

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

**Basic Financial Statements  
and Additional Information for the  
Year Ended December 31, 2003 and  
Independent Auditors' Reports**

# EMPLOYEES' 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


May 27, 2004

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 Basic Financial Statements for the ERS for the year ending December 31, 2003. The ERS provides retirement and disability benefits, counseling and other services to over 27,000 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.

ERS continues to remain fully funded. The ERS actuarial funding level decreased from 137.2% at January 1, 2002 to 115.2% at January 1, 2003 due to market decreases in 2002 and 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" included in this report shows historical trend information about the system's actuarial value of assets, actuarial accrued liability and actuarial funded status.

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 06/18/04)**

**Steven Lelinski, Board Chairman**

Milwaukee Police Department  
Elected Representative – Active

**William C. Carey, Board Vice Chair**

Elected Representative – Retiree

**Gerald Behrendt**

City of Milwaukee Housing Authority  
Elected Representative – Active

**Bradley De Braska**

Milwaukee Police Association  
Elected Representative – Active

**Alderman Joseph Dudzik,**

11<sup>th</sup> Aldermanic District  
Appointed by the President of the Common Council

**W. Martin Morics, CPA**

City Comptroller  
Ex-Officio Member

**Alderman Michael J. Murphy**

16<sup>th</sup> Aldermanic District  
Appointed by the President of the Common Council

**Bobbie Webber**

Milwaukee Professional Fire Fighters' Association  
Appointed by the President of the Common Council

