

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE**

**General Purpose Financial Statements
and Additional Information for the
Year Ended December 31, 2001 and
Independent Auditors' Reports**

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

TABLE OF CONTENTS

	Page
INTRODUCTORY SECTION	
Executive Director's Letter of Transmittal	2
List of Principal Officials	3
ERS Organization chart	4
FINANCIAL SECTION	
Independent Auditors' Report on Financial Statements	6
GENERAL PURPOSE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001	
Statement of Plan Net Assets	7
Statement of Changes in Plan Net Assets	8
Notes to Financial Statements	9 - 17
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	19
Schedule of Employer Contributions	20
Notes to Required Supplementary Information	21
ADDITIONAL INFORMATION	
Statement of Plan Net Assets – Non-Consenter Retirement Funds	23
Statement of Changes in Plan Net Assets – Non-Consenter Retirement Funds	24

INTRODUCTORY SECTION



City of Milwaukee
Employees' Retirement System

Anne M. Bahr
Executive Director

Jennifer A. Shannon, CFA
Chief Investment Officer

Martin Matson
Deputy Director

July 22, 2002

On behalf of the Annuity and Pension Board of the Employees' Retirement System (ERS) of the City of Milwaukee, I am pleased to present the General Purpose Financial Statements for the ERS for the year ending December 31, 2001. The ERS provides retirement and disability benefits, counseling and other services to over 26,000 members. The Employees' Retirement System was created under Chapter 396 of the Laws of Wisconsin of 1937 and the City of Milwaukee Charter, Chapter 36. This report fulfills the legal reporting requirements of those laws.

It is the responsibility of ERS management to present fairly all financial information in conformity with generally accepted accounting principals. The ERS has internal controls in place that provide reasonable assurance that the financial statements are free from errors. An independent audit of the ERS' books and records allows the independent auditor to reasonably confirm that the statements are free from material misstatement. The independent auditor's report is found within the Financial Section of this report.

The Employees' Retirement System continues to remain extremely healthy. The ERS actuarial funding level increased from 137.2% at January 1, 2000 to 140.6% at January 1, 2001. The funded status of the ERS is measured by comparing the actuarial value of plan assets with the actuarial accrued liability. The "schedule of funding progress" on page 19 shows historical trend information about the system's actuarial value of assets, actuarial accrued liability and actuarial funded status.

During 2001, the ERS continued work toward final implementation of the Global Pension Settlement. Lump sum payments in excess of \$130 million were made to recipients of benefits. Efforts by ERS staff continue in 2002 toward issuing all payments due to retirees and survivors.

Lastly, I would like to acknowledge the staff of the ERS for rising to meet all challenges we have faced and for their continuing dedicated effort in providing superior customer service to all of our members.


Anne M. Bahr
Executive Director

List of Principal Officials

ANNUITY & PENSION BOARD MEMBERS (as of 7/22/02)

W. Martin Morics, CPA, Board Chairman

City Comptroller

Ex-Officio Member

Patrick J. Cronin, Board Vice Chairman

Appointed by the President of the Common Council

William C. Carey

Elected Representative - Retiree

Bradley De Braska

Milwaukee Police Department

Elected Representative - Active

Robert L. Kastern, CPA

Milwaukee Public Schools

Elected Representative - Active

Alvin Madison

City of Milwaukee – Department of Public Works

Elected Representative - Active

Alderman Michael J. Murphy

16th Aldermanic District

Appointed by the President of the Common Council

Alderman Marvin E. Pratt

1st Aldermanic District

Appointed by the President of the Common Council

ERS ADMINISTRATIVE PERSONNEL (as of 7/22/02)

