

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

**Basic Financial Statements  
and Additional Information for the  
Year Ended December 31, 2005 and  
Independent Auditors' Reports**

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

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## **INTRODUCTORY SECTION**



**City of Milwaukee**  
Employees' Retirement System

**Michael C. Dolsen**  
Executive Director

**Thomas Rick, CFA**  
Chief Investment Officer

**Martin Matson**  
Deputy Director

May 4, 2006

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, 2005. 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 increased from 116.0% at January 1, 2004, to 116.7% at January 1, 2005, due to market increases in 2004. 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.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael C. Dolsen".

Michael C. Dolsen  
Executive Director

## **LIST OF PRINCIPAL OFFICIALS**

### **ANNUITY & PENSION BOARD MEMBERS**

#### **W. Martin Morics, CPA, Board Chairman**

City Comptroller  
Ex-Officio Member

#### **Steven Lelinski, Board Vice Chairman**

Milwaukee Police Department  
Elected Representative – Active

#### **Gerald Behrendt**

City of Milwaukee Housing Authority  
Elected Representative - Active

#### **William C. Carey**

Elected Representative – Retiree

#### **Larry Holland**

Assurant  
Appointed by the President of the Common Council

#### **Alderman Michael J. Murphy**

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

#### **Ronald Walter**

Milwaukee Bucks, Inc.  
Appointed by the President of the Common Council

### **ERS ADMINISTRATIVE PERSONNEL**

#### **Michael C. Dolsen**

Executive Director and Secretary

#### **Wayne F. Whittow**

City Treasurer  
Custodian of Funds

#### **Martin Matson**

Deputy Director

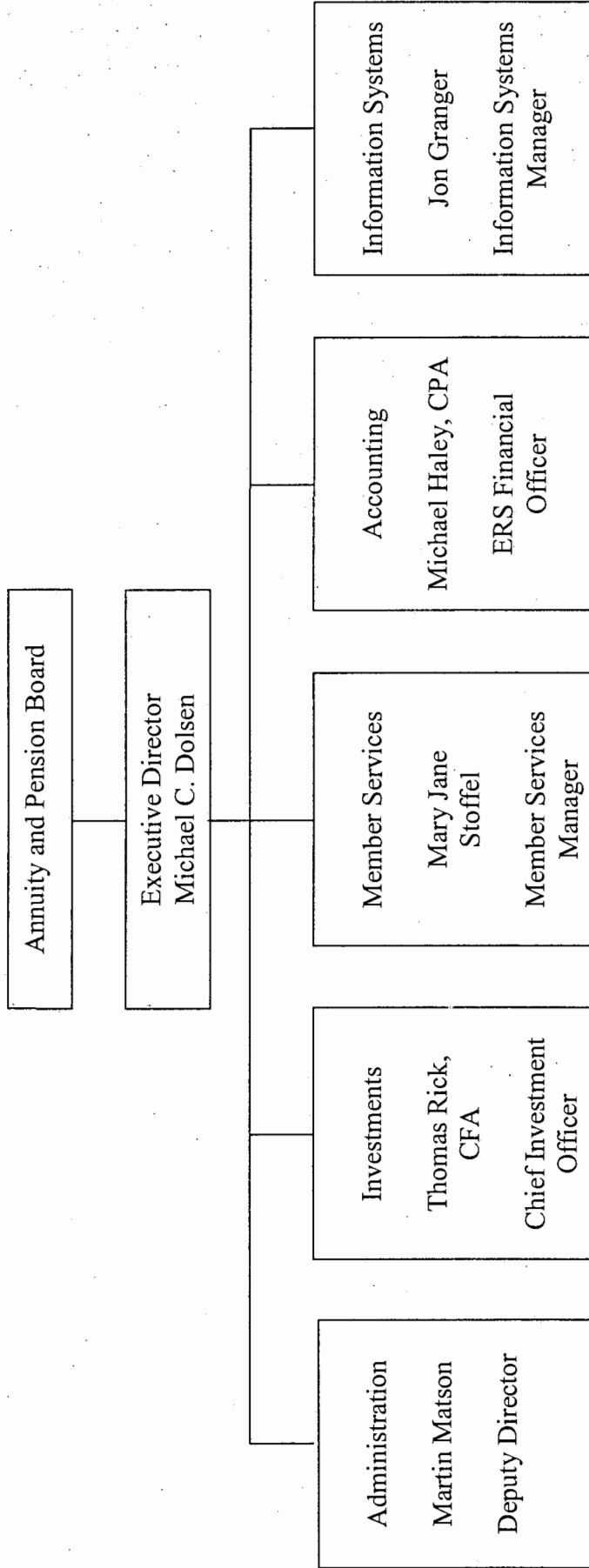
#### **Grant F. Langley**

City Attorney  
Legal Advisor

#### **Thomas Rick, CFA**

Chief Investment Officer

# 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, 2005, and for the year then ended as listed in the Table of Contents. These financial statements are the responsibility of the Retirement System's Management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Retirement System as of December 31, 2005, 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 our report dated May 4, 2006 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, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over the financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 31 through 33, respectively are not a required part of the basic financial statements of the Retirement System but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2005 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 35 and 36 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 4, 2006

*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, 2005, 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. Approximately 97% of the total membership is accounted for in the Global Combined Fund.