### **ERS ADMINISTRATIVE PERSONNEL (as of 06/18/04)**

**Anne M. Bahr**

Executive Director and Secretary

**Martin Matson**

Deputy Director

**Jennifer Shannon, CFA**

Chief Investment Officer

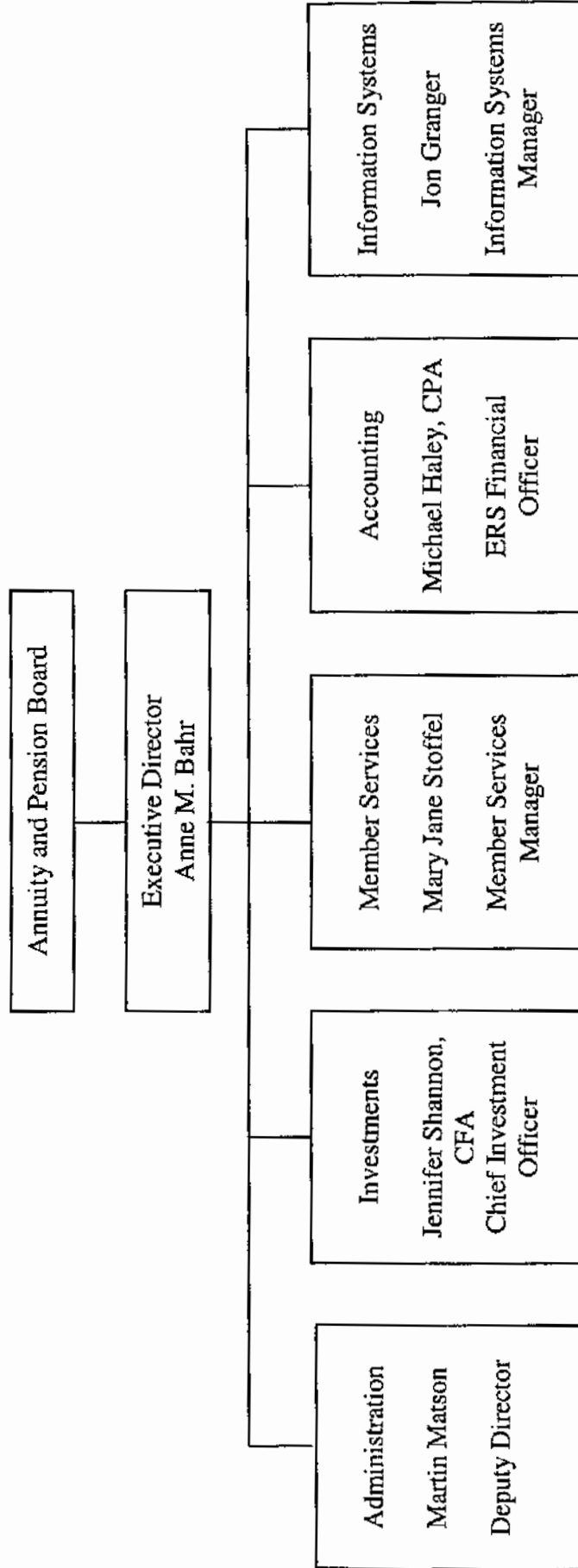
**Wayne F. Whittow**

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 basic financial statements of the Employees' Retirement System of the City of Milwaukee (the "Retirement System") as of December 31, 2003, 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, 2003, 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, 2004 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 2003 information which consisted principally of inquires 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, 2004

*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, 2003, 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**

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### **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's 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) 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.
- **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. This fund will be closed out in 2004.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

### Financial Highlights

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- Total assets of the ERS increased by \$835 million or 22.34% during 2003. The increase was primarily due to improvement in world financial conditions.
- Assets of the "Non-consenter" funds under GPS decreased by 4.7% primarily due to more system members consenting, resulting in asset transfers to the Global Combined Fund.
- As of January 1, 2003, the date of the latest actuarial valuation, the ERS was actuarially funded at 115.2%, a decrease from the January 1, 2002 funding level of 137.2%. The decrease reflects the negative investment returns experienced in 2001 and 2002 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 125.5% in the January 1, 2002 valuation to 104.7% in the January 1, 2003 valuation.
- Mercer Consulting, the investment consultant for the ERS, reported the annual Fund return gross of fees for 2003 as 27.7%, while in 2002, the return was a negative 9.2%. In 2003, total Fund performance ranked in the top tenth percentile of funds in the Mercer/Russell Mellon database. This database contains approximately 35 public pension funds having assets exceeding one billion dollars. In addition, ERS' returns ranked in the top quartile for 3 year annualized returns and 5 year annualized returns in its peer group of public pension funds.

### Overview of the Financial Statements

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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 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

