

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

**Basic Financial Statements
and Additional Information for the
Year Ended December 31, 2002 and
Independent Auditors' Reports**

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

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INTRODUCTORY SECTION



City of Milwaukee
Employees' Retirement System

Anne M. Bahr
Executive Director

Jennifer A. Shannon, CFA
Chief Investment Officer

Martin Matson
Deputy Director

June 30, 2003

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, 2002. 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 principles. 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.

Despite difficult market conditions, ERS continues to remain fully funded. The ERS actuarial funding level decreased from 140.6% at January 1, 2001 to 137.2% at January 1, 2002. 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" included in this report shows historical trend information about the system's actuarial value of assets, actuarial accrued liability and actuarial funded status.

During 2002, the ERS continued work toward final implementation of the Global Pension Settlement. Lump sum payments in excess of \$20 million were made to recipients of benefits. With the exception of a few estates, substantially all lump sum payments have been made to retirees in payment at the time the Global Pension Settlement became effective. Most newly retired members are now receiving their lump sum payment within a month of receiving their first benefit payment.

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 07/01/03)

W. Martin Morics, CPA, Board Chairman

City Comptroller

Ex-Officio Member

Alderman Joseph Dudzik,

11th Aldermanic District

Appointed by the President of the Common Council

William C. Carey, Board Vice Chair

Elected Representative - Retiree

Bradley De Braska

Milwaukee Police Department

Elected Representative - Active

Steven Lelinski

Milwaukee Police Department

Elected Representative - Active

Vacant

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 07/01/03)

Anne M. Bahr

Executive Director and Secretary

Martin Matson

Deputy Director

Jennifer Shannon, CFA

Chief Investment Officer

Wayne F. Whittow

City Treasurer

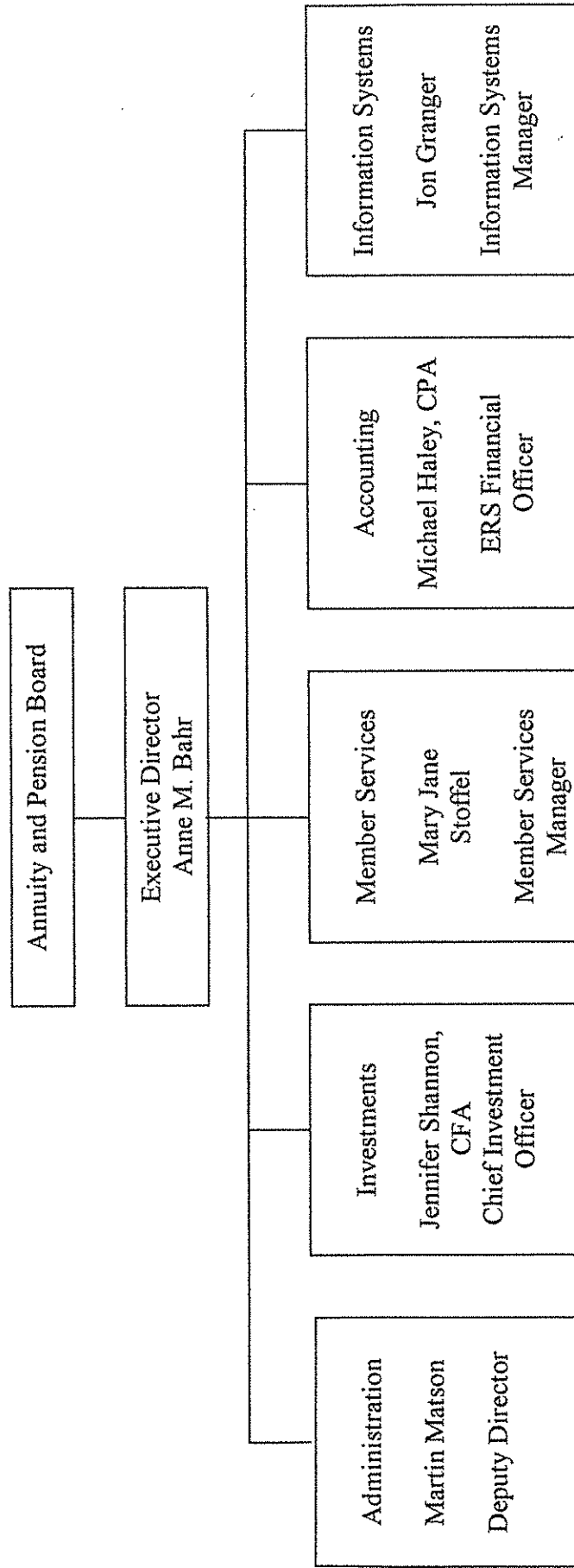
Custodian of Funds

Grant F. Langley

City Attorney

Legal Advisor

Employees' Retirement System Organization Chart



FINANCIAL SECTION



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& 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 basic financial statements of the Employees' Retirement System of the City of Milwaukee (the "Retirement System") as of December 31, 2002, and for the year then ended listed in the foregoing Table of Contents. These basic financial statements are the responsibility of the Retirement System's Management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of December 31, 2002, and the changes in the plan net assets of the Retirement System for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2003 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.