### **Employers' Reserve Fund**

Agencies participating in the ERS may voluntarily contribute to the Employers' Reserve Fund. Agencies with funds on deposit in the Employers' 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.

## Dormant Non-Consenter Funds

*A dormant fund has no members currently associated with it and as a result, no member balance amounts. Although these funds are not currently disclosed on the financial statements it is remotely possible that current non-consenting members could qualify for these funds in the future. As a result, the board has not officially closed the following 2 funds:*

- **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. As of December 31, 2004 all former members have consented to the global settlement and all remaining balances were transferred to the Global Combined Fund. This fund, although still active, is not likely to ever be used again.
- **Firemen's Heart and Lung Fund:** Accounts for fire heart and lung duty disability benefits of non-consenters. As of December 31, 2002 all former members have either consented to the global settlement or are deceased. This fund, although still active, is not likely to ever be used again.

# 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 \$202 million or 3.94% during 2005. The increase was primarily due to continued favorable conditions in financial markets in 2005.
- As members of the plan consent to the Global pension Settlement their member balances are transferred from the appropriate "Non-consenter" fund to the Global Combined Fund. Total member balances transferred for 2005 amounted to \$1,547,000.
- As of January 1, 2005, the date of the latest actuarial valuation, the ERS actuarially funded ratio was 116.7%, an increase from the January 1, 2004 funding level of 116.0%. This increase reflects the strong positive investment returns experienced in 2004. The funded ratio based on the market value of assets increased to 125.4 % as of January 1, 2005 from 121.1% as of January 1, 2004.
- In 2005, Mercer Investment Consulting, ERS' consultant, reported an 8.7% annual gross of fees total fund return while in 2004 the return was 12.9%. As of December 31, 2005, the fund's 3-year performance ranks in the top third percentile and the 5-year performance ranks in the top quartile of the Mercer/Russell Mellon database. This database contains approximately 33 public pension funds that have assets of at least one billion dollars.

### 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 basic 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.

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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

- 2) **Notes to Basic 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 consent status changes in relation to the Global Pension Settlement.
  - Note 4: Summarizes employer transactions in the Employers' Reserve Fund during 2005.
  - 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 and administrative costs.
  - Note 8: Discusses the ERS' tax status per Internal Revenue Service determination letter.
  - Note 9: Discusses ERS investments and the associated types of risk that the system is exposed to. It also discusses securities lending requirements and amounts on loan.
  - Note 10: Describes the contingencies involving the ERS.
  - Note 11: Describes the transfer of fiduciary responsibility of the Policeman's Annuity and Benefit Fund to the ERS.
- 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.

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

**Analysis of Financial Position and Results of Operations**

**Changes in Assets**

*(Dollars in Thousands)*

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 164,926	\$ 84,478	95.2%
Investments	4,547,799	4,345,647	4.7%
Receivables	122,110	110,384	10.6%
Software Devel & Equip Cost (net)	11,264	5,551	100.0%
Securities Lending Collateral	486,473	585,468	-16.9%
<b>Total Assets</b>	<u>\$ 5,332,572</u>	<u>\$ 5,131,528</u>	<u>3.9%</u>
<b>Liabilities</b>			
Benefits Payable	\$ 861	\$ 1,276	-32.5%
Due to City of Milwaukee	4,013	543	639.0%
Investments purchased	234,863	126,301	86.0%
Securities Lending Collateral	486,473	585,468	-16.9%
<b>Total Liabilities</b>	<u>\$ 726,210</u>	<u>\$ 713,588</u>	<u>1.8%</u>
<b>Net Assets Held In Trust For</b>			
<b>Pension Benefits</b>	<u>\$ 4,606,362</u>	<u>\$ 4,417,940</u>	

Presented here are the amounts of total assets for 2005 and 2004 respectively. Cash and investments increased by approximately \$283 million. This increase is primarily due to strong investment markets and improved investment opportunities in 2005.

Accounts receivable increases are primarily traceable to the increase in investment sales while accounts payable increases are primarily traceable to an increase in investment purchases that were initiated at the end of 2005, but not settled until the beginning of 2006.

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 \$5,914,000.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

### Analysis of Operations

(Dollars in Thousands)

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change</u>
<b>Additions</b>			
Employer Contributions	\$ 47	\$ 5,496	-99.1%
Member Contributions	32,084	30,700	4.5%
Investment Income	318,139	441,358	-27.9%
Interest & Dividends	69,890	73,504	-4.9%
Less: Investment Expense	(20,033)	(14,303)	40.1%
<b>Total Additions</b>	<u>\$ 400,127</u>	<u>\$ 536,755</u>	<u>25.5%</u>
<b>Deductions</b>			
Administrative expenses	\$ 5,794	\$ 5,532	4.7%
Benefits paid	204,721	194,582	5.2%
Refund of Contributions	1,190	1,156	2.9%
<b>Total Deductions</b>	<u>\$ 211,705</u>	<u>\$ 201,270</u>	<u>5.2%</u>
Net increase in assets held in trust			
for pension benefits	\$ 188,422	\$ 335,485	
Assets held in trust for benefits			
Beginning of year:	<u>\$ 4,417,940</u>	<u>4,082,455</u>	
End of year:	<u>\$ 4,606,362</u>	<u>\$ 4,417,940</u>	

Employer contributions decreased to \$47,000 in 2005 from \$5.496 million in 2004 primarily because the City of Milwaukee did not transfer any voluntary contributions to the Employers' Reserve Fund in 2005. Net investment returns decreased by \$125 million from amounts reported in 2004.