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 2003.
- 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: Describes the capitalization of equipment and software development costs by ERS.
- Note 11: Describes litigation and pending litigation against the ERS.

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

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**Changes in Assets**

*(Dollars in Thousands)*

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 124,502	\$ 124,445	0.05%
Investments	4,040,652	3,305,321	22.25%
Receivables	83,792	41,294	102.92%
Software Devel & Equip Cost (net)	2,623	0	100.00%
Securities Lending Collateral	318,349	264,269	20.46%
<b>Total Assets</b>	<u><u>\$ 4,569,918</u></u>	<u><u>\$ 3,735,329</u></u>	<u><u>22.34%</u></u>

Presented here are the amounts of total assets for 2003 and 2002 respectively. Cash and investments increased by approximately \$735 million. This increase is primarily due a stronger investment market and improved investment opportunities in 2003.

Accounts receivable increases are primarily traceable to the increase in investment sales that where initiated at the end of 2003, but not settled until the beginning of 2004.

In 2003, ERS began to capitalize its hardware and software development costs to better allocate these costs over their useful lives. The current year capitalization was \$2,623,000.

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

The value of collateral at year-end for ERS' security lending program increased 20.5% from \$264 million in 2002 to approximately \$318 million in 2003. With the improved investment environment, asset values rose which in turn increased security lending revenue.

**Analysis of Operations**

*(Dollars in Thousands)*

	<u>2003</u>	<u>2002</u>	<u>Total Percentage Change</u>
<b>Additions</b>			
Employer Contributions	\$ 78	\$ 3,211	-97.57%
Member Contributions	31,054	28,970	7.19%
Investment Income	831,323	(430,807)	292.97%
Less: Investment Expense	(15,153)	(12,403)	-22.17%
Interest & Dividends	73,460	81,601	-9.98%
<b>Total Additions</b>	<u><u>\$ 920,762</u></u>	<u><u>\$ (329,428)</u></u>	<u><u>379.50%</u></u>
<b>Deductions</b>			
Administrative expenses	\$ 5,242	\$ 8,579	-38.90%
Benefits paid	188,257	184,025	2.30%
Refund of Contributions	1,281	983	30.32%
<b>Total Deductions</b>	<u><u>\$ 194,780</u></u>	<u><u>\$ 193,587</u></u>	<u><u>0.62%</u></u>

Employer contributions decreased to \$ 78,000 in 2003 from \$3.211 million in 2002 primarily because the City of Milwaukee did not transfer any voluntary contributions to the Employers Reserve Fund even though contributions were included in the City's 2003 budget. Benefits paid increased to \$188 million in 2003 from \$184 million in 2002 due to inflation adjustments and cost of living (COLA) increases.