Anne M. Bahr

Executive Director and Secretary

Martin Matson

Deputy Director

Jennifer Shannon, CFA

Chief Investment Officer

Wayne F. Whittow

City Treasurer

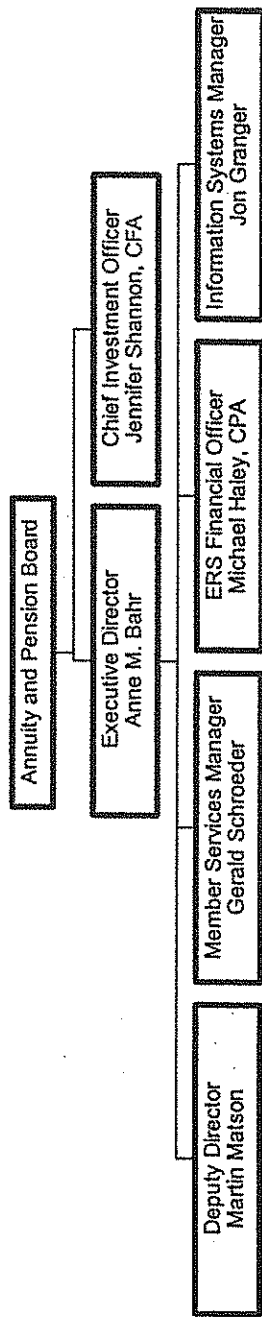
Custodian of Funds

Grant F. Langley

City Attorney

Legal Advisor

Employees' Retirement System Organization Chart



FINANCIAL SECTION



**Virchow Krause
& company**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Annuity and Pension Board of the Employees'
Retirement System of the City of Milwaukee:

We have audited the accompanying general purpose financial statements of the Employees' Retirement System of the City of Milwaukee (the "Retirement System") as of December 31, 2001, and for the year then ended listed in the foregoing Table of Contents. These general purpose financial statements are the responsibility of the Retirement System's Management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Retirement System as of December 31, 2001, and the changes in the net assets of the Retirement System for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information on pages 19 through 21, which is also the responsibility of the Retirement System's management, is not a required part of the general purpose financial statements of the Retirement System but is required by the Government Accounting Standards Board. The 2001 information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements for the year ended December 31, 2001 and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. The required supplementary information as December 31, 2000 was audited by other auditors whose report dated October 5, 2001 expressed an unqualified opinion on such information.

The additional information on pages 23 and 24 is not a required part of the general purpose financial statements of the Retirement System. This additional information is also the responsibility of the Retirement System's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the additional information. However, we did not audit such information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2002 on our consideration of the Retirement System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 27, 2002
Milwaukee, Wisconsin

Virchow, Krause & Company, LLP

-6-

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

STATEMENT OF PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2001
(in thousands)

	Employees' Retirement System Funds				Total 2001
	Global Combined Fund	Non-Consenter Retirement Funds	Employer Reserve Fund	Securities Lending Fund	
ASSETS:					
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 138,405	\$ 2,114	\$ 205	\$ 1,102	\$ 141,826
INVESTMENTS (Notes 2 and 9):					
Bonds and collateralized mortgage obligations	847,991	16,226	1,476	-	865,693
Common and preferred stocks Investment in the State of Wisconsin Retirement System's Fixed and Variable Retirement Investment Trust Fund	981,039	18,772	1,708	-	1,001,519
Barclay Bond Index Funds	16,442	315	28	-	16,785
DFA Small Cap Fund	295,291	5,650	514	-	301,455
Northern Trust Company Collective Equity Index Fund	229,590	4,393	400	-	234,383
Russell 1000 Alpha Value Fund	563,551	10,783	981	-	575,315
East Wells Corporation (Note 10)	673,143	12,880	1,172	-	687,195
Privately held real estate investments	27,943	535	49	-	28,527
	104,299	1,996	182	-	106,477
Total investments	3,739,289	71,550	6,510	-	3,817,349
RECEIVABLES:					
Employer (Note 2)	144	-	-	-	144
Member (Note 2)	2,046	-	-	-	2,046
Interest, dividends and foreign tax recoverable (Note 2)	14,342	274	25	-	14,641
Investments sold	742	14	1	-	757
Total receivables	17,130	432	26	-	17,588
Securities lending collateral (Note 9)	-	-	-	308,350	308,350
Total assets	3,894,824	74,096	6,741	308,452	4,285,113
LIABILITIES:					
Benefits payable	9,098	-	-	-	9,098
City of Milwaukee (Note 3)	10,802	-	-	-	10,802
Global Settlement expenses (Note 3)	2,558	-	-	-	2,558
Securities lending obligation (Note 9)	-	-	-	308,350	308,350
Investments purchased	73,287	1,402	128	-	74,817
Total liabilities	95,745	1,402	128	308,350	405,625
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 3,799,079	\$ 72,694	\$ 6,613	\$ 1,102	\$ 3,879,488