The Management's Discussion and Analysis and the required supplementary information other than Management's Discussion and Analysis on pages 7 through 15 and pages 28 through 30, respectively are not a required part of the basic financial statements of the Retirement System but are required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2002 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 additional information on pages 32 and 33 is not a required part of the basic 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 the information and express no opinion on it.

Milwaukee, Wisconsin
May 27, 2003

VIRCHOW, KRAUSE & COMPANY, LLP.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE Management's Discussion and Analysis

To help facilitate a better understanding of the Employees' Retirement System of the City of Milwaukee (ERS) financial condition as of December 31, 2002, the results of operations for the year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the audited financial statements and, as such should be read in conjunction with these statements, which are presented later in this document.

The ERS is primarily responsible for administering retirement and disability benefits for employees of the City of Milwaukee, Milwaukee Metropolitan Sewerage District, the Wisconsin Center and the Milwaukee Housing and Redevelopment Authorities and some employees of the Milwaukee Board of School Directors and the Milwaukee Area Technical College. The ERS pension trust fund is a defined benefit pension plan that provides a fixed monthly benefit to retirees after reaching a minimum retirement age depending upon employment history.

The provisions of Chapter 396, laws of Wisconsin 1937, initially created the ERS. Funds have been established to comply with the legislation governing the ERS. In April of 2000, the Common Council of the City of Milwaukee adopted legislation (commonly referred to as the Global Pension Settlement or GPS) increasing benefits to current and future retirees in exchange for allowing for changes in the administration of the ERS including allowing for the use of ERS funds to pay for the cost of plan administration. Members enrolled prior to June 28, 2000 can elect whether to consent to GPS and accept its provisions, while members enrolled on or after that date are automatically subject to the provisions of GPS.

A Discussion of Funds Within the ERS Plan

Global Combined Fund

The Global Combined Fund is used to provide retirement and disability benefits to all members who consented to GPS and all members enrolled on or after June 28, 2000. Over 90% of the total membership is accounted for in the Global Combined Fund.

Employer Reserve Fund

Agencies participating in the ERS may voluntarily contribute to the Employer Reserve Fund. Agencies with funds on deposit in the Employer Reserve Fund may use these funds to offset contributions required of them by adopting a formal resolution directing such a transfer.

Securities Lending Fund

Northern Trust, the custodian for ERS, administers the securities lending program. In this program, ERS lends out securities and receives collateral from the borrowers in the form of either cash or high quality securities and charge the borrowers a fee.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

Management Discussion and Analysis

Revenues generated from securities lending are deposited in the Securities Lending Fund and are restricted to pay expenses in connection with the administration and operation of the ERS. Revenues not expended by the close of the calendar year next following the calendar year in which it is deposited are transferred to the Retirement Fund.

Non-Consenter Funds

The Non-Consenter Funds provide retirement and disability benefits for all members who have not consented to GPS. The benefits paid from these funds do not include enhanced benefits provided by GPS.

- **Retirement Fund:** The Retirement Fund provides for retirement and ordinary disability (non work related disability) benefits for non-consenting members enrolled prior to February 1, 1996.
- **Combined Retirement Fund:** The Combined Retirement Fund provides for retirement and disability benefits (both ordinary and duty related, but excluding fire disability benefits that result from heart and lung disease) for non-consenting members enrolled on or after February 1, 1996.
- **General Employees' Duty Disability Fund:** The General Employees' Duty Disability Fund provides for duty disability benefits for non-consenting general (non fire and police) members enrolled prior to February 1, 1996.
- **Firemen and Policemen's Duty Disability Fund:** The Firemen and Policemen's Duty Disability Fund provides for duty disability benefits for non-consenting fire and police members enrolled prior to February 1, 1996, unless the disability for the fire member is due to heart and lung disease.
- **Firemen's Heart and Lung Fund:** The Firemen's Heart and Lung Fund provides for duty disability benefits resulting from heart and lung disease for non-consenting fire members.
- **Firemen and Policemen's Survivorship Fund:** The Firemen and Policemen's Survivorship Fund was created prior to GPS to provide supplemental benefits to survivors of firefighters and police officers who die in active service. These benefits now are paid from the Global Combined Fund for members who have consented. Should a non-consenting firefighter or police officer (enrolled prior to January 1, 2000) die in active service, the benefit would be paid from this fund.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

Management Discussion and Analysis

Financial Highlights

- Total assets of the ERS decreased by \$549 million or 12.83% during 2002. Of the total decrease, approximately \$211 million went to pay for the obligations of the fund. The remainder of the decrease was primarily due to a downturn in world financial markets.
- Assets of the "Non-consenter" funds under GPS decreased by 37.7% primarily due to more system members consenting, resulting in asset transfers to the Global Combined Fund, as well as the downturn in world financial markets.
- As of January 1, 2002, the date of the latest actuarial valuation, the ERS was actuarially funded at 137.2%, a decrease from the January 1, 2001 funding level of 140.6%. The decrease reflects the negative investment returns experienced in 2001 that was actuarially smoothed into the value of the fund. The ratio of the market value of the fund to the accrued liability decreased from 142% in the January 1, 2001 valuation to 126% in the January 1, 2002 valuation.
- Mercer Consulting, the investment consultant for the ERS, reported the annual Fund return gross of fees for 2002 as a negative 9.2%, while in 2001, the return was a negative 1.7%. While the ERS Fund performance did not meet the long term actuarial 8.5% assumed rate of return, total Fund performance ranked in the top half of funds in the Mercer/Russell Mellon database. This database contains approximately 35 public pension funds having assets exceeding one billion dollars. In addition, the ERS Fund's three year annualized return ranks in the top tenth percentile of this peer group of public pension funds.