Administrative expenses decreased by \$3.3 million in 2003 when compared to 2002. The primary reason for this decrease was that ERS was still incurring fairly significant start-up costs to administer the provisions of the Global Pension settlement early in 2002.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

The January 1, 2003 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2003 for those individuals who were non-consenters as of January 1, 2002 and who then subsequently consented to GPS during 2002. The amount of \$11.815 million was transferred to the Global Combined Fund for this reallocation of assets.

### Analysis of Investment Position and Strategies

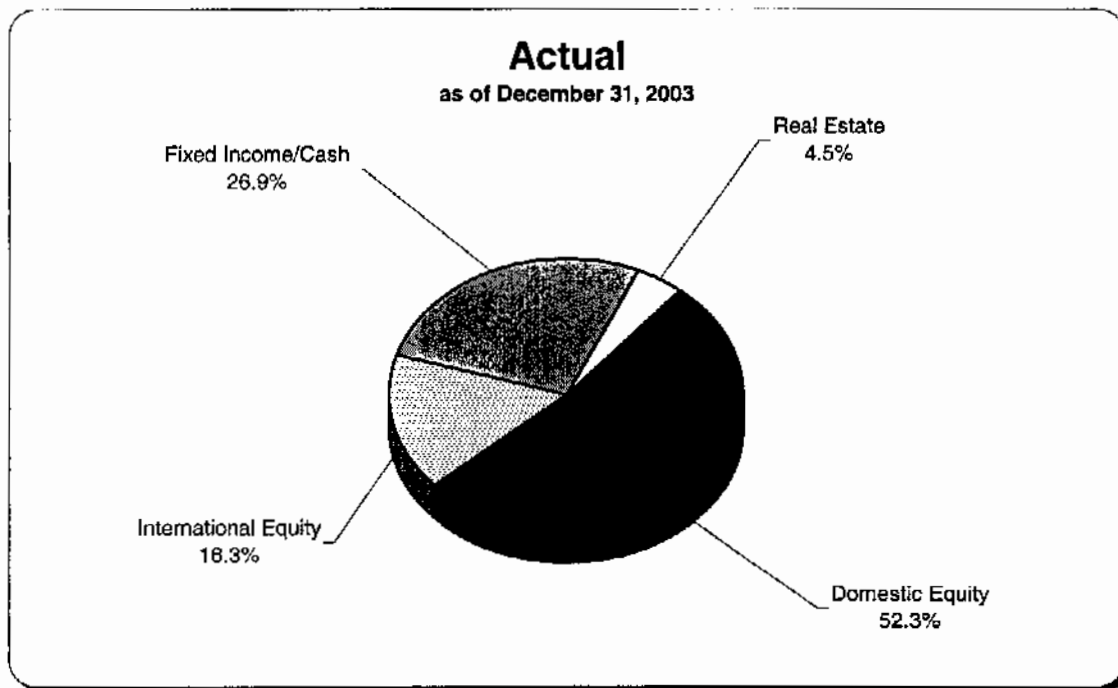
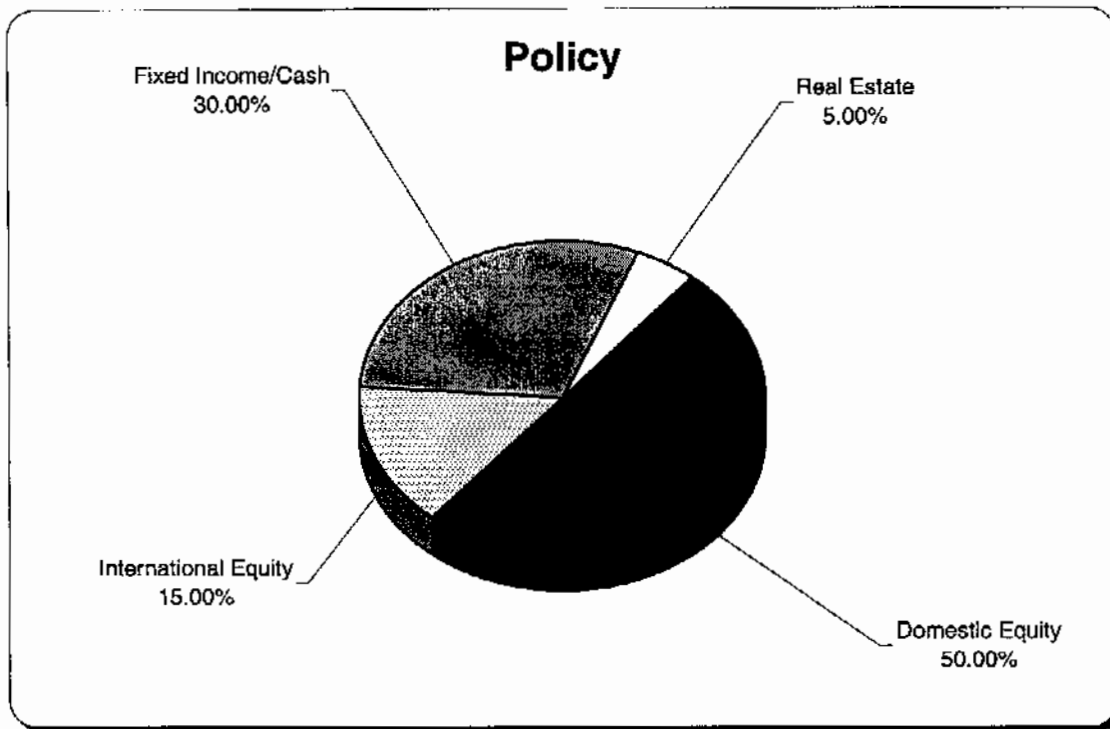
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ERS has one asset allocation strategy for all of its funds. Resources of all funds are pooled together and invested consistent with this strategy. Income from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns provided by Mercer Consulting categorized by asset class with corresponding benchmark results for 2003 and 2002 (real estate results are lagged by one quarter).