(A schedule of funding progress is presented on Page 19)
See notes to general purpose financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

STATEMENT OF CHANGES IN PLAN NET ASSETS YEAR ENDED DECEMBER 31, 2001 (in thousands)

	Employees' Retirement System Funds					Total 2001
	Global Combined Fund	Non-Consenter Retirement Funds	Employer Reserve Fund	Securities Lending Fund	Total 2001	
ADDITIONS:						
Contributions:						
Employer (Note 5)	\$ -	\$ 144	\$ -	\$ -	\$ -	144
Member	24,606	990	-	-	-	25,596
Total contributions	24,606	1,134	-	-	-	25,740
Investment income:						
Net appreciation (depreciation) in fair value of investments	(153,740)	(2,863)	(355)	-	-	(156,958)
Interest, dividends and other investment income	89,825	1,673	207	1,757	-	93,462
	(63,915)	(1,190)	(148)	1,757	-	(63,496)
Less investment expense (Note 7)	9,122	-	-	643	-	9,765
Net investment income (loss)	(73,037)	(1,190)	(148)	1,114	-	(73,261)
Total additions	(48,431)	(56)	(148)	1,114	-	(47,521)
DEDUCTIONS:						
Administrative expenses (Note 7)	4,245	-	-	1,210	-	5,455
Benefits paid	157,966	1,623	-	-	-	159,589
Global settlement expenses (Notes 3 and 7)	5,817	-	-	-	-	5,817
Refunds of contributions	717	377	-	-	-	1,094
Total deductions	168,745	2,000	-	1,210	-	171,955
INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(217,176)	(2,056)	(148)	(96)	-	(219,476)
Fund balance transfers (Notes 3 and 4)	20,631	(18,131)	(2,500)	-	-	-
Net assets held in trust for pension benefits:						
Beginning of year	3,995,624	92,881	9,261	1,198	-	4,098,964
End of year	\$ 3,799,079	\$ 72,694	\$ 6,613	\$ 1,102	\$ -	\$ 3,879,488

See notes to general purpose financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF RETIREMENT SYSTEM

The following brief description of the provisions of the Employees' Retirement System of the City of Milwaukee is provided for financial statement purposes only. Participants should refer to the Retirement Act (Chapter 36 of the City of Milwaukee Charter) for more complete information.

The Employees' Retirement System of the City of Milwaukee (the "Retirement System") was established pursuant to the Retirement Act (Chapter 396 of the Laws of Wisconsin of 1937) to provide the payment of retirement and other benefits to employees of the City of Milwaukee (the "City"). Chapter 441 of the Laws of Wisconsin of 1947 made the benefits contractual and vested. The Retirement System is a multi-employer plan which also provides benefits to employees of the Milwaukee Board of School Directors, the Milwaukee Area Technical College, the Milwaukee Metropolitan Sewerage District, the Wisconsin Center and the Milwaukee Housing and Redevelopment Authorities (the "Agencies"). City employees account for approximately 56% of the active participants in the Retirement System.

Full-time employees, part-time employees who are eligible under adopted rules and regulations and elected officials who have evidenced their intent to join are members of the Retirement System.

The normal retirement benefit is a monthly pension for the life of the member. A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age, 60 for general employees and 57 for police officers and firefighters. General City employees who have attained age 55 and completed 30 years of creditable service are eligible for service retirement. Police officers of any age with 25 years of creditable service and firefighters who have attained age 49 and completed 22 years of creditable service are eligible for service retirement if they consented to the Global Pension Settlement thus becoming a member of the Global Combined Fund (see Note 3).