Overview of the Financial Statements

The Financial Statements of the ERS are comprised of the following components: 1) fund financial statements, 2) notes to the financial statements, 3) required supplementary information, and 4) additional information. Collectively, this information presents the net assets held in trust for pension benefits for all funds under ERS administration.

- 1) **Fund Financial Statements.** Fund Financial Statements consist of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets.

Statement of Plan Net Assets contains cash balances, investments itemized by category and accounts receivable with a total of all assets. Liabilities include benefits payable, reimbursements due to the City for costs to administer the plan and amounts for

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

Management Discussion and Analysis

investment purchases that have been initiated but not settled at year-end to arrive at total liabilities. The total assets minus the total liabilities equals end of year net assets held in trust for pension benefits equal to that found on the statement of changes in plan net assets.

Statement of Changes in Plan Net Assets reflects all contributions and net investment performance in the additions section and all expenses and benefit payments in the deductions section. Fund balance transfers are also shown as increases or decreases in fund balance to arrive at the end of year net assets held in trust for pension benefits. The Statement of Changes in Plan Net Assets explains the reasons why the net assets available for pension benefits changed from one year to the next.

2) **Notes to the Financial Statements.** The financial statement notes provide additional information that is essential to understanding the data provided in the fund financial statements. Information in the notes is described below.

- Note 1: Provides a general description of the ERS as well as an overview of some of the common benefits available to various groups of members.
- Note 2: Summarizes significant ERS accounting policies.
- Note 3: Describes certain aspects of the Global Pension Settlement, which provided increased benefits to members in exchange for modifications in plan administration and dismissal of certain outstanding lawsuits.
- Note 4: Summarizes employer transactions in the Employer's Reserve Fund during 2002.
- Note 5: Summarizes the funding status of the ERS, actuarial assumptions, and employer contributions to the plan.
- Note 6: References ten-year historical trend information found within the Required Supplementary Information section.
- Note 7: Discusses expenses paid as a part of administering the ERS including manager fees, administrative costs, and GPS expenses.
- Note 8: Discusses the ERS' tax status per Internal Revenue Service determination letter.
- Note 9: Categorizes investments held according to level of risk assumed by the Retirement System. It also discusses securities lending requirements and amounts on loan.
- Note 10: Provides information about East Wells Corporation, a separately managed real estate investment of the plan
- Note 11: Describes litigation and pending litigation against the ERS.

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE
Management Discussion and Analysis**

- 3) **Required Supplementary Information.** The required supplementary information consists of the management's discussion and analysis, as well as the Schedule of Funding Progress, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information. These schedules give an indication of the actuarial performance of the fund and the health of the system.
- 4) **Additional Information.** Additional information includes the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets for all of the Non-Consenter retirement and disability funds individually.

Analysis of Financial Position and Results of Operations

Assets

(Dollars in Thousands)

	<u>2002</u>	<u>2001</u>	<u>Total Percentage Change</u>
Assets			
Cash and Cash Equivalents	\$ 124,445	\$ 141,826	-12.26%
Investments	3,305,321	3,817,349	-13.41%
Receivables	41,294	17,588	134.79%
Securities Lending Collateral	264,269	308,350	-14.30%
Total Assets	<u>\$ 3,735,329</u>	<u>\$ 4,285,113</u>	<u>-12.83%</u>

Presented here are the amounts of total assets for 2002 and 2001 respectively. Cash and investments decreased by approximately \$529 million. This decrease is primarily due to losses incurred by the portfolio of approximately \$349 million in 2002. In addition, amounts paid for benefits and plan administration exceeded contributions received by approximately \$180 million.

Accounts receivable increases are primarily traceable to the increase in investment sales that were initiated at the end of 2002, but not settled until the beginning of 2003.

The value of collateral at year-end for ERS' security lending program decreased 14.3% from \$308 million in 2001 to approximately \$264 million in 2002. The reduction in security lending collateral was primarily caused by the recessionary economic and investment conditions prevalent during 2002.

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE
Management Discussion and Analysis**

Changes in Net Assets
(Dollars in Thousands)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Additions			
Employer Contributions	\$ 3,211	\$ 144	2129.86%
Member Contributions	28,970	25,596	13.18%
Investment Income	(430,807)	(156,958)	-174.47%
Less: Investment Expense	(12,403)	(9,765)	-27.01%
Interest & Dividends	81,601	93,462	-12.69%
Total Additions	<u>\$ (329,428)</u>	<u>\$ (47,521)</u>	<u>-1928.86%</u>
Deductions			
Administrative expenses	\$ 8,579	\$ 5,455	57.27%
Benefits paid	184,025	159,589	15.31%
Global settlement expense	0	5,817	-100.00%
Refund of Contributions	983	1,094	-10.15%
Total Deductions	<u>\$ 193,587</u>	<u>\$ 171,955</u>	<u>-37.57%</u>
Increase (Decrease) in Net Assets			

Employer contributions increased to \$ 3.211 million in 2002 from \$144,000 in 2001 due primarily to the receipt of a \$ 3.179 million voluntary contribution from the City of Milwaukee to the Employers Reserve Fund. Benefits paid increased to \$184 million in 2002 from \$159 million in 2001 due to enhanced GPS benefits and COLA's paid as well as an increase in the number of members collecting benefits.