<u>Asset Class</u>	<u>Benchmark</u>	<u>2002 Returns</u>		<u>2003 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	(Russell 3000 Index)	-18.2%	-21.5%	35.5%	31.1%
International Equity	(MSCI EAFE Index)	-15.1%	-15.7%	41.0%	39.2%
Fixed Income	(Lchman Aggregate)	6.3%	10.3%	11.7%	4.1%
Real Estate	(NCREIF Property Index)	13.1%	5.7%	8.1%	7.8%
Total Fund	(Reference Index)	-9.2%	-10.2%	27.7%	22.5%

As of December 31, 2003, the Fund's actual asset allocation varied slightly from the adopted policy allocation but was within established tolerance ranges. Investments in all asset classes produced positive returns.

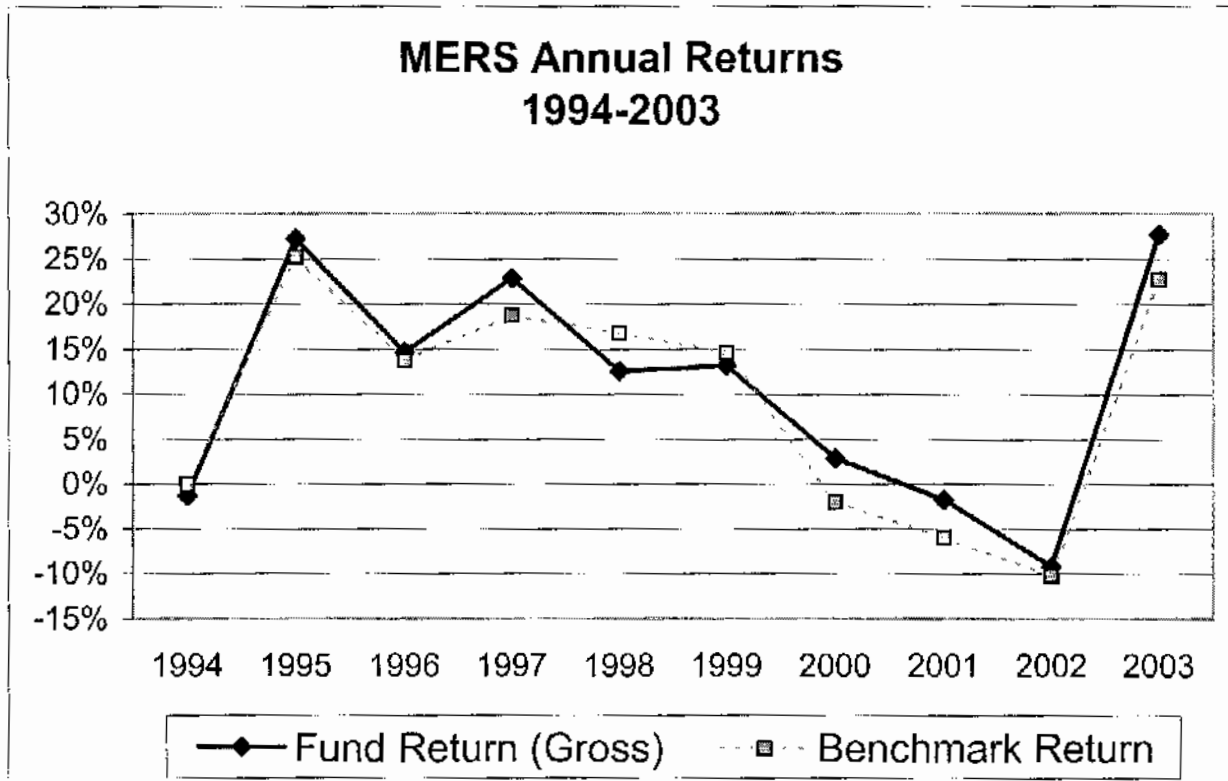
# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE Management's Discussion and Analysis





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

Over the ten-year period ending December 31, 2003 the Fund returned 10.2% annually gross of fees while the benchmark returned 8.7%.



## 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, 2003

(in thousands)

	Employees' Retirement System Funds					Total 2003
	Global Combined Fund	Non-consenter Retirement Funds	Employer Reserve Fund	Securities Lending Fund		
<b>ASSETS:</b>						
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 121,711	\$ 1,209	\$ 354	\$ 1,228	\$	124,502
INVESTMENTS (Notes 2 and 9):						
Bonds and collateralized mortgage obligations	793,055	8,317	2,298	-	-	803,670
Common and preferred stocks	1,398,285	14,663	4,052	-	-	1,417,000
Short Term Bills and Notes	10,277	108	30	-	-	10,415
Barclay Bond Index Funds	260,076	2,727	754	-	-	263,557
DFA Small Cap Fund	260,507	2,731	755	-	-	263,993
Northern Trust Company Collective Equity Index Fund	544,793	5,713	1,579	-	-	552,085
Russell 1000 Alpha Value Fund	539,914	5,662	1,564	-	-	547,140
Real Estate Investments	180,378	1,891	523	-	-	182,792
Total investments	3,987,285	41,812	11,555	-	-	4,040,652
RECEIVABLES:						
Employer (Note 2)	116	73	-	-	-	189
Member (Note 2)	2,654	-	-	-	-	2,654
Interest, dividends and foreign tax recoverable (Note 2)	10,517	110	30	-	-	10,657
Investments sold	69,363	728	201	-	-	70,292
Total receivables	82,650	911	231	-	-	83,792
Software development and equipment (net of depreciation) (Note 10)	2,623	-	-	-	-	2,623
Securities lending collateral (Note 9)	-	-	-	318,349	-	318,349
Total assets	4,194,269	43,932	12,140	319,377	-	4,569,918
LIABILITIES:						
Benefits payable	2,369	-	-	-	-	2,369
City of Milwaukee (Note 4 and 7)	2,465	-	-	-	-	2,465
Securities lending obligation (Note 9)	-	-	-	318,349	-	318,349
Investments purchased	162,110	1,700	470	-	-	164,280
Total liabilities	166,944	1,700	470	318,349	-	487,463
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 4,027,325	\$ 42,232	\$ 11,670	\$ 1,228	\$	4,082,455