For general employees, the amount of a member's service retirement allowance is equal to 2% of final average salary (the highest average of earnable compensation during any 3 years preceding retirement, death or termination) for each year of creditable service. The service retirement allowance for general employees who retire after January 1, 1989 cannot exceed 70% of final average salary for coordinated system members. For police officers and firefighters, the retirement allowance is 2.5% of the final average salary (computed on the year of creditable service during which earnable compensation was highest) for each year of creditable service. The retirement allowance for firefighters hired after March 1, 1989 and police officers hired after July 1, 1989 is limited to 90% of final average salary (excluding any imputed service credit provided under the Global Pension Settlement). For elected officials of the City of Milwaukee, the retirement allowance is 2.6% of final average salary for each year of creditable service prior to January 1, 1996; and 2.0% for the mayor and 2.5% for all other elected officials for each year of creditable service after that date.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)

The Retirement Act provides for escalators to nearly all retirees. The amount of the escalator and when it is granted is dependent on a variety of factors, the most important of which is whether or not the retiree consented to the Global Pension Settlement (see Note 3).

General City employees participating in the Combined Fund retiring on a service retirement allowance on or after January 1, 2000 are eligible for a pension escalator of 1.5% on the second, third and fourth anniversaries of their retirement and 2% on each anniversary thereafter. Police officers and firefighters retiring on a service retirement allowance on or after January 1, 2000 are eligible for a pension escalator based upon the percentage increase in the prior year's Consumer Price Index-All Urban Consumers (CPI-U) effective with their first anniversary and each anniversary thereafter. The percentage increase is determined annually by measuring the change in the Index from November of one year to November of the following year. This escalator is guaranteed to be at least two percent but is capped at three percent.

Rules governing escalators provided to retirees retiring prior to January 1, 2000 under the Retirement Act before the Global Pension Settlement differ from those described in the preceding paragraph. In addition, a one-time "catch up" adjustment was provided in January of 1996 to employees who retired on a service retirement allowance on or before September 30, 1987 to partially offset the increase in inflation. For a complete description of the escalator rules, see the Retirement Act.

The Retirement System also provides for ordinary and duty disability benefits as well as ordinary and duty death benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. *Basis of Accounting* - The financial statements are prepared using the accrual basis of accounting. Retirement and other contributions are recorded when due. Investment income is recognized when earned and expenditures are recorded when incurred.
- b. *Contributions* - The System records employee contributions as earned. Contributions earned but not yet received from the City are reflected as contributions receivable. Member contributions are funded by the City and its Agencies on behalf of each participating employee based on specified rates of compensation without overtime. Contributions of one dollar per year per member are made by police officers on their own behalf. In addition, contributions of one dollar of each police officer's longevity pay per year, excluding sergeant of police, detective lieutenant and ranks above same, are made by police officers on their own behalf.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

At January 1, 2001, the number of participants in the Retirement System was as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>13,317</u>
Current employees:	
Vested	10,308
Nonvested	<u>2,886</u>
Total current employees	<u>13,194</u>
Total participants	<u>26,511</u>

- c. *Investments* - Investments of the Retirement System are recorded at fair value as determined by quoted prices in active markets. Short-term investments are reported at cost, which approximates fair value. Receivables and payables relating to investment transactions entered into prior to year-end, but not completed until after year-end, are recorded as assets or liabilities.

Privately held real estate consists of equity participation in diversified real estate investments. The majority of properties in the portfolio are offices, industrial warehouses and shopping centers. The equity participations are carried at market value, which approximates fair value, as of December 31, 2001. An annual review performed by independent professional appraisers is used to assess the market value.

All investments are made in accordance with the provisions of Section 36-09 of Chapter 36 of the Milwaukee City Charter. In accordance with these provisions, the several funds of the Retirement System are invested within the requirements of ss. 40.03(1)(n) and 66.82, Wisconsin Statutes. The Retirement System did not invest more than 70% of the total assets, as measured by their cost, in stocks of corporations.