The Global Pension Settlement (GPS) went into affect in early 2000. The initial expenses related to implementation were disclosed separately to allow management to monitor the financial impact of implementing the plan. Costs from the initial implementation amounted to \$ 5.817 million in 2001. Ongoing costs to administer GPS have been included in normal operating administrative expenses in 2002.

**EMPLOYEES' RETIREMENT SYSTEM
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Management Discussion and Analysis**

The January 1, 2002 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2002 for those individuals who were non-consenters as of January 1, 2001 and who then subsequently consented to GPS during 2001. The amount of \$23.738 million was transferred to the Global Combined Fund for this reallocation of assets.

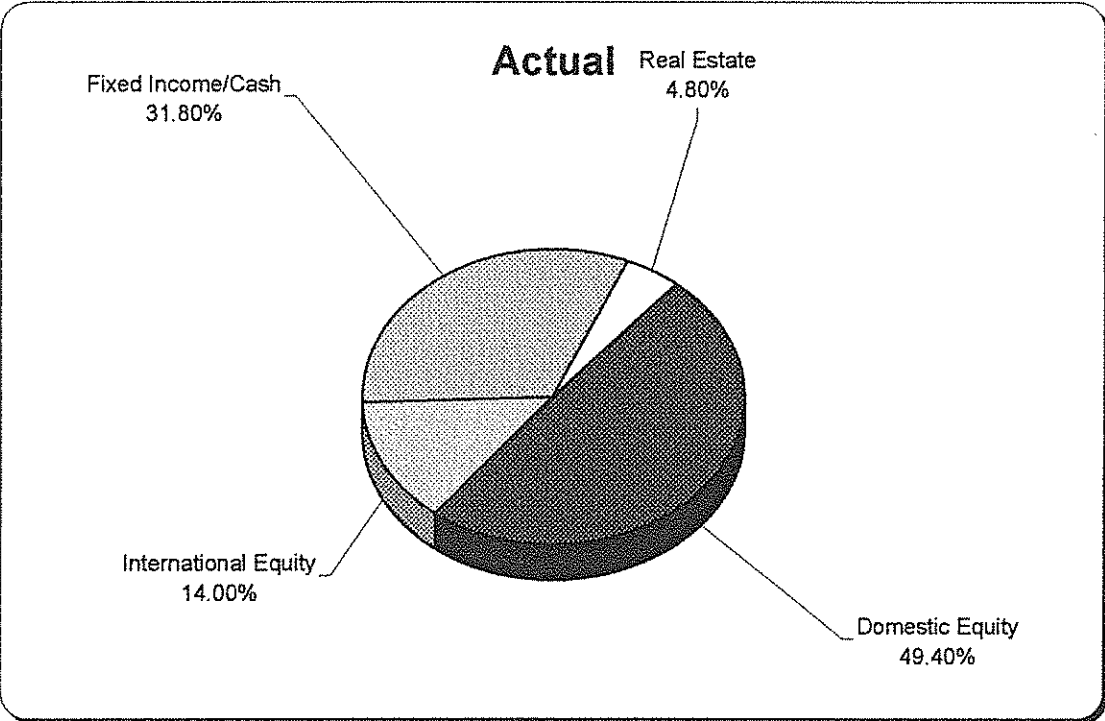
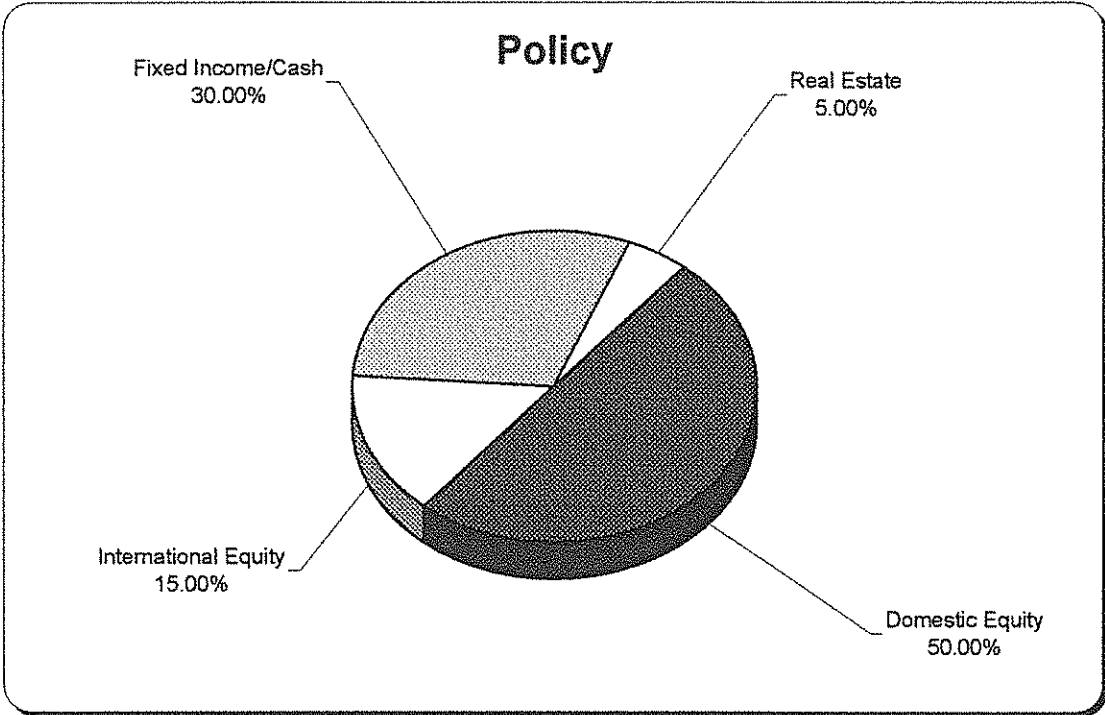
Analysis of Investment Position and Strategies