(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, 2003  
(in thousands)

	Employees' Retirement System Funds				Total 2003
	Global Combined Fund	Non-consumer Retirement Funds	Employer Reserve Fund	Securities Lending Fund	
<b>ADDITIONS:</b>					
Contributions:					
Employer (Note 5)	\$ -	\$ 78	\$ -	\$ -	\$ 78
Member	30,578	476	-	-	31,054
Total contributions	30,578	554	-	-	31,132
Investment income:					
Net appreciation in fair value of investments	820,864	8,181	2,278	-	831,323
Interest, dividends and other investment income	70,891	707	197	1,665	73,460
Less investment expense (Note 7)	891,755	8,888	2,475	1,665	904,783
Net investment income	14,717	-	-	436	15,153
Total additions	877,038	8,888	2,475	1,229	889,630
	907,616	9,442	2,475	1,229	920,762
<b>DEDUCTIONS:</b>					
Administrative expenses (Note 7)	4,132	-	-	1,110	5,242
Benefits paid	188,026	231	-	-	188,257
Refunds of contributions	1,281	-	-	-	1,281
Total deductions	193,439	231	-	1,110	194,780
<b>NET INCREASE (DECREASE) BEFORE TRANSFERS</b>	<b>714,177</b>	<b>9,211</b>	<b>2,475</b>	<b>119</b>	<b>725,982</b>
<b>TRANSFERS (Notes 3 and 4)</b>	<b>11,815</b>	<b>(11,815)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>725,992</b>	<b>(2,604)</b>	<b>2,475</b>	<b>119</b>	<b>725,982</b>
Net assets held in trust for pension benefits:					
Beginning of year	3,301,333	44,836	9,195	1,109	3,356,473
End of year	\$ 4,027,325	\$ 42,232	\$ 11,670	\$ 1,228	\$ 4,082,455

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, 2003

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### 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

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### 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, 2003

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

At January 1, 2003, 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>14,162</u>
Current employees:	
Vested	10,264
Nonvested	<u>2,625</u>
Total current employees	<u>12,889</u>
Total participants	<u>27,051</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.

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, 2003. 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

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### 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 and dismissal of certain outstanding lawsuit judgments. The majority of the members consented to the settlement as part of the GPS implementation lawsuit. The previous deadline to consent of April 24, 2003 has been extended indefinitely.

As of the January 1, 2003 actuarial valuation, 1,253 Retirement System members were identified as being non-consenting. Of this number, 438 were active members, 767 were inactive members, and 48 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, 2003 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2003 for those individuals who were non-consenters as of January 1, 2002 and who then subsequently consented to GPS during 2002. The amount of \$11,815,000 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, 2003

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### 3. GLOBAL PENSION SETTLEMENT (cont.)

Amounts still owed members receiving pension payments when the Global Settlement became effective amounts to \$293,000 and are reflected as liabilities in the accompanying statements. This is primarily owed to estates of deceased members.

### 4. EMPLOYER RESERVE FUND

The City periodically contributes to the Employer Reserve Fund. 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, 2003. Significant actuarial assumptions used in the January 1, 2003 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 – the UP-94 Mortality Table, with mortality improvements projected to the year 2000.

The excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation as of January 1, 2003 was as follows (in thousands):

Net assets available for benefits	<u>\$3,689,981</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,003,741
Current employees:	
Member contributions	365,738
Employer financed portion	<u>834,768</u>
Total pension benefit obligation	<u>3,204,247</u>
Excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation	<u>\$ 485,734</u>



# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

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### 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 2003. The 2003 employer contribution for non-consenting members totaling \$78,000 was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2003. This contribution, due January 31, 2004, was payable to the Combined Retirement Fund, 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 \$14,717,000 and administrative expenses of \$4,132,000 were either paid from the Global Combined Fund or accrued as an expense during 2003. An additional \$1,110,000 of administrative costs was paid from the Securities Lending Fund during 2003.

# EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

### 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, 2003 is as follows (in thousands):

	Fair Value *
Short-term corporate notes, certificates of deposit and commercial paper	\$ <u>124,502</u>
Bonds and collateralized mortgage obligations, net	\$ 803,670
Common and preferred stocks	1,417,000
Short Term Bills and Notes	10,415
Barclay Bond Index Funds	263,557
DFA Small Cap Fund	263,993
Northern Trust Company Collective Equity Index Fund	552,085
Russell 1000 Alpha Value Fund	547,140
Real Estate Investments	<u>182,792</u>
Total investments	<u>\$ 4,040,652</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 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, 2003, the Retirement System earned revenue from securities lending of \$1,665,000, paid custodian fees of \$436,000 and made disbursements of \$1,110,000. As of December 31, 2003, the fair value of securities on loan was \$336,244,000. The value of collateral held for securities on loan was \$318,349,000 as of December 31, 2003 which

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

### 9. INVESTMENTS (cont.)

consisted of approximately 40% U.S. Equities, 37% U.S. Government fixed obligations, 17% Global Equities and 6% other securities.

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, 2003. 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	<u>200</u>	<u>\$ 124,302</u>	<u>\$ -</u>	<u>\$ 124,502</u>
Bonds and collateralized mortgage obligations, net	\$ 693,200			\$ 693,200
Short Term Bills and Notes	10,415			10,415
Mutual Funds	<u>1,417,854</u>			<u>1,417,854</u>
	<u>\$ 2,121,469</u>			\$ 2,121,469
Investments not categorized:				
Bonds and collateralized mortgage obligations				374,026
Common and preferred stocks				1,362,365
Real Estate Investments				<u>182,792</u>
Total investments				<u>\$ 4,040,652</u>

The Retirement System has the following investments (other than those issued or guaranteed by the U.S. Government) that represent 5 percent or more of the plan net assets at December 31, 2003:

- The Barclays Russell 1000 Alpha Tilts Fund of \$547,140,000.
- The DFA Small Capital Value Subtrust Fund of \$263,995,000.
- The MFB NTGI-QM Coltv Daily S&P 500 Equity Index-Lending of \$552,084,000.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2003

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### 10. CAPITALIZATION OF ASSETS AND SOFTWARE DEVELOPMENT

Prior to the Global Pension Settlement, the Pension Trust technically had no real assets, that is, outside of its investments. The City and other agencies essentially directly funded the cost of plan administration. Since the Global Settlement became effective, the plan is funding these costs. Amounts spent for fixed assets had not been material. However, in 2003, ERS began to spend significant amounts to develop a Pension Management Information System, including hardware acquisition. Accordingly, beginning in 2003, ERS capitalized its hardware and software development costs to better allocate these costs over their useful lives. Amounts spent for hardware (including but not necessarily limited to servers, printers, monitors, disk drives, network infrastructure, switches) will be capitalized in a yearly hardware pool and depreciated over a life of three years. One half a year's depreciation will be expensed in the year of acquisition. Amounts spent toward the development of a new Pension Management Information System have been capitalized as Software development costs. It is anticipated this project will be completed sometime in 2005. Once the new system is in operation, it will be depreciated over its estimated useful life of eight years.

### 11. CONTINGENCIES

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.

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# **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)
2003	\$ 3,689,981	\$ 3,204,247	\$ 485,734	115.2 %	\$ 480,800	101.0 %
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 %

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			Percentage Contributed	Voluntary Contributions		Total All Contributions
	Member Contributions	Employer Contributions	Total Required		Employer Reserve Fund *	Total	
2003	\$ 31,054,000	\$ 78,000	\$ 31,132,000	100%	\$ 0	\$ 31,132,000	
2002	28,970,054	32,000	29,002,054	100%	3,179,000	32,181,054	
2001	25,595,454	144,000	25,739,454	100%	0	25,739,454	
2000	28,424,609	238,000	28,662,609	100%	0	28,662,609	
1999	27,047,371	6,806,000	33,853,371	100%	N/A	33,853,371	
1998	26,450,367	6,050,230	32,500,597	100%	N/A	32,500,597	
1997	26,186,655	5,079,000	31,265,655	100%	N/A	31,265,655	
1996	26,346,135	2,962,630	29,308,765	100%	N/A	29,308,765	
1995	28,799,816	2,557,225	31,357,041	100%	N/A	31,357,041	
1994	25,946,017	5,220,436	31,166,453	100%	N/A	31,166,453	
1993	22,722,744	3,469,835	26,192,579	100%	N/A	26,192,579	