The Retirement System has investments in certain financial instruments such as U.S. Treasury Strips, collateralized mortgage obligations, asset backed securities and certain holdings of the State of Wisconsin Investment Board. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. The System's investment managers may temporarily invest small amounts of available cash in short-term investments prior to purchasing securities consistent with their investment strategy. The System's international equity managers may invest in warrants and foreign exchange forward contracts as a hedge to foreign currency fluctuations. These investments are not significant to the financial position of the Retirement System and are carried at fair value.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments (continued)

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

- d. *Investment Income* - Dividends and interest are recorded as earned. All dividend and interest income, and all realized investment gains and losses, are allocated to the individual funds based on fund balances at the beginning of the year.
- e. *Estimates* - The preparation of financial statements in conformity with generally accepted accounting principles 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. GLOBAL PENSION SETTLEMENT

On April 11, 2000, the Common Council of the City of Milwaukee adopted File Numbers 991585 and 991586 approving changes to Chapter 36 of the City Charter and a memorandum of understanding calling for a global settlement of all outstanding pension issues and lawsuits. The Global Pension Settlement (GPS), effective January 1, 2000, increased benefits to current and future retirees in exchange for changes to plan administration including payment of all System expenses (Note 7) and dismissal of certain outstanding lawsuit judgments. Written consent to the GPS by all current members is required before increased benefits and lump sum payments will be made. The majority of the members consented to the settlement as part of the GPS implementation lawsuit. Members who have not consented have until April 24, 2003 to consent to GPS.

As of the January 1, 2001 actuarial valuation, 1,739 System members were identified as being non-consenting. Of this number, 758 were active members, 791 were inactive members and 190 were benefit recipients. ERS financial statements present Non-Consenter Retirement Funds on a consolidated basis.

A fund balance transfer in the amount of \$571,000 was made from the Non-Consenter Retirement Fund to the Non-Consenter Combined Retirement Fund to correct the allocation of 2000 member contributions. The January 1, 2001 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2001 for those individuals who were non-consenters as of January 1, 2000 and who then subsequently consented to GPS during 2000. The amount of \$18,131,000 was transferred to the Global Combined Fund for this reallocation of assets.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

3. GLOBAL PENSION SETTLEMENT (cont.)

Lump sum GPS payments due to retirees receiving pension payments as of January 1, 2000 totaling approximately \$130 million were made during 2001. Additional lump sum payments of approximately \$9 million resulting from the GPS were owed to retirees as of December 31, 2001 and predominantly paid during 2002.

4. EMPLOYER RESERVE FUND

A fund balance transfer of \$2.5 million was made from the Employer Reserve Fund to the Global Combined Fund to partially fund required member contributions for City of Milwaukee employees in accordance with the Retirement Act (Chapter 36 of the Milwaukee City Charter).

5. FUNDING STATUS AND PROGRESS

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2001. Significant actuarial assumptions used in the January 1, 2001 valuation include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of between 3.5% and 7.5% for General City and between 4% and 14% for Fire and Police employees per year compounded annually, (c) normal retirement ages ranging from ages 44 to 70 depending on the class of employee, and (d) mortality assumption - 1986 Projected Experience Table with a five year setback for males.

The excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation as of January 1, 2001 was as follows (in thousands):

Net assets available for benefits	<u>\$4,202,023</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,744,812
Current employees:	
Member contributions	347,994
Employer financed portion	<u>895,334</u>
Total pension benefit obligation	<u>2,988,140</u>
Excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation	<u>\$1,213,883</u>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

5. FUNDING STATUS AND PROGRESS (cont.)

The Retirement System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Employer contribution rates are determined using the projected unit credit method.

Employer contributions are funded based on an actuarial valuation report. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

The Global Pension Settlement, effective January 1, 2000, merged duty disability and retirement funds for consenting Retirement System members resulting in no employer contribution being due for this group for 2001. The 2001 employer contribution for non-consenting members totaling \$144,000 was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2001. This contribution, due January 31, 2002, was payable to the Fire and Police Duty Disability Fund and General City Duty Disability Fund within the Retirement System.