Benefits paid increased to \$205 million in 2005 from \$195 million in 2004 due in large part to pension escalators. Administrative expenses increased by \$262,000 in 2005 when compared to 2004 due largely to inflation.

The January 1, 2005 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2005 for those individuals who were non-consenters as of January 1, 2005 and who then subsequently consented to GPS during 2005. The amount of \$1.547 million was transferred to the Global Combined Fund for this reallocation of assets.

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

**Analysis of Investment Position and Strategies**

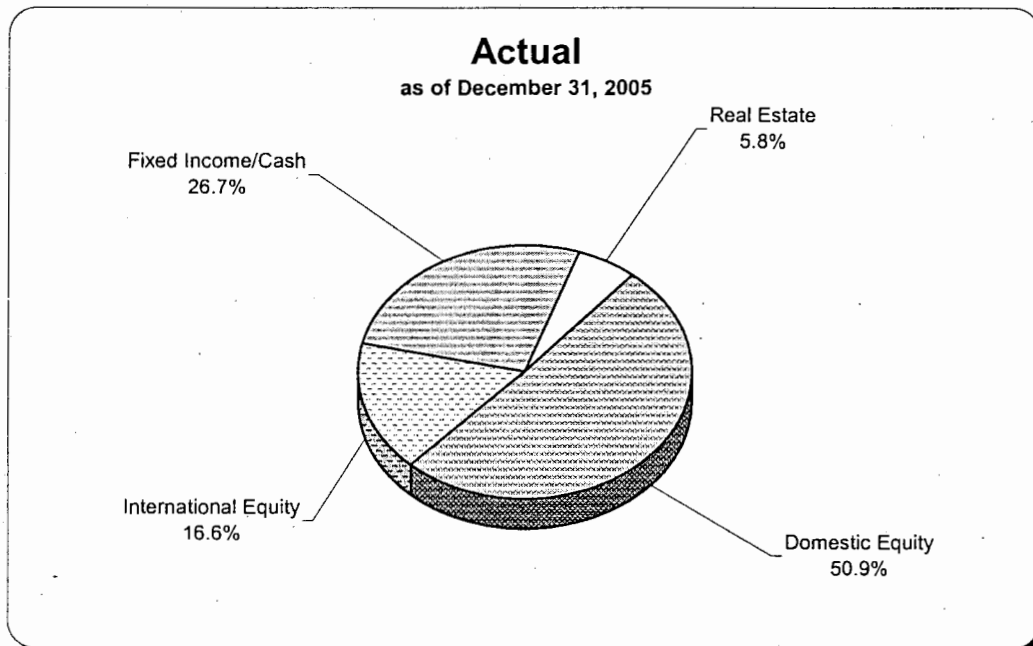
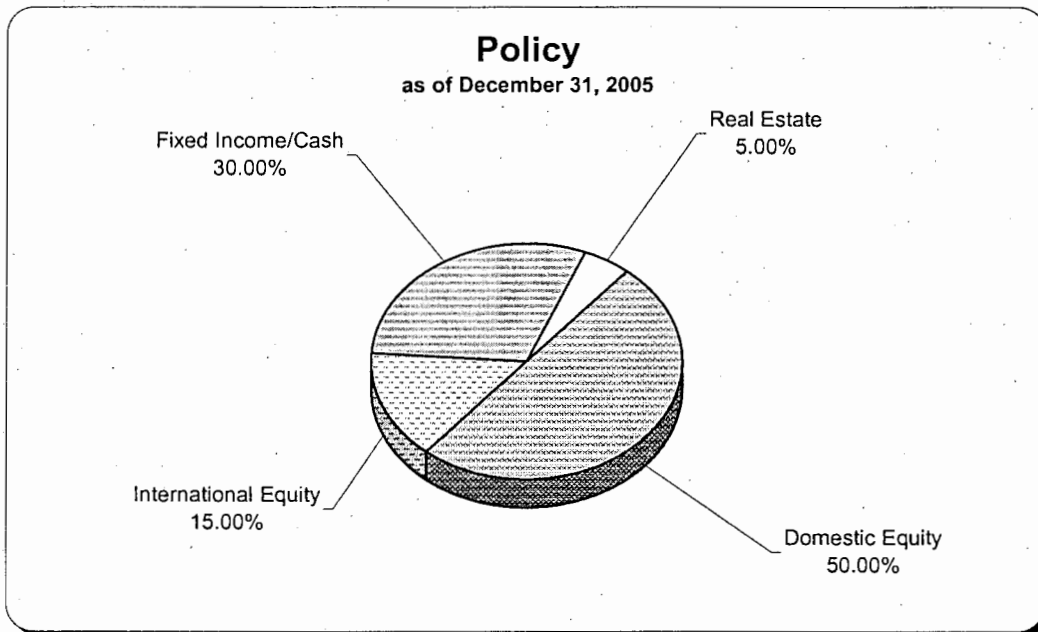
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ERS has one strategic asset allocation for all of its funds. Resources of all the funds are pooled together and invested consistent with this strategy. The return from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns for 2005 and 2004 categorized by asset class with the corresponding benchmark results (real estate results are lagged by one quarter). Mercer Consulting, ERS' consultant, provided the data. In 2005, investments in all asset classes produced positive returns and beat their respective benchmarks.