ERS has one asset allocation strategy for all of its funds. Resources of all funds are pooled together and invested consistent with this strategy. Income from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns provided by Mercer Consulting categorized by asset class with corresponding benchmark results for 2002 and 2001 (real estate results are lagged by one quarter).

<u>Asset Class</u>	<u>Benchmark</u>	<u>2002 Returns</u>		<u>2001 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	(Russell 3000 Index)	-18.2%	-21.5%	-3.9%	-11.5%
International Equity	(MSCI EAFE Index)	-15.1%	-15.7%	-16.2%	-21.2%
Fixed Income	(Lehman Aggregate)	6.3%	10.3%	8.9%	8.4%
Real Estate	(NCREIF Property Index)	13.1%	5.7%	-3.3%	10.1%
Total Fund	(Blended Benchmark)	-9.2%	-10.2%	-1.7%	-6.0%

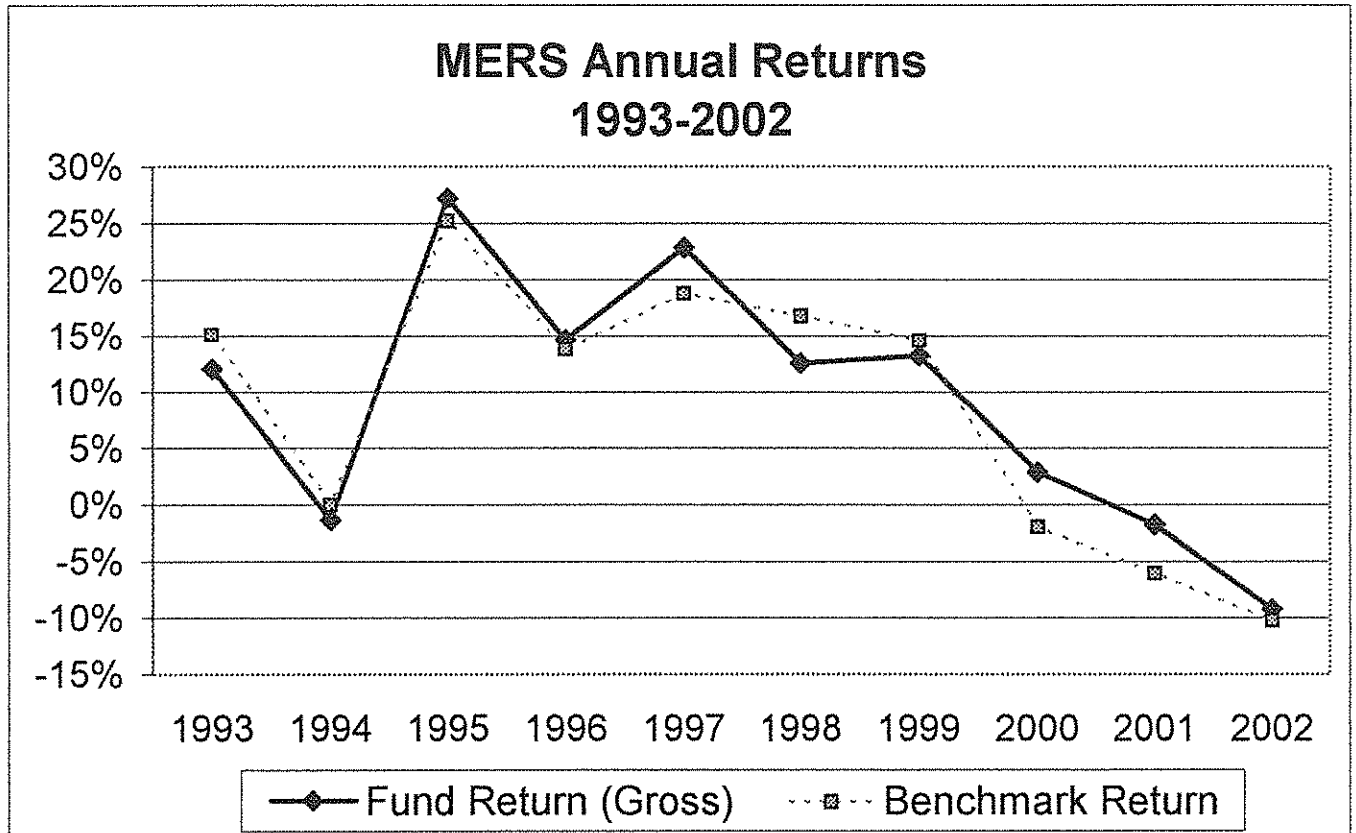
As of December 31, 2002, the Fund's actual asset allocation varied slightly from the adopted policy allocation due to the overall economic environment and the relative performance of various asset classes. The variance of the actual allocation to the policy was within policy tolerance levels. Investments in both domestic and international equity produced negative returns, which were partially offset by the positive returns achieved by fixed income and real-estate investments.

