December 31, 2004 and 2003, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. Non-cash collateral in the amount of $3,265,518 and $4,244,858 for years ended December 31, 2004 and 2003, respectively, is controlled by the custodian and, correspondingly, is not reflected in the Statement of the Plan Net Assets Available for Plan Benefits.

(6) Financial Instruments With Off-Balance Sheet Risks –

A currency forward is a contractual agreement between two parties to pay or receive amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are entered into with the foreign exchange department of a bank located in a major money market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuations. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Retirement System records the amount receivable or payable at fair value, with the unrealized gain or loss reported as a component of net appreciation in fair value.

Unrealized losses on forward foreign exchange contracts at year-end were $51,362 and $57,618 for 2004 and 2003, respectively. At year-end, the Retirement System holds forward foreign exchange contracts in the Euro-currency, Japanese yen and Swiss francs, primarily.

(7) Commitments and Contingencies –

The Retirement System is involved in litigation and certain other disputes arising during the normal course of operations. Management does not believe the settlement of such matters will have a material impact on the Retirement System's financial statements.

(8) OBRA 1990 Retirement System of the County of Milwaukee –

The County established the OBRA 1990 Retirement System of the County of Milwaukee (OBRA) to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA are commingled for investment purposes with the assets of the Retirement System. As the assets of the Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled, the Retirement System is considered a single plan for financial reporting purposes. Net assets identified for OBRA benefits as of December 31, 2004 and 2003, were as follows:

	(Unaudited)	
	2004	**2003**
Cash	**$ 32,871**	**$ 302**
Contributions receivable from County	**348,000**	279,727
Assets held by Retirement System	**563,102**	**509,661**
Net assets available for benefits	**$943,973**	**$789,690**

Changes in net assets available for benefits for OBRA for the years ended December 31, 2004 and 2003, were as follows:

	(Unaudited)	
	2004	**2003**
Contributions from County	**$348,000**	**$279,727**
Investment income	**87,400**	**139,200**
Investment and administrative expenses	**(238,648)**	**(178,462)**
Benefits paid	**(42,469)**	**(124,907)**
Net increase in assets available for benefits	**$154,283**	**$115,558**

As of December 31, 2004 and 2003, respectively, there were 9,091 and 8,685 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2004 and 2003, was $2,871,834 and $2,535,291 , respectively, leaving net assets available less than the actuarial accrued liability of ($1,927,861) and ($1,745,601), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

Required Supplementary Information

Schedule of Funding Progress
(in thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability– AAL (b)	Funded ratio (a/b)	(Overfunded) Unfunded AAL– UAAL (b-a)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/05	1,424,918	1,782,884	79.9%	357,966	209,796	170.6%
1/1/04	1,446,726	1,707,999	84.7%	261,273	233,478	111.9%
1/1/03	1,446,860	1,542,045	93.8%	95,185	234,679	40.6%
1/1/02	1,620,157	1,492,072	108.6%	(128,085)*	238,387	(53.7%)**
1/1/01	1,670,601	1,499,261	111.4%	(171,340)*	238,195	(71.9%)**
1/1/00	1,622,710	1,336,573	121.4%	(286,137)*	230,324	(124.2%)**

* These amounts represent actuarial value of assets in excess of actuarial accrued liabilities.

** These percentages represent the amount of overfunded actuarial assets as a percentage of payroll.

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded (overfunded) actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of the Retirement System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Retirement System. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids the analysis of the Retirement System's progress in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, or the larger the percentage, if negative, the stronger the Retirement System.

Schedule of Employer Contributions for the Year Ended December 31,

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed
2004	33,248,204	105.7%
2003	25,242,325	134.6%
2002	8,528,477	30.3%
2001	8,586,443	30.8%
2000	629,279	100.0%
1999	2,756,636	100.0%

Notes to Required Supplementary Information

(1) Description –

The historical trend information is presented as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

(2) Actuarial Assumptions and Methods –

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2005, for the plan year ending December 31, 2004. The actuarial valuations consider the changes effective January 1, 2005. Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/05
Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level percent of payroll, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothing of difference between total expected return versus actual return
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%
Mortality	RP 2000 Mortality Table

(3) Significant Factors Affecting Trends in Actuarial Information –

2005 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- None

2004 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Decrease in discount rate to 8.5%.
- The amortization period for plan amendments, assumption changes and actuarial experience was changed from 20 years to 30 years. Future plan and assumption changes, as well as, actuarial gains and losses will be amortized over 30 years from the date established.