\* Employer voluntary contributions have only been permitted since the Global Pension Settlement became effective.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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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, 2003	
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 &amp; Fire</u> 4% - 14%
Inflation Assumption	3.0 %	
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, 2003

(in thousands)

NON-CONSENSER RETIREMENT FUNDS

	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 2003
<b>ASSETS:</b>							
SHORT TERM CORPORATE NOTES,	\$ 1,198	\$ 64	\$ (59)	\$ (6)	\$ -	\$ 12	\$ 1,209
CERTIFICATES OF DEPOSITS,							
COMMERCIAL PAPER							
<b>INVESTMENTS (Notes 2 and 9):</b>							
Bonds and collateralized mortgage obligations	7,772	412	51	1	-	81	8,317
Common and preferred stocks	13,703	726	91	2	-	141	14,663
Short Term Bills and Notes	101	5	1	-	-	1	108
Barclay Bond Index Funds	2,549	135	17	-	-	26	2,727
DFA Small Cap Fund	2,553	135	17	-	-	26	2,731
Northern Trust Company Collective Equity Index Fund	5,339	283	35	1	-	55	5,713
Russell 1000 Alpha Value Fund	5,291	281	35	1	-	54	5,662
Real Estate Investments	1,767	94	12	-	-	18	1,891
<b>Total investments</b>	<b>39,075</b>	<b>2,071</b>	<b>259</b>	<b>5</b>	<b>-</b>	<b>402</b>	<b>41,812</b>
<b>RECEIVABLES:</b>							
Employer (Note 2) Interest, dividends and foreign tax recoverable (Note 2)	-	-	67	6	-	-	73
Investments sold	103	5	1	-	-	1	110
	680	36	5	-	-	7	728
<b>Total receivables</b>	<b>783</b>	<b>41</b>	<b>73</b>	<b>6</b>	<b>-</b>	<b>8</b>	<b>911</b>
<b>Total assets</b>	<b>41,056</b>	<b>2,116</b>	<b>273</b>	<b>5</b>	<b>-</b>	<b>422</b>	<b>43,932</b>
<b>LIABILITIES:</b>							
Investments purchased	1,589	84	11	-	-	16	1,700
<b>Total liabilities</b>	<b>1,589</b>	<b>84</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>16</b>	<b>1,700</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 39,467</b>	<b>\$ 2,092</b>	<b>\$ 262</b>	<b>\$ 5</b>	<b>\$ -</b>	<b>\$ 406</b>	<b>\$ 42,232</b>

(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, 2003  
(in thousands)

NON-CONSENTER RETIREMENT FUNDS

	Retirement Fund	Combined Retirement Fund	General Employees' Duty Disability Fund	Firemen and Policemen's Disability Fund	Firemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	Total 2003
<b>ADDITIONS:</b>							
Contributions:							
Employer (Note 5)	\$ -	\$ 56	\$ 20	\$ 2	\$ -	\$ -	\$ 78
Member	249	227	-	-	-	-	476
Total contributions	249	283	20	2	-	-	554
Investment income:							
Net appreciation in fair value of investments	7,701	353	47	1	-	79	8,181
Interest, dividends and other investment income	655	30	4	-	-	8	707
Less investment expense	8,366	383	51	1	-	87	8,888
Net investment income	8,366	383	51	1	-	87	8,888
Total additions	8,615	666	71	3	-	87	9,442
<b>DEDUCTIONS:</b>							
Benefits paid	231	-	-	-	-	-	231
Refunds of contributions	-	-	-	-	-	-	-
Total deductions	231	-	-	-	-	-	231
NET INCREASE (DECREASE) BEFORE TRANSFERS	8,384	666	71	3	-	87	9,211
TRANSFERS (Note 3)	(10,416)	(259)	(32)	(2)	-	(1,106)	(11,815)
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(2,032)	407	39	1	-	(1,019)	(2,604)
Net assets held in trust for pension benefits:							
Beginning of year	41,499	1,685	223	4	-	1,425	44,836
End of year	39,467	2,092	262	5	-	406	42,232