**EMPLOYEES' RETIREMENT SYSTEM
OF THE CITY OF MILWAUKEE
Management Discussion and Analysis**



EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE Management Discussion and Analysis

The recent investment returns from 2000-2002 reflect the recessionary economy and the poor investment environment. However, over the ten-year period ending December 31, 2002 the Fund returned 8.8% annually gross of fees while the benchmark returned 8.0%.



Requests For Information

Members of the retirement board and the senior management of the ERS are fiduciaries of the pension fund, and as such, are charged with the responsibility of ensuring that the systems assets are used exclusively for the benefit of the plan participants and their beneficiaries. This financial report is designed to provide an overview of ERS finances and to demonstrate accountability for resources entrusted to the system for the benefit of the stakeholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Anne M. Bahr
Executive Director and Secretary
Employees' Retirement System - City of Milwaukee
City Hall
200 East Wells Street, Room 603
Milwaukee, WI 53202-3515

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

STATEMENT OF PLAN NET ASSETS
December 31, 2002
(in thousands)

	Global Combined Fund	Non-consenter Retirement Funds	Employer Reserve Fund	Securities Lending Fund	Total 2002
ASSETS:					
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 121,604	\$ 1,432	\$ 300	\$ 1,109	\$ 124,445
INVESTMENTS (Notes 2 and 9):					
Bonds and collateralized mortgage obligations	725,478	9,853	2,021	-	737,352
Common and preferred stocks	1,019,813	13,850	2,840	-	1,036,503
Retirement Investment Trust Fund	19,548	265	54	-	19,867
Barclay Bond Index Funds	267,574	3,634	745	-	271,953
DFA Small Cap Fund	203,247	2,760	566	-	206,573
Northern Trust Company Collective Equity Index Fund	433,114	5,882	1,206	-	440,202
Russell 1000 Alpha Value Fund	425,230	5,775	1,184	-	432,189
East Wells Corporation (Note 10)	19,739	268	55	-	20,062
Privately held real estate investments	138,353	1,881	386	-	140,620
Total investments	3,252,096	44,168	9,057	-	3,305,321
RECEIVABLES:					
Employer (Note 2)	141	32	-	-	173
Member (Note 2)	3,015	-	-	-	3,015
Interest, dividends and foreign tax recoverable (Note 2)	11,278	153	31	-	11,462
Investments sold	26,215	356	73	-	26,644
Total receivables	40,649	541	104	-	41,294
Securities lending collateral (Note 9)	-	-	-	264,269	264,269
Total assets	3,414,349	46,141	9,461	265,378	3,735,329
LIABILITIES:					
Benefits payable	4,484	-	-	-	4,484
City of Milwaukee (Note 4 and 7)	11,313	-	-	-	11,313
State of Wisconsin Investment Board (Note 11)	1,142	-	-	-	1,142
Securities lending obligation (Note 9)	-	-	-	264,269	264,269
Investments purchased	96,077	1,305	266	-	97,648
Total liabilities	113,016	1,305	266	264,269	378,856
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 3,301,333	\$ 44,836	\$ 9,195	\$ 1,109	\$ 3,356,473

(A schedule of funding progress and a schedule of employer contributions are included in this report)
The accompanying notes are an integral part of the basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2002
(in thousands)**