2003 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Beginning January 1, 2003, the pension benefit is based upon a final average salary equal to the three highest consecutive years of earnings for employees who became members of the Retirement System after December 31, 1981, except for represented deputy sheriff members.
- Assumption that 50 percent of eligible retirees will elect to receive both a backdrop payment option of 4 years and a monthly pension benefit upon retirement.

2002 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in annual compensation limit to $200,000.
- Increase in maximum annual benefit limit to $160,000.
- Increase in discount rate to 9.0%.
- For purposes of computing the ARC by the County, the unfunded actuarial accrued liability of $(128,085,000) will be reamortized over a 20-year period ending December, 2020. The unfunded actuarial liability, as of January 1, 1996, was being amortized over a 40-year period ending December, 2035. Plan and assumption changes, as well as, actuarial gains and losses since January 1, 1996, were also being amortized through December, 2035. Effective January 1, 2002, future plan and assumption changes, as well as, actuarial gains and losses will be amortized over 20 years.

2001 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in maximum annual benefit limit to $140,000.
- Except for represented deputy sheriff members, vesting was changed from ten years to five years for those hired after December 31, 1981.
- Except for represented deputy sheriff members, the accrued sick allowance will be paid in full by the County of Milwaukee upon retirement for those hired prior to January 1, 1994. Previously, a member received both a cash payment and pension service credit for a portion of the accrued sick allowance.
- Except for represented deputy sheriff members, those employees whose membership in the Employees' Retirement System began before January 1, 1982, or for a nonrepresented Deputy Sheriff, July 1, 1995, will receive a bonus added to their final average salary of 7.5% for each year of service credit earned after January 1, 2001 up to a maximum bonus of 25% of final average salary.
- Except for represented deputy sheriff members, those employees whose membership in the Employees' Retirement System began after December 31, 1981, or for a nonrepresented Deputy Sheriff, June 30, 1995, will have all service credited after January 1, 2001 with a 2% multiplier. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 will be credited with an additional .5% multiplier.
- Except for represented deputy sheriff members, a "back drop" payment option was established that will permit an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member will be entitled to from a prior date (back drop date) to the date that the member terminates employment plus interest compounded monthly. The back drop date must be at least one year prior to the termination date and the member must be eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit as if the member had retired on the back drop date.
- Assumption that 25 percent of eligible retirees will elect to receive both a backdrop payment option of 3 years and a monthly pension benefit upon retirement.

2000 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in annual compensation limit to $170,000.
- Increase in maximum annual benefit limit to $135,000.
- Formula increased for Firefighters, DA Investigators and Nonrepresented Deputy Sheriffs.
- Revised mortality assumptions.

1999 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Salary Scale and Retirement Rates Assumptions were changed.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE
(Unaudited)

Revenues by Source

Fiscal Year	Participant Contributions	County Contributions*	Investment Income (Loss)**	Total
2004	$711,322	$35,143,178	$188,633,703	$224,488,203
2003	704,758	33,980,592	292,669,096	327,354,446
2002	436,682	2,579,984	(78,508,968)	(75,492,302)
2001	265,567	2,646,523	(28,309,035)	(25,396,945)
2000	180,729	629,279	(14,726,721)	(13,916,713)
1999	140,834	2,756,636	243,675,430	246,572,900
1998	156,915	10,816,807	120,415,049	131,388,771
1997	130,253	12,942,084	256,829,536	269,901,873
1996	176,722	18,442,468	161,746,888	180,366,078
1995	314,544	20,309,361	275,737,913	296,361,818