<u>Asset Class</u>	<u>Benchmark</u>	<u>2005 Returns</u>		<u>2004 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	(Russell 3000 Index)	7.8%	6.1%	13.2%	11.9%
International Equity	(MSCI EAFE Index)	16.6%	14.0%	22.9%	20.7%
Fixed Income	(Lehman Aggregate)	3.4%	2.4%	6.2%	4.3%
Real Estate	(NCREIF Property Index)	26.0%	19.2%	16.6%	12.4%
Total Fund	(Reference Index)	8.7%	6.9%	12.9%	11.0%

Toward the end of 2005, Mercer Consulting presented an asset-liability study to ERS, and subsequently performed an equity and fixed income structure review. ERS' strategic asset allocation changed slightly as a result of the study, and the transition from the old allocation to the new one will take place in the first half of 2006. As of December 31, 2005, ERS' Fixed Income allocation was slightly below its Policy range in anticipation of the transition into the new strategic asset allocation.

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

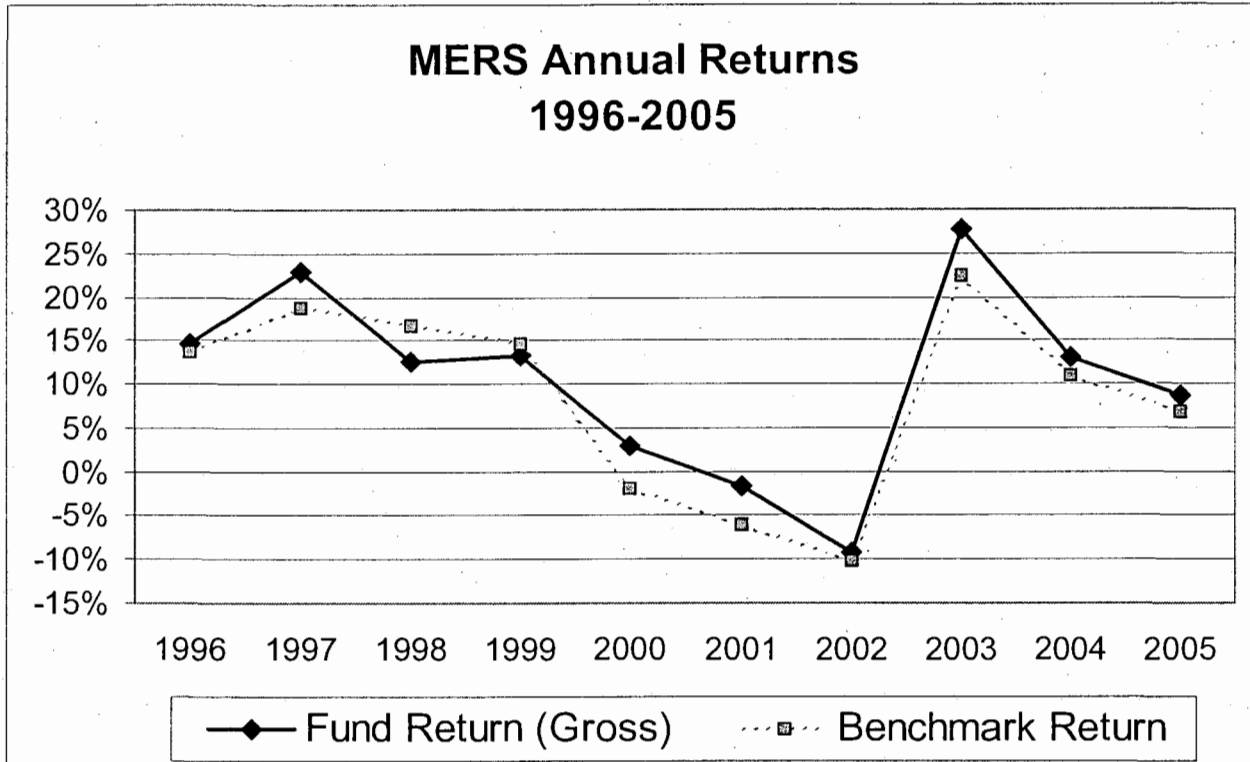




# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## Management's Discussion and Analysis

Over the ten-year period ending December 31, 2005 the Fund returned 10.0% annually gross of fees while the benchmark returned 8.1%.



