

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

**Basic Financial Statements  
and Additional Information for the  
Year Ended December 31, 2010 and  
Independent Auditors' Report**

# Employees' Retirement System of the City of Milwaukee

## Table of Contents

---

### INTRODUCTORY SECTION

Executive Directors Letter of Transmittal	4
List of Principal Officials	5
Employees' Retirement System Organization Chart	6

### FINANCIAL SECTION

Independent Auditors' Report on Financial Statements	8
Management's Discussion and Analysis Section	
A Discussion of Funds within the ERS Plan	10
Financial Highlights	12
Overview of the Financial Statements	13
Analysis of Financial Position and Results of Operations	15
Analysis of Investment Position and Strategies	17
Requests for Information	19
Basic Financial Statements as of and for the Year Ended December 31, 2010	
Statement of Plan Net Assets	21
Statement of Changes in Plan Net Assets	22
Notes to the Basic Financial Statements	23

### REQUIRED SUPPLEMENTARY INFORMATION

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE	40
Schedule of Funding Progress	40
Schedule of Employer Contributions	41
Notes to Required Supplementary Information	42
POLICEMAN'S ANNUITY AND BENEFITS FUND -- THE CITY OF MILWAUKEE	43
Required Supplementary Information	43
Schedule of Funding Progress	43
Notes to Required Supplementary Information	44

### ADDITIONAL INFORMATION

Non-Consenter Statement of Plan Net Assets	46
Non-Consenter Statement of Changes in Plan Net Assets	47

# INTRODUCTORY SECTION



Bernard J. Allen  
Executive Director

Thomas Rick, CFA  
Chief Investment Officer

Martin Matson  
Deputy Director

June 16, 2011

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, 2010. The ERS provides retirement and disability benefits, counseling and other services to approximately 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.

The ERS actuarial funding level increased from 99.1% at January 1, 2009 to 112.8% at January 1, 2010 due to market increases in 2009. 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.



Bernard J. Allen  
Executive Director

## List of Principal Officials

### Annuity & Pension Board Members

**W. Martin Morics, CPA, Board Chairman**  
City Comptroller  
*Ex-Officio Member*

**Larry Holland**  
Retired  
Appointed by the President of the Common Council

**John Barmore, Board Vice Chairman**  
Milwaukee Fire Department  
Elected Representative – Active

**Alderman Michael J. Murphy**  
10th Aldermanic District  
Appointed by the President of the Common Council

**William C. Carey**  
Elected Representative - Retiree

**Gust Petropoulos**  
Milwaukee Police Department  
Elected Representative – Active

**Konrad Ellenberger**  
Milwaukee Police Department  
Elected Representative – Active

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

### Employees' Retirement System Administrative Personnel

**Bernard J. Allen**  
Executive Director and Secretary

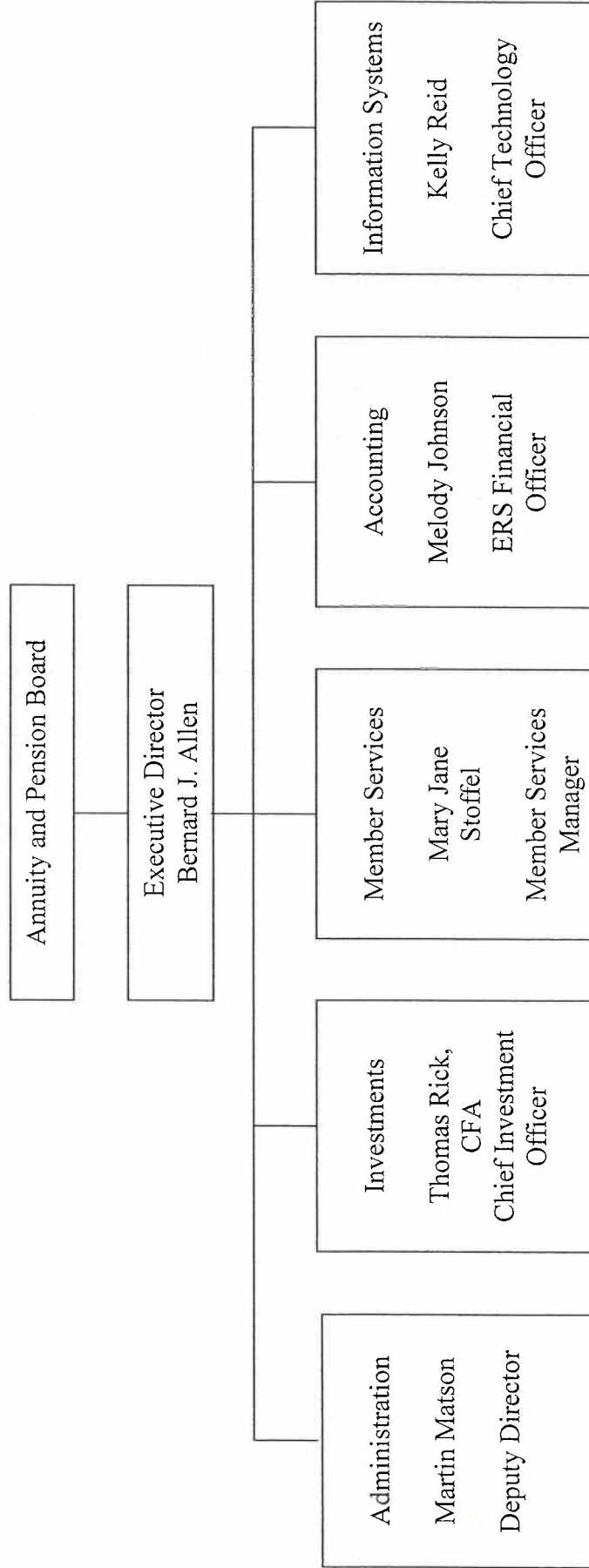
**Wayne F. Whittow,**  
City Treasurer  
Custodian of Funds