All actuarial computations were made by an independent consulting actuary to satisfy the requirements of 36.08(2) of the Milwaukee Charter.

6. TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information designed to provide information about progress made in accumulating sufficient assets to pay benefits when due is presented on pages 19 and 20.

7. EXPENSES

Under the Milwaukee City Charter, in accordance with the Global Pension Settlement all administrative and investment expenses of the Retirement System are the direct obligation of the Global Combined Fund. Expenses are normally paid through the City of Milwaukee accounting system and reimbursed by the System to the City. Money manager fees of \$9,122,120, administrative expenses of \$4,245,332 and GPS expenses of \$5,816,473 were either paid from the Global Combined Fund or accrued as an expense during 2001. An additional \$1,210,435 of administrative costs was paid from the Securities Lending Fund during 2001.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

8. INCOME TAXES

The Retirement System obtained its latest determination letter on March 21, 1996, in which the Internal Revenue Service stated that the Retirement System, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Retirement System's management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been reflected in the accompanying general-purpose financial statements.

9. INVESTMENTS

The fair value of investments held at December 31, 2001 is as follows (in thousands):

	Fair Value *
Short-term corporate notes, certificates of deposit and commercial paper	<u>\$ 141,826</u>
Bonds and collateralized mortgage obligations, net	\$ 865,693
Common and preferred stocks	1,001,519
Investment in Wisconsin Retirement System's Fixed Retirement Investment Trust Fund	16,785
Barclay Bond Index Funds	301,455
DFA Small Cap Fund	234,383
Northern Trust Company Collective Equity Index Fund	575,315
Russell 1000 Alpha Value Fund	687,195
East Wells Corporation	28,527
Privately held real estate investments	<u>106,477</u>
Total investments	<u>\$3,817,349</u>

*Excludes accrued interest and dividends

In November 1993, the Retirement System began generating revenue through securities lending. Eligible securities are loaned out through the Retirement System's custodian, The Northern Trust Company. The Retirement System earns a daily fee for all securities out on loan. The Retirement System incurs a reduction in earnings for an indemnification agreement with the custodian. Each security loan is initially collateralized by securities or cash for at least 102% of its market value. All collateral is held by the custodian. Revenue earned from securities lending is to be used for the payment of custodian fees and to offset other expenses of the Retirement System. If the revenues are not expended within one calendar year following receipt, all remaining amounts are distributed to the Non-Consenter Retirement Fund. For the year ended December 31, 2001, the Retirement System earned revenue from securities lending of \$1,756,640, paid custodian fees of \$642,792 and made disbursements of \$1,210,435.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

9. INVESTMENTS (cont.)

As of December 31, 2001, the fair value of securities on loan was \$296,991,655. The value of collateral held for securities on loan was \$308,349,655 as of December 31, 2001.

The Retirement System's investments are categorized below (in thousands) to give an indication of the level of risk assumed by the Retirement System at December 31, 2001. Category 1 includes investments that are insured or registered or for which the Retirement System or its agent in the Retirement System's name holds the securities. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the Retirement System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent, but not in the Retirement System's name.

(in thousands)	Category			Fair Value*
	1	2	3	
Short-term corporate notes, certificates of deposit and commercial paper	\$ 504	\$ 141,322	\$ -	\$ 141,826
Bonds and collateralized mortgage obligations, net	\$ 778,647			\$ 778,647
Common and preferred stocks	1,000,119			1,000,119
	<u>\$1,778,766</u>			1,778,766
Investments not categorized:				
Bonds and collateralized mortgage obligations				87,046
Common and preferred stocks				1,400
Wisconsin Retirement System's Fixed and Variable Retirement Investment Trusts				16,785
Barclay Bond Index Funds				301,455
DFA Small Cap Fund				234,383
Northern Trust Company Collective Equity Index Fund				575,315
Russell 1000 Alpha Value Fund				687,195
East Wells Corporation				28,527
Privately held real estate investments				<u>106,477</u>
Total investments				<u>\$ 3,817,349</u>

* Excludes accrued interest and dividends

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2001

10. EAST WELLS CORPORATION

The Retirement System has formed four wholly owned subsidiaries, East Wells Corporation in 1995, East Wells Corporation II in 1996, East Wells Corporation III in 1998 and East Wells Corporation IV in 1999, under the Internal Revenue Code 501(c)(25), for the sole purpose of purchasing real estate. The Corporations are incorporated under the laws of the State of Delaware. Under IRC 501(c)(25), the Corporations are exempt from federal and state taxation.