	Employees' Retirement System Funds				Total 2002
	Global Combined Fund	Non-consenter Retirement Funds	Employer Reserve Fund	Securities Lending Fund	
ADDITIONS:					
Contributions:					
Employer (Note 5)	\$ -	\$ 32	\$ 3,179	\$ -	\$ 3,211
Member	28,331	639	-	-	28,970
Total contributions	28,331	671	3,179	-	32,181
Investment income:					
Net appreciation (depreciation) in fair value of investments	(424,634)	(5,438)	(735)	-	(430,807)
Interest, dividends and other investment income	78,784	1,010	138	1,669	81,601
	(345,850)	(4,428)	(597)	1,669	(349,206)
Less investment expense (Note 7)	11,843	-	-	560	12,403
Net investment income (loss)	(357,693)	(4,428)	(597)	1,109	(361,609)
Total additions	(329,362)	(3,757)	2,582	1,109	(329,428)
DEDUCTIONS:					
Administrative expenses (Note 7)	7,477	-	-	1,102	8,579
Benefits paid	183,662	363	-	-	184,025
Refunds of contributions	983	-	-	-	983
Total deductions	192,122	363	-	1,102	193,587
NET INCREASE (DECREASE) BEFORE TRANSFERS	(521,484)	(4,120)	2,582	7	(523,015)
TRANSFERS (Notes 3 and 4)	23,738	(23,738)	-	-	-
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(497,746)	(27,858)	2,582	7	(523,015)
Net assets held in trust for pension benefits:					
Beginning of year	3,799,079	72,694	6,613	1,102	3,879,488
End of year	\$ 3,301,333	\$ 44,836	\$ 9,195	\$ 1,109	\$ 3,356,473

The accompanying notes are an integral part of the basic financial statements.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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 Metropolitan Sewerage District, the Wisconsin Center and the Milwaukee Housing and Redevelopment Authorities and some employees of the Milwaukee Board of School Directors and the Milwaukee Area Technical College (the "Agencies"). City employees account for approximately 54% 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. After January 1, 1996, the retirement allowance is 2.0% of final average salary for the mayor and 2.5% of final average salary for all other elected officials for each year of creditable service.

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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 Global 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 participating in the Global Combined Fund 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 Retirement 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.

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

At January 1, 2002, 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>13,983</u>
Current employees:	
Vested	10,100
Nonvested	<u>2,886</u>
Total current employees	<u>12,986</u>
Total participants	<u>26,969</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, 2002. 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 and asset backed securities. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. The Retirement 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 Retirement 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.

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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 net assets available for benefits.

- 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 Retirement System expenses (Note 7) and dismissal of certain outstanding lawsuit judgments. 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, 2002 actuarial valuation, 1,629 Retirement System members were identified as being non-consenting. Of this number, 523 were active members, 1,016 were inactive members, and 90 were benefit recipients. ERS financial statements present Non-Consenter Retirement Funds on a consolidated basis. Individual Non-Consenter Funds are detailed in the Additional Information section of the financial statements.

The January 1, 2002 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2002 for those individuals who were non-consenters as of January 1, 2001 and who then subsequently consented to GPS during 2001. The amount of \$23,738,000 was transferred to the Global Combined Fund for this reallocation of assets.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

3. GLOBAL PENSION SETTLEMENT (cont.)

In 2002, the Retirement System continued to pay out lump sum GPS payments to retirees receiving pension payments when the Global Settlement became effective. With the exception of amounts owed to estates, substantially all of these members have now been paid. At December 31, 2002, approximately \$4,477,000 of lump sum GPS payments was owed to all retirees and predominantly paid during 2003.

4. EMPLOYER RESERVE FUND

The City contributed \$3,179,000 to the Employer Reserve Fund in 2002. The fund may be used to 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, 2002. Significant actuarial assumptions used in the January 1, 2002 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 7.1% for General City and between 4.0% and 11.2% 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, 2002 was as follows (in thousands):

Net assets available for benefits	<u>\$4,242,333</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	1,856,042
Current employees:	
Member contributions	356,227
Employer financed portion	<u>879,242</u>
Total pension benefit obligation	<u>3,091,511</u>
Excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation	<u>\$1,150,822</u>

EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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 2002. The 2002 employer contribution for non-consenting members totaling \$32,000 was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2002. This contribution, due January 31, 2003, 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. A schedule of funding progress and a schedule of employer contributions is included in this report.

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 \$11,843,000 and administrative expenses of \$7,477,000 were either paid from the Global Combined Fund or accrued as an expense during 2002. An additional \$1,102,000 of administrative costs was paid from the Securities Lending Fund during 2002.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

8. INCOME TAXES

The Retirement System obtained its latest determination letter on November 3, 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 basic financial statements.

9. INVESTMENTS

The fair value of investments held at December 31, 2002 is as follows (in thousands):

	Fair Value *
Short-term corporate notes, certificates of deposit and commercial paper	\$ 124,445
Bonds and collateralized mortgage obligations, net	\$ 737,352
Common and preferred stocks	1,036,503
Retirement Investment Trust Fund	19,867
Barclay Bond Index Funds	271,953
DFA Small Cap Fund	206,573
Northern Trust Company Collective Equity Index Fund	440,202
Russell 1000 Alpha Value Fund	432,189
East Wells Corporation	20,062
Privately held real estate investments	140,620
Total investments	\$ 3,305,321

*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 to offset 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, 2002, the Retirement System earned revenue from securities lending of \$1,669,000, paid custodian fees of \$560,000 and made disbursements of \$1,102,000. As of December 31, 2002, the fair value of securities on loan was \$291,885,000. The value of collateral held for securities on loan was \$264,269,000 as of December 31, 2002.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