## Requests For Information

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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 system's 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:

Michael C. Dolsen  
 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, 2005  
(in thousands)

	Employees' Retirement System Funds				Total 2005
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	
<b>ASSETS:</b>					
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 159,994	\$ 1,672	\$ 1,552	\$ 1,708	\$ 164,926
<b>INVESTMENTS (Notes 2 and 9):</b>					
Bonds and collateralized mortgage obligations	925,308	5,786	3,935	-	935,029
Common and preferred stocks	1,542,471	9,643	6,559	-	1,558,673
Barclay Bond Index Funds	302,214	1,889	1,285	-	305,388
DFA Small Cap Fund	275,119	1,721	1,170	-	278,010
Northern Trust Company Collective Equity Index Fund	591,278	3,696	2,514	-	597,488
Russell 1000 Alpha Value Fund	611,787	3,825	2,601	-	618,213
Real Estate Investments	252,347	1,578	1,073	-	254,998
Total investments	4,500,524	28,138	19,137	-	4,547,799
<b>RECEIVABLES:</b>					
Employer (Note 2)	81	24	-	-	105
Member (Note 2)	1,325	-	-	-	1,325
Interest, dividends and foreign tax recoverable (Note 2)	13,656	85	58	-	13,799
Investments sold	105,770	661	450	-	106,881
Total receivables	120,832	770	508	-	122,110
Software development and equipment (net of depreciation) (Note 2)	11,264	-	-	-	11,264
Securities lending collateral (Note 9)	-	-	-	486,473	486,473
Total assets	4,792,614	30,580	21,197	488,181	5,332,572
<b>LIABILITIES:</b>					
Benefits payable	861	-	-	-	861
City of Milwaukee (Note 7)	4,013	-	-	-	4,013
Securities lending obligation (Note 9)	-	-	-	486,473	486,473
Investments purchased	232,422	1,453	988	-	234,863
Total liabilities	237,296	1,453	988	486,473	726,210
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 4,555,318</b>	<b>\$ 29,127</b>	<b>\$ 20,209</b>	<b>\$ 1,708</b>	<b>\$ 4,606,362</b>

(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, 2005  
(in thousands)**

	Global Combined Fund	Employees' Retirement System Funds	Securities Lending Fund	Total 2005
		Non-consenter Retirement Funds	Employers' Reserve Fund	
<b>ADDITIONS:</b>				
Contributions:				
Employer (Note 5)	\$ 31,663	\$ 47	\$ -	\$ 47
Member		421		32,084
Total contributions	31,663	468	-	32,131
Investment income:				
Net appreciation in fair value of investments	314,832	1,968	1,339	318,139
Interest, dividends and other investment income	66,740	417	2,449	69,890
	381,572	2,385	2,449	388,029
Less investment expense (Note 7)	19,292	-	741	20,033
Net investment income	362,280	2,385	1,708	367,996
Total additions	393,943	2,853	1,708	400,127
<b>DEDUCTIONS:</b>				
Administrative expenses (Note 7)	4,304	-	1,490	5,794
Benefits paid	204,610	111	-	204,721
Refunds of contributions	249	941	-	1,190
Total deductions	209,163	1,052	1,490	211,705
<b>NET INCREASE (DECREASE) BEFORE TRANSFERS</b>	184,780	1,801	218	188,422
<b>TRANSFERS (Notes 3 and 4)</b>	1,547	(1,547)	-	-
<b>NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	186,327	254	218	188,422
Net assets held in trust for pension benefits:				
Beginning of year	4,368,991	28,873	1,490	4,417,940
End of year	4,555,318	29,127	1,708	4,606,362

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

# EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 1. DESCRIPTION OF RETIREMENT SYSTEM

The following brief description of the more common provisions of the Employees' Retirement System of the City of Milwaukee (the "Retirement System") is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement (GPS). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the System. Over 97% of the existing members have consented to GPS and are accounted for in the Global Combined Fund. Members who have not consented are accounted for in one or more of the non-consenter funds. Participants should refer to the Retirement Act (Chapter 36 of the City of Milwaukee Charter) for more complete information.

The Employees' 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 comprise approximately 56% of the active participants in the Retirement System.

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

Plan members are required to contribute, or have contributed on their behalf, a percentage of pensionable earnings equal to 5.5%, 7%, 7%, 7% for general city employees, police officers, fire fighters, and elected officials, respectively. Pensionable earnings are essentially comprised of amounts paid as the regular base salary and specifically excludes overtime. The City and other participating city agencies fund these member contributions on behalf of each participating employee. 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.

In addition to the above percentage contributions, additional contributions are required of general city employees who are enrolled as active members after January 1, 2000. To participate in the Global Combined Fund, each new member is required to contribute 1.6% of his or her pensionable earnings for a period of eight years. These contributions are taken to fund the improved escalator benefits resulting from the GPS for these new members.

On an annual basis, the City and city agencies are required to contribute amounts determined actuarially in the annual valuation. The contributions required are to bring the expected actuarial funded status of the fund, as of the date the contributions is payable, to a percentage in excess of 100%.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 1. DESCRIPTION OF RETIREMENT SYSTEM (cont.)

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 age 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.

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 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 GPS). 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.

The Retirement Act provides for escalators to nearly all retirees. 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 GPS differ from those described herein. 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.

# EMPLOYES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 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, participating city agencies and members are reflected as contributions receivable.