11. CONTINGENCIES

Sixty-eight retired firefighters receiving duty disability payments have filed a lawsuit claiming that they are entitled to the highest conversion age in effect during their employment. Judgment was entered on behalf of the defendants on June 20, 2000. A settlement agreement has been negotiated for all but 11 plaintiffs who have appealed the decision. All but five of the plaintiffs have dropped their appeal. The judgment entered on June 20, 2000 was then reversed by the Court of Appeals resulting in three of the plaintiffs being restored to a duty disability pension. A fourth will most likely be placed on the duty disability payroll. Final settlement with the members regarding back pay and health insurance is being negotiated by legal counsel. (Case 98-CV-007745)

The Employees' Retirement System is involved in certain other litigation and 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 general-purpose financial statements.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 6)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

Required Supplementary Information SCHEDULE OF FUNDING PROGRESS (In thousands)

Actuarial Valuation Date Beginning of Fiscal Year	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Assets in Excess of Actuarial Accrued Liability (EAAL) (1) - (2)	(4) Funded Ratios (1) / (2)	(5) Annual Covered Payroll	(6) EAAL as a Percentage of Covered Payroll (3) / (5)
2001	\$ 4,202,023	\$ 2,988,140	\$ 1,213,883	140.6 %	\$ 459,271	264.3 %
2000	4,088,042	2,979,234	1,108,808	137.2 %	466,732	237.6 %
1999	3,748,894	2,435,776	1,313,118	153.9 %	448,972	292.5 %
1998	3,346,051	2,322,020	1,024,031	144.1 %	443,357	231.0 %
1997	2,728,480	2,280,975	447,505	119.6 %	431,364	103.7 %
1996	2,342,835	2,169,100	173,735	108.0 %	426,490	40.7 %
1995	2,119,557	1,832,449	287,108	115.7 %	391,314	73.4 %
1994	2,048,201	1,538,464	509,737	133.1 %	377,822	134.9 %
1993	1,924,980	1,514,263	410,717	127.1 %	376,683	109.0 %
1992	1,787,761	1,491,399	296,362	119.9 %	344,689	86.0 %

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability, and assets in excess of actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of 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 Retirement System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Retirement System. Trends in funded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the assets in excess of actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Retirement System's progress made in accumulating sufficient actuarial value of assets to pay benefits when due. Generally, the larger this percentage, the stronger the Retirement System.

See notes to required supplemental information.

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

Required Supplementary Information SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31	Annual Required		Total	Percentage Contributions
	Member Contributions	Employer Contributions		
2001	\$ 25,595,454	\$ 144,000	\$ 25,739,454	100%
2000	28,424,609	238,000	28,662,609	100%
1999	27,047,371	6,806,000	33,853,371	100%
1998	26,450,367	6,050,230	32,500,597	100%
1997	26,186,655	5,079,000	31,265,655	100%
1996	26,346,135	2,962,630	29,308,765	100%
1995	28,799,816	2,557,225	31,357,041	100%
1994	25,946,017	5,220,436	31,166,453	100%
1993	22,722,744	3,469,835	26,192,579	100%
1992	22,002,861	13,438,883	35,441,744	100%