**Martin Matson**  
Deputy Director

**Grant F. Langley,**  
City Attorney  
Legal Advisor

**Thomas Rick, CFA**  
Chief Investment Officer

# Employees' Retirement System Organization Chart



# FINANCIAL SECTION



Baker Tilly Virchow Krause, LLP  
115 S 84th St, Ste 400  
Milwaukee, WI 53214-1475  
tel 414 777 5500  
fax 414 777 5555  
bakertilly.com

## 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, 2010, 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, 2010, 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 June 16, 2011 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 Schedules of Funding Progress and Employer Contributions as listed in the table of contents 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 2010 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 46 and 47 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.

BAKER TILLY VIRCHOW KRAUSE, LLP.

Milwaukee, Wisconsin

June 16, 2011  
an independent member of  
BAKER TILLY  
INTERNATIONAL



## Management's Discussion and Analysis Section

# 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, 2010, 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, non-certified staff of Milwaukee Public Schools and some employees of the Milwaukee Area Technical College. The ERS pension trust fund is a defined benefit pension plan that provides a monthly benefit to retirees after reaching a minimum retirement age depending upon employment history.

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

### **A Discussion of Funds within the ERS Plan**

---

#### **Global Combined Fund**

The Global Combined Fund is used to provide retirement and disability benefits to all members who consented to GPS and all members enrolled on or after June 28, 2000. Approximately 98% 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.

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.

(See Independent Auditors' Report)

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### 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**

---

**Fiduciary Funds**

Fiduciary Funds are used to report assets held in a trustee capacity for others and therefore cannot be used to support the primary governments own interests.

- **Policeman's' Annuity and Benefit Fund:** As discussed in Note 11, 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. 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 fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund and valuations are prepared by the ERS actuary. The only re-occurring revenues to the fund are in the form of an annual tax levy. The levy for 2010, to be collected in early 2011 amounts to \$268,667. The benefits paid during 2010 were to some 81 annuitants and widows. Benefit payments amounted to approximately \$894,264. Due to the materiality level of this fiduciary fund, it has not been included in the Analysis of Financial Position and Results of Operations section of this Management Discussion & Analysis.

**Financial Highlights**

---

- Total assets of the ERS increased by \$74.6 million or 1.64% during 2010. The increase was primarily due to favorable financial market conditions during 2010. This increase was partially offset by decreases in receivables and securities lending collateral.
- 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 2010 amounted to \$3,264,000.
- As of January 1, 2010, the date of the latest actuarial valuation, the ERS actuarially funded ratio was 112.8%, an increase from the January 1, 2009 funding level of 99.1%. This increase reflects the positive investment returns experienced in 2009. The funded ratio based on the market value of assets increased to 94.2 % as of January 1, 2010 from 82.7% as of January 1, 2009.
- In 2010, Northern Trust, ERS' custodian, reported a 14.2% annual gross of fees total fund return while in 2009 the return was 23.6%. As of December 31, 2010, the fund's 5-year performance ranks in the bottom quartile of the Mercer/Russell Mellon database. This database contains 60 public pension funds that have assets of at least one billion dollars.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Overview of the Financial Statements**

---

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. It should be noted that currently, the ERS board is responsible for the administration of the plan assets of the Employees' Retirement System and the Policeman's Annuity and Benefit Fund. The latter is disclosed discreetly as a fiduciary fund on these statements.