Expenses by Type

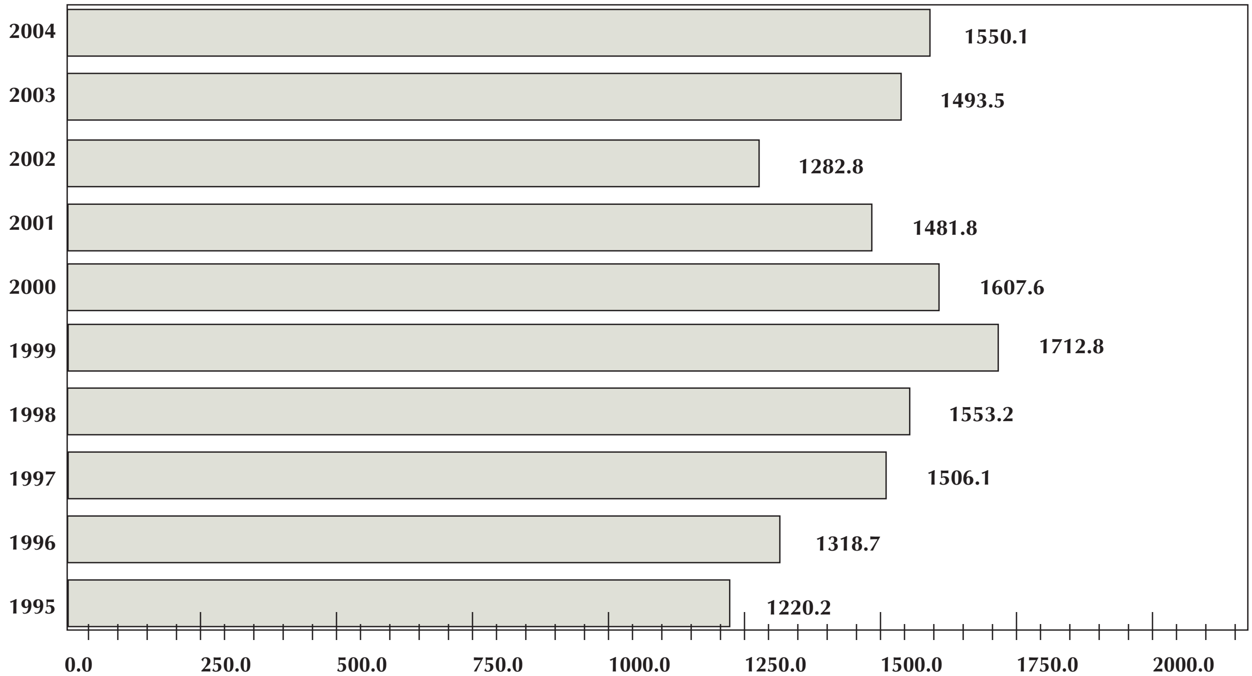
Fiscal Year	Benefits***	Investment and Administrative Expenses	Withdrawals	Total
2004	$161,368,700	$6,302,951	$154,522	$167,826,173
2003	111,109,514	5,662,380	12,999	116,784,893
2002	118,078,160	5,301,678	30,230	123,410,068
2001	94,842,239	5,389,064	233,732	100,465,035
2000	85,664,789	5,320,195	257,600	91,242,584
1999	82,022,948	4,966,393	16,866	87,006,207
1998	79,261,523	4,913,214	50,504	84,225,241
1997	77,831,307	4,651,792	53,967	82,537,066
1996	76,921,047	4,605,169	115,956	81,642,172
1995	61,333,535	3,825,400	123,464	65,282,399

* Contributions were made based upon actuarially determined contribution requirements, as well as additional contributions made at the discretion of the County Board.

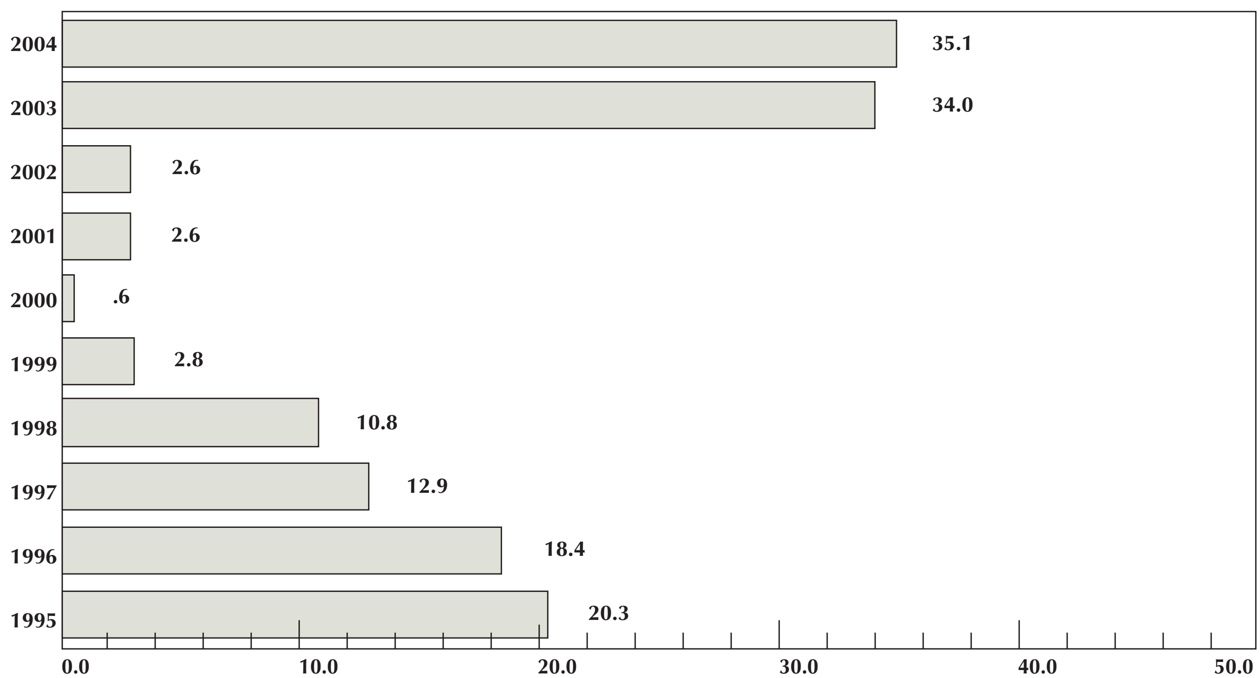
** Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income, and other income.