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was based on the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2001	
Actuarial cost method	Projected Unit Credit	
Asset valuation method	3 Year Market-Related Value	
Amortization method	Closed, Level Dollar	
Remaining amortization period	11-20 Years	
Actuarial Assumptions:		
Investment Rate of Return	8.5 %	
Projected Salary Increases	<u>General City</u> 3.5% - 7.5%	<u>Police & Fire</u> 4% - 14%
Inflation Assumption	3.5 %	
Cost of Living Adjustments	Vary by employee group as explained in the summary of plan provisions	
Mortality Assumption	1986 Projected Experience Table with five year setback for males	

ADDITIONAL INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

STATEMENT OF PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2001
(in thousands)

	Retirement Fund	Combined Retirement Fund	General Employees' Disability Fund	Firemen and Policemen's Duty Disability Fund	Firemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	Total 2001
ASSETS:							
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 2,066	\$ 66	\$ (64)	\$ (40)	\$ 19	\$ 67	\$ 2,114
INVESTMENTS (Notes 2 and 9):							
Bonds and collateralized mortgage obligations	14,851	473	110	174	138	480	16,226
Common and preferred stocks	17,181	548	127	201	160	555	18,772
Investment in the State of Wisconsin Retirement System's Fixed and Variable Retirement Investment Trust Fund	288	9	2	4	3	9	315
Barclay Bond Index Funds	5,171	165	38	61	48	167	5,650
DFA Small Cap Fund	4,021	128	30	47	37	130	4,393
Northern Trust Company Collective Equity Index Fund	9,869	314	73	116	92	319	10,783
Russell 1000 Alpha Value Fund	11,768	376	87	138	110	381	12,880
East Wells Corporation (Note 10)	489	16	3	6	5	16	535
Privately held real estate investments	1,827	59	13	21	17	59	1,996
Total investments	65,485	2,086	483	768	610	2,116	71,550
RECEIVABLES:							
Employer (Note 2)	-	-	79	65	-	-	144
Member (Note 2)	-	-	-	-	-	-	-
Interest, dividends and foreign tax recoverable (Note 2)	251	8	2	3	2	8	274
Investments sold	13	1	-	-	-	-	14
Total receivables	264	9	81	68	2	8	432
Total assets	67,815	2,103	500	796	631	2,191	74,096
LIABILITIES:							
Benefits Payable	-	-	-	-	-	-	-
City of Milwaukee Investments purchased	1,283	41	9	15	12	42	1,402
Total liabilities	1,283	41	9	15	12	42	1,402
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 66,532	\$ 2,122	\$ 491	\$ 781	\$ 619	\$ 2,149	\$ 72,694

(A schedule of funding progress is presented on Page 19)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2001
(in thousands)**

	Retirement Fund	Combined Retirement Fund	General Employees' Disability Fund	Firemen and Policemen's Disability Fund	Firemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	Total 2001
ADDITIONS:							
Contributions:							
Employer (Note 5)	592	398	\$79	\$65	-	-	\$144
Member	592	398	79	65	-	-	990
Total contributions	592	398	79	65	-	-	1,134
Investment income:							
Net appreciation (depreciation) in fair value of investments	(2,634)	(67)	(19)	(34)	(25)	(94)	(2,863)
Interest, dividends and other investment income	1,539	39	11	20	15	49	1,673
	(1,095)	(28)	(8)	(14)	(10)	(35)	(1,190)
Less investment expense	-	-	-	-	-	-	-
Net investment income (loss)	(1,095)	(28)	(8)	(14)	(10)	(35)	(1,190)
Total additions	(503)	370	71	51	(10)	(35)	(66)
DEDUCTIONS:							
Benefits paid	1,357	-	73	157	30	6	1,623
Refunds of contributions	377	-	-	-	-	-	377
Total deductions	1,734	-	73	157	30	6	2,000
INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS							
Fund balance transfers (Note 3)	(2,237)	370	(2)	(106)	(40)	(41)	(2,056)
Net assets held in trust for pension benefits:	(16,545)	512	(184)	(1,157)	-	(757)	(18,131)
Beginning of year	85,314	1,240	677	2,044	659	2,947	92,881
End of year	\$ 66,532	\$ 2,122	\$ 491	\$ 781	\$ 619	\$ 2,149	\$ 72,694