9. INVESTMENTS (cont.)

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, 2002. 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	\$ 200	\$ 124,245	\$ -	\$ 124,445
Bonds and collateralized mortgage obligations, net	\$ 650,773			\$ 650,773
Common and preferred stocks	798,769			798,769
	\$ 1,449,542			\$ 1,449,542
Investments not categorized:				
Bonds and collateralized mortgage obligations				86,579
Common and preferred stocks				237,734
Retirement Investment Trust Fund				19,867
Barclay Bond Index Funds				271,953
DFA Small Cap Fund				206,573
Northern Trust Company Collective Equity Index Fund				440,202
Russell 1000 Alpha Value Fund				432,189
East Wells Corporation				20,062
Privately held real estate investments				140,620
Total investments				\$ 3,305,321

* Excludes accrued interest and dividends

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2002

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

The Retirement System was an investor in the State of Wisconsin Retirement System's Fixed Retirement Investment Trust. During June of 2002 the ERS completely withdrew from this Trust Fund. In April of 2003, the State of Wisconsin Department of Employee Trust Funds (ETF) advised the Retirement System that their external auditor discovered an error was made while distributing earnings of this Trust Fund in February of 2001 resulting in the System withdrawing approximately \$1,262,000 more than it was entitled to when it withdrew from this Fund. The ETF has asked the Retirement System to repay approximately \$1,142,000 representing this overpayment, reduced by subsequent losses in the Trust Fund. Legal counsel has advised the Retirement System that this is a valid obligation, and this amount has been accrued for as a liability in the accompanying financial statements.

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 basic 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)
2002	\$ 4,242,333	\$ 3,091,511	\$ 1,150,822	137.2 %	\$ 466,757	246.6 %
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 %

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.

EMPLOYEES' 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		
2002	\$ 28,969,787	\$ 3,211,000	\$ 32,180,787	100%
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%

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, 2002	
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	

ADDITIONAL INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

STATEMENT OF PLAN NET ASSETS
December 31, 2002
(in thousands)

	NON-CONSENTER RETIREMENT FUNDS						Total 2002
	Retirement Fund	Combined Retirement Fund	General Employees' Duty Disability Fund	Firemen and Policemen's Duty Disability Fund	Firemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	
ASSETS:							
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 1,355	\$ 55	\$ (25)	\$ -	\$ -	\$ 47	\$ 1,432
INVESTMENTS (Notes 2 and 9):							
Bonds and collateralized mortgage obligations	9,120	370	49	1	-	313	9,853
Common and preferred stocks	12,819	521	69	1	-	440	13,850
Retirement Investment Trust Fund	246	10	1	-	-	8	265
Barclay Bond Index Funds	3,363	137	18	-	-	116	3,634
DFA Small Cap Fund	2,554	104	14	-	-	88	2,760
Northern Trust Company Collective Equity Index Fund	5,444	221	29	1	-	187	5,882
Russell 1000 Alpha Value Fund	5,344	217	29	1	-	184	5,775
East Wells Corporation (Note 10)	248	10	1	-	-	9	268
Privately held real estate investments	1,742	70	9	-	-	60	1,881
Total investments	40,880	1,660	219	4	-	1,405	44,168
RECEIVABLES:							
Employer (Note 2)	-	-	32	-	-	-	32
Interest, dividends and foreign tax recoverable (Note 2)	141	6	1	-	-	5	153
Investments sold	331	13	2	-	-	10	356
Total receivables	472	19	35	-	-	15	541
Total assets	42,707	1,734	229	4	-	1,467	46,141
LIABILITIES:							
Investments purchased	1,208	49	6	-	-	42	1,305
Total liabilities	1,208	49	6	-	-	42	1,305
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 41,499	\$ 1,685	\$ 223	\$ 4	\$ -	\$ 1,425	\$ 44,836

(A schedule of funding progress and a schedule of employer contributions are included in this report)

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

**STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2002
(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 2002
ADDITIONS:							
Contributions:							
Employer (Note 5)	\$ 361	\$ 278	\$ 31	\$ 1	\$ -	\$ -	\$ 32
Member							639
Total contributions	361	278	31	1	-	-	671
Investment income:							
Net appreciation (depreciation) in fair value of investments	(5,066)	(172)	(26)	-	-	(174)	(5,438)
Interest, dividends and other investment income	941	32	5	-	-	32	1,010
	(4,125)	(140)	(21)	-	-	(142)	(4,428)
Less investment expense	-	-	-	-	-	-	-
Net investment income (loss)	(4,125)	(140)	(21)	-	-	(142)	(4,428)
Total additions	(3,764)	138	10	1	-	(142)	(3,757)
DEDUCTIONS:							
Benefits paid	344	-	19	-	-	-	363
Refunds of contributions	-	-	-	-	-	-	-
Total deductions	344	-	19	-	-	-	363
NET INCREASE (DECREASE) BEFORE TRANSFERS	(4,108)	138	(9)	1	-	(142)	(4,120)
TRANSFERS (Note 3)	(20,925)	(575)	(259)	(778)	(619)	(582)	(23,738)
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(25,033)	(437)	(268)	(777)	(619)	(724)	(27,858)
Net assets held in trust for pension benefits:							
Beginning of year	66,532	2,122	491	781	619	2,149	72,694
End of year	\$ 41,499	\$ 1,685	\$ 223	\$ 4	\$ -	\$ 1,425	\$ 44,836