- 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.

- 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.
- 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.

(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**2) Notes to Basic Financial Statements (cont.)**

- 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.
- Note 12: Describes the required actuarial contributions due from the member agencies.
- Note 13: Subsequent Events

**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**

<b>Changes in Assets</b> <i>(Dollars in Thousands)</i>	<b>2010</b>	<b>2009</b>	<b>Total Percentage Change</b>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 113,590	\$ 82,156	38.26%
Investments	4,189,413	3,893,738	7.59%
Receivables	31,802	189,498	-83.22%
Software Devel & Equip (net)	7,251	8,926	-18.77%
Securities Lending Collateral	291,091	384,206	-24.24%
<b>Total Assets</b>	<b>\$ 4,633,147</b>	<b>\$ 4,558,524</b>	<b>1.64%</b>
<b>Liabilities</b>			
Benefits Payable	\$ 95	\$ 136	-30.15%
Due to City of Milwaukee	2,305	946	143.66%
Investments Purchased	16,160	151,256	-89.32%
Securities Lending Obligation	291,091	384,206	-24.24%
<b>Total Liabilities</b>	<b>\$ 309,651</b>	<b>\$ 536,544</b>	<b>-42.29%</b>
<b>Net Assets Held In Trust For Pension Benefits</b>	<b>\$ 4,323,496</b>	<b>\$ 4,021,980</b>	

Presented here are the amounts of total assets for 2010 and 2009 respectively. Cash and investments increased by approximately \$327 million. This increase is primarily due to favorable conditions in the financial markets during 2010.

Accounts receivable decreases are primarily traceable to the decrease in investment sales initiated at the end of 2010, but not settled until the beginning of 2011, and actuarially required contributions from member agencies. The payables decrease is primarily traceable to decreased investment purchases that were initiated at the end of 2010, but not settled until the beginning of 2011.

In 2003, ERS began to capitalize its hardware and software development costs to better allocate these costs over their useful lives. The current year equipment capitalization was \$382,864. In August of 2006, the MERITS System came on-line. As a result, all major system development capitalization costs have ended. All costs are being amortized over the remaining estimated life of the system. Any and all maintenance fees will be expensed in the year they are incurred.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

<b>Analysis of Operations</b> <i>(Dollars in Thousands)</i>			<b>Total</b>
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>Percentage</u></b>
			<b><u>Change</u></b>
<b>Additions</b>			
Employer Contributions	\$ -	\$ 60,098	N/A
Member Contributions	35,699	35,894	-0.5%
Investment Income	489,720	727,875	-32.7%
Interest & Dividends	81,277	79,072	2.8%
Less: Investment Expense	(13,196)	(10,800)	-22.2%
<b>Total Net Additions</b>	<b><u>\$ 593,500</u></b>	<b><u>\$ 892,139</u></b>	<b><u>33.5%</u></b>
<b>Deductions</b>			
Administrative expenses	\$ 13,275	\$ 12,247	8.4%
Benefits paid	268,940	252,699	6.4%
Refund of Contributions	2,769	2,315	19.6%
<b>Total Deductions</b>	<b><u>\$ 284,984</u></b>	<b><u>\$ 267,261</u></b>	<b><u>6.6%</u></b>
<b>Net increase (decrease) in assets held in trust</b>			
for pension benefits	\$ 308,516	\$ 624,878	
Less Transfer from City Reserve	(7,000)	(5,581)	
<b>Assets held in trust for benefits</b>			
Beginning of year:	4,021,980	3,402,683	
End of year:	<b><u>\$ 4,323,496</u></b>	<b><u>\$ 4,021,980</u></b>	

Actuarially determined contributions were not required of the City or any other participating agency in 2010. Effective January 1, 2010 any new employees were required to pay their own 5.5% contributions to the system. In addition, the City utilized \$7,000,000 in the Employer's Reserve Fund to cover normal plan contributions at the end of 2010. Net investment returns increased in 2010 by \$558 million, which is less than the \$796 million dollar gain in 2009. This occurred because most of the financial markets experienced larger gains in 2009 than in 2010.

Benefits paid increased to \$269 million in 2010 from \$253 million in 2009 due in large part to pension escalators and a larger population of retirees. Administrative expenses increased by 8.4% in 2010 when compared to 2009. This occurred due to increases in investment manager fees.

The January 1, 2010 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2010 for those individuals who were non-consenters as of January 1, 2010 and who then subsequently consented to GPS during 2010. The amount of \$3.264 million was transferred to the Global Combined Fund for this reallocation of assets.

(See Independent Auditors' Report)



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

**Analysis of Investment Position and Strategies**