At January 1, 2005, 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>14,211</u>
Current employees:	
Vested	10,160
Nonvested	<u>2,035</u>
Total current employees	<u>12,195</u>
Total participants	<u>26,406</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, 2005. 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 62.63 (3) 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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

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.

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.
- f. *Capitalization* - ERS capitalizes 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) are capitalized in a yearly hardware pool and depreciated over a life of three years. One half a year's depreciation is 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 2006. Once the new system is in operation, it will be depreciated over its estimated useful life of eight years.

### 3. CONSENT STATUS CHANGES

Members who have not consented to the GPS are comprised of those who have objected to the settlement as well as those who never responded at all. The previous deadline to consent of April 24, 2004 has been extended indefinitely to those who have not responded. Often, non-responders are members with vested rights who separated from service years ago. These members often express an interest in consenting to GPS at the time they are applying for benefits.

As of the January 1, 2005 actuarial valuation, 651 Retirement System members were identified as being non-consenting. Of this number, 291 were active members, 331 were inactive members, and 29 were benefit recipients. During 2005, 20 of these members elected to consent to the GPS resulting in a transfer of \$1,547,000 to the Global Combined Fund from the non-consenter funds.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

### 4. EMPLOYERS' RESERVE FUND

The City of Milwaukee and other agencies participating in the System may voluntarily contribute to the Employers' Reserve Fund established in Section 36-08-8 of Chapter 36. This enables agencies to participate in the earnings of the investments of the retirement system. Agencies having such funds on deposit may use them to offset required contributions by adopting a formal resolution directing such a transfer. As of December 31, 2005, the City of Milwaukee is the only agency choosing to participate in this fund.

### 5. FUNDING STATUS AND PROGRESS

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2005. Significant actuarial assumptions used in the January 1, 2005 valuation include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases of between 3.5% and 7.5% for General City and between 4.0% and 14.0% 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, 2005 was as follows (in thousands):

Net assets available for benefits (actuarial basis)	<u>\$4,112,558</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,192,163
Current employees:	
Member contributions	394,231
Employer financed portion	<u>936,785</u>
Total pension benefit obligation	<u>3,523,179</u>
Excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation	<u>\$ 589,379</u>

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.



# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 5. FUNDING STATUS AND PROGRESS (cont.)

The GPS, effective January 1, 2000, effectively merged funding for duty disability and retirement benefits for consenting Retirement System members in the Global Combined Fund resulting in no employer contribution being due for this group for 2005. The 2005 employer contribution for non-consenting members totaling \$47,000 was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2005. This contribution, due January 31, 2005, was payable to the Combined Retirement 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, as provided in the GPS, 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 \$11,530,000, real estate manager fees of \$7,762,000 and administrative expenses of \$4,304,000 were charged to the Global Combined Fund in 2005.

In addition, the Annuity and Pension Board authorized the payment of \$1,490,000 of administrative costs from the Securities Lending Fund during 2005. This reduced the amounts needed from the Global Combined Fund to fund the costs to administer the Retirement System (see Note 9).

### 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

### 9. INVESTMENTS

#### Deposits and Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the Retirement System will not be able to recover the value of its deposits, investments, or securities. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Retirement Systems name, and held by the counterparty. As of December 31, 2005, no investments or securities were exposed to custodial credit risk. The Retirement System is exposed to custodial credit risk for uncollateralized cash and cash equivalents that are not covered by federal depository insurance. This amount was \$2,636,000 as of December 31, 2005.

#### Investment Policies

The Retirement System was established to provide for the present and future retirement, disability, and death and survivor benefit payments for all city and city agency employees. All of the funds of the Retirement System taken in the aggregate constitute a special trust subject to applicable local, state, and federal laws, including but not limited to sections 36-15, 36-09-1, and 36-09-6 of the Milwaukee City Charter. As of December 31, 2005 the fair market carrying value of the investments are as follows (in thousands):

	<u>Carrying Value</u>
	<u>2005</u>
Common Stock	\$ 1,539,602
Preferred Stock	5,668
Corporate Convertible Bonds	13,403
Barclay Bond Index Fund	305,388
COLTV Stock Index Fund	597,488
DFA Small Cap Fund	278,010
Russell 1000 Fund	618,213
Government Bonds	254,424
Government Agencies	60,587
Municipal/Provincial Bonds	65,969
Corporate Bonds	310,486
Gov Mortgage Backed Sec	168,129
Gov-Iss Comm Mort	1,521
Comm Mortgage Backed Sec	26,506
Asset Backed Securities	24,843
Non-Gov Backed C.M.O.S.	4,566
Index Linked Government Bonds	17,998
Real Estate Investments	254,998
Total Investments	\$ <u>4,547,799</u>

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2005

9. INVESTMENTS (cont.)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's investment guidelines limit how much each fixed income manager may deviate duration from their respective benchmarks. Duration is the approximate percentage change in price for a 100-basis-point change in yield. Although the exact range allowed in the guidelines varies slightly for each manager, the duration of the Retirement Systems active fixed income managers must be between 75% and 150% of the duration of the Lehman Aggregate Index. As of December 31, 2005, the segmented time distribution of the various investment types of debt securities for the Retirement System is as follows (in thousands):

Investment	2005						Maturity Not Determined
	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	10+ Years		
Government Bonds	\$ 254,424	\$ 41,641	\$ 141,101	\$ 33,997	\$ 37,685	\$ -	
Government Agencies	365,975	25,377	31,588	1,548	2,073	305,389	
Municipal/Provincial Bonds	65,969	15,885	39,206	-	10,878	-	
Corporate Bonds	310,486	3,216	103,713	41,089	142,828	19,640	
Gov Mortgage Backed Sec	168,129	9	3,252	25,854	77,952	61,062	
Gov-Iss Comm Mort	1,521	-	1,521	-	-	-	
Comm Mortgage Backed Sec	26,506	-	-	1,011	25,495	-	
Asset Backed Securities	24,843	9,474	8,763	3,838	2,768	-	
Non-Gov Backed C.M.O.S.	4,566	-	-	1,930	2,636	-	
Index Linked Government Bonds	17,998	-	-	13,489	4,509	-	
Corporate Convertible Bonds	13,403	-	3,266	-	10,137	-	
Short-Term Bills and Notes	9,418	9,418	-	-	-	-	
Short-Term Investment Funds	60,634	-	-	-	-	60,634	
Totals	\$ 1,323,872	\$ 105,020	\$ 332,410	\$ 122,756	\$ 316,961	\$ 446,725	

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 9. INVESTMENTS (cont.)

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or deposit. The Retirement System's investment guidelines allow foreign currency contracts for defensive hedging purposes only and limit the total exposure of all currency hedges to 100% of the manager's total portfolio value. In addition, the guidelines recommend adequate diversification by country and currency. As of December 31, 2005, the Retirement System's exposure to foreign currency risk, expressed in U.S. Dollars, is as follows (in thousands):

<u>Foreign Currency</u>	<u>Fair Market Value</u>
Australian dollar	\$ 13,790
British pound sterling	91,916
Canadian dollar	114,335
Euro	238,253
Hong Kong dollar	9,197
Japanese yen	160,124
Mexican peso	20,639
New Zealand dollar	19,278
Norwegian krone	2,344
Singapore dollar	17,109
South Korean won	11,816
Swedish krona	3,355
Swiss franc	45,993
Thai baht	9,327
Total	\$ <u><u>757,476</u></u>

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of The Retirement System's investment in a single issuer. As of December 31, 2005, the Retirement System did not hold any investments in any one issuer that would represent 5% or more of plan assets. Investments issued or explicitly guaranteed by the U.S. government and pooled investments are excluded from this requirement.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

### Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Retirement System's investment guidelines require its fixed income managers to have an Investment Grade average portfolio. The Retirement System's active fixed income managers are allowed to hold a maximum of 20% of their respective portfolio's market value in issues rated B- or B3, and an additional 5% may be invested in non-rated issues. The quality ratings of investments in fixed income securities of the Retirement System as described by Standard & Poors (S&P) as of December 31, 2005 are as follows (in thousands):

Investment Type	AAA	AA	A	BBB	BB	B	D	Not Rated		US Government Guaranteed
								Quality Rating	Not Available	
Asset Backed Securities	\$ 13,393	\$	\$	\$	\$	\$	\$	8,060	\$	
Comm Mortgage Backed Sec	21,618							4,888		
Corporate Bonds		12,030	25,917	72,574	25,917	54,703	987	31,043		
Corporate Convertible Bonds			4,481	6,247		2,676				
Gov Mortgage Backed Sec	546									167,583
Government Agencies	53,532									312,443
Government Bonds	212,576		19,782		19,782			2,116		
Gov-Iss Comm Mort										1,521
Index Linked Government Bonds	4,509									13,489
Municipal/Provincial Bonds	14,397	51,572								
Non-Gov Backed C.M.O.S.	4,566									
Short-Term Bills and Notes										
Short-Term Investment Funds *								60,634		9,418
<b>Total Value by Rating</b>	<b>\$ 325,137</b>	<b>\$ 63,602</b>	<b>\$ 50,180</b>	<b>\$ 78,821</b>	<b>\$ 45,699</b>	<b>\$ 57,379</b>	<b>\$ 987</b>	<b>\$ 106,741</b>	<b>\$</b>	<b>\$ 504,454</b>

Note: The Retirement System held no investments in the CCC, CC, or C quality ratings at the end of 2005.

\* FDIC cash balances are invested in the Short-term Investment Fund by the Retirement Systems custodian, The Northern Trust Company. This Fund is not rated by Standard & Poors.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 9. INVESTMENTS (cont.)

#### Derivatives

A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. ERS only allows the use of derivatives to hedge currency risk or to equitize cash. ERS did not invest or hold any derivatives as of 12/31/2005.

#### Securities Lending

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, 2005, the Retirement System earned revenue from securities lending of \$2,449,000, paid custodian fees of \$741,000 and disbursed \$1,490,000 to pay administrative costs. As of December 31, 2005, the fair value of securities on loan was \$469,978,000. The value of collateral held for securities on loan was \$512,063,000 as of December 31, 2005 which consisted of approximately 28.2% U.S. Equities, 32.2% U.S. Government fixed obligations, 27.7% Global Equities and 11.9% other securities.

The main risk in securities lending is counterparty risk. Counterparty risk is the risk that the borrower defaults on a loan and the collateral on hand is less than the value of the borrowed security. ERS has a contract with Northern Trust that indemnifies ERS of any losses it suffers from its securities lending program. Northern Trust has never experienced an investment loss or negative spreads in any of its Securities Lending pools.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2005

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### 10. CONTINGENCIES

The Employees' Retirement System is involved in certain 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.

### 11. TRANSFER OF FIDUCIARY RESPONSIBILITY OF THE POLICEMAN'S ANNUITY & BENEFIT FUND TO THE ERS

On December 14, 2005, the Policeman's Annuity and Benefit Fund (PABF) board adopted a resolution to dissolve and to liquidate all assets of the fund and transfer the assets and full administrative control to the ERS. Charter Ordinances ss. 35-01-3-b and 36-15-1-e, enacted under common council file #050744, transferred the administrative and managerial responsibilities of the PABF to the ERS authorizing the ERS Annuity and Pension Board to invest the assets of the PABF and to manage its operations. All assets of the PABF were transferred to the systems custodian, Northern Trust, in early 2006 and the ERS board assumed custodial authority and responsibility for the funds assets as of January 3, 2006. These resources will be disclosed in the financial records as a separate fund in 2006.

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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)
2005	\$ 4,112,558	\$ 3,523,179	\$ 589,379	116.7 %	\$ 505,609	116.6 %
2004	3,909,085	3,370,923	538,162	116.0 %	486,384	110.6 %
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 %

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 Employers' Reserve Fund *	Total All Contributions
	Member Contributions	Employer Contributions	Total Required			
2005	\$ 32,084,484	\$ 47,000	\$ 32,131,484	100%	0	\$ 32,131,484
2004	30,699,729	46,000	30,745,729	100%	5,450,000	36,195,729
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

\* 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, 2005	
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, 2005  
(in thousands)

**NON-CONSENTER RETIREMENT FUNDS**

	Retirement Fund	Combined Retirement Fund	General Employees' Disability Fund	Firemen and Policemen's Disability Fund	Firemen and Policemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	Total 2005
<b>ASSETS:</b>							
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 1,296	\$ 359	\$ 17	\$ -	\$ -	\$ -	\$ 1,672
<b>INVESTMENTS (Notes 2 and 9):</b>							
Bonds and collateralized mortgage obligations	5,317	430	39	-	-	-	5,786
Common and preferred stocks	8,863	715	65	-	-	-	9,643
Barclay Bond Index Funds	1,736	140	13	-	-	-	1,889
DFA Small Cap Fund	1,581	128	12	-	-	-	1,721
Northern Trust Company Collective Equity Index Fund	3,397	274	25	-	-	-	3,696
Russell 1000 Alpha Value Fund	3,515	284	26	-	-	-	3,825
Real Estate Investments	1,450	117	11	-	-	-	1,578
<b>Total investments</b>	<b>25,859</b>	<b>2,088</b>	<b>191</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,138</b>
<b>RECEIVABLES:</b>							
Employer (Note 2)	-	24	-	-	-	-	24
Interest, dividends and foreign tax recoverable (Note 2)	78	6	1	-	-	-	85
Investments sold	608	49	4	-	-	-	661
<b>Total receivables</b>	<b>686</b>	<b>79</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>770</b>
<b>Total assets</b>	<b>27,841</b>	<b>2,526</b>	<b>213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,580</b>
<b>LIABILITIES:</b>							
Investments purchased	1,335	108	10	-	-	-	1,453
<b>Total liabilities</b>	<b>1,335</b>	<b>108</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,453</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 26,506</b>	<b>\$ 2,418</b>	<b>\$ 203</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 29,127</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, 2005  
(in thousands)

	NON-CONSENTER RETIREMENT FUNDS						Total 2005
	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	
<b>ADDITIONS:</b>							
Contributions:							
Employer (Note 5)	\$ 243	\$ 47	\$ -	\$ -	\$ -	\$ -	\$ 47
Member	243	178	-	-	-	-	421
Total contributions	243	225	-	-	-	-	468
Investment income:							
Net appreciation in fair value of investments	1,809	146	13	-	-	-	1,968
Interest, dividends and other investment income	383	31	3	-	-	-	417
	2,192	177	16	-	-	-	2,385
Less investment expense	-	-	-	-	-	-	-
Net investment income	2,192	177	16	-	-	-	2,385
Total additions	2,435	402	16	-	-	-	2,853
<b>DEDUCTIONS:</b>							
Benefits paid	101	10	-	-	-	-	111
Refunds of contributions	941	-	-	-	-	-	941
Total deductions	1,042	10	-	-	-	-	1,052
<b>NET INCREASE (DECREASE) BEFORE TRANSFERS</b>	1,393	392	16	-	-	-	1,801
<b>TRANSFERS (Note 3)</b>	(1,537)	(6)	(4)	-	-	-	(1,547)
<b>NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	(144)	386	12	-	-	-	254
Net assets held in trust for pension benefits:							
Beginning of year	26,650	2,032	191	-	-	-	28,873
End of year	\$ 26,506	\$ 2,418	\$ 203	\$ -	\$ -	\$ -	\$ 29,127