*** Included in the benefits for years 2003 and 2002 are drop-back lump-sum payments in the amount of $11.0 million and $23.1 million, respectively.

NET FUND ASSETS
FAIR VALUES 2004-1995
(in millions of dollars)
(unaudited)



ACTUAL COUNTY CONTRIBUTIONS
(in millions of dollars)
(unaudited)



ACTIVE MEMBERSHIP STATISTICS (Unaudited)

	2004
Members as of January 1	**7,047***
Changes During the Year:	
New enrollments	**329**
Transferred to nonvested inactive	**(135)**
Retirements	**(747)**
Withdrawals	**(16)**
Deaths in active service	**(18)**
Members as of December 31	**6,460***

**This total includes vested inactive members.*

RETIREMENTS AND SURVIVORS (Unaudited)

	Retirements Granted								Survivors & Beneficiaries	Total
	Maximum Pension	Option								
		Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2004	2,475	805	1,049	82	1,209	151	60	30	837	6,698
Changes During the Year:										
Retirements	334	12	151	67	75	72	22	9	5	747
Pensioner deaths	(133)	(55)	(33)	(3)	(51)	-	(1)	-	14	(262)
December 31, 2004	2,676	762	1,167	146	1,233	223	81	39	856	7,183

CONSULTANTS

as of December 31, 2004

Legal Advisors:

Milwaukee County
Corporation Counsel
William Domina

Reinhart, Boerner, Van Deuren s.c.
Milwaukee, Wisconsin

Foley & Lardner
Milwaukee, Wisconsin

Gonzalez, Saggio & Harlan L.L.P.
Milwaukee, Wisconsin

Actuary:

William M. Mercer, Inc.
Milwaukee, Wisconsin

Disbursing Agent:

County Treasurer

Custodian/Securities Agent:

Mellon Trust
Boston, Massachusetts

Medical Board:

Medical Associates

Investment Consultant:

William M. Mercer
Investment Consulting, Inc.
Chicago, Illinois

Cash Management Manager:

Mellon Trust
Boston, Massachusetts

Standish Mellon Asset Management
Woburn, Massachusetts

Venture Capital Investment Managers:

Adams Street Partners
Chicago, Illinois

Progress Investment Management Co.
San Francisco, California

Equity Investment Managers:

Ariel Capital Management Group, Inc.
Chicago, Illinois

Artisan Partners
Milwaukee, Wisconsin

Boston Partners Asset Management, Inc.
Boston, Massachusetts

Mellon Capital Management
Pittsburgh, Pennsylvania

US Bancorp Piper Jaffray Asset Management
Minneapolis, Minnesota

Westfield Capital Management Co., Inc.
Boston, Massachusetts

Fixed Income Investment Managers:

Loomis, Sayles & Company, Inc.
Boston, Massachusetts

Mellon Capital Management
Pittsburgh, Pennsylvania

NCM Capital Management Group, Inc.
Durham, North Carolina

Strong Capital Management
Milwaukee, Wisconsin

International Investment Managers:

Capital Guardian Trust Company
Brea, California

Granthum, Mayo, Van Otterloo & Co.
Boston, Massachusetts

Real Estate Investment Trusts Manager:

ING Clarion Real Estate Securities
Radnor, Pennsylvania

Milwaukee County
Employees' Retirement System
Courthouse, Room 210-C
901 N. 9th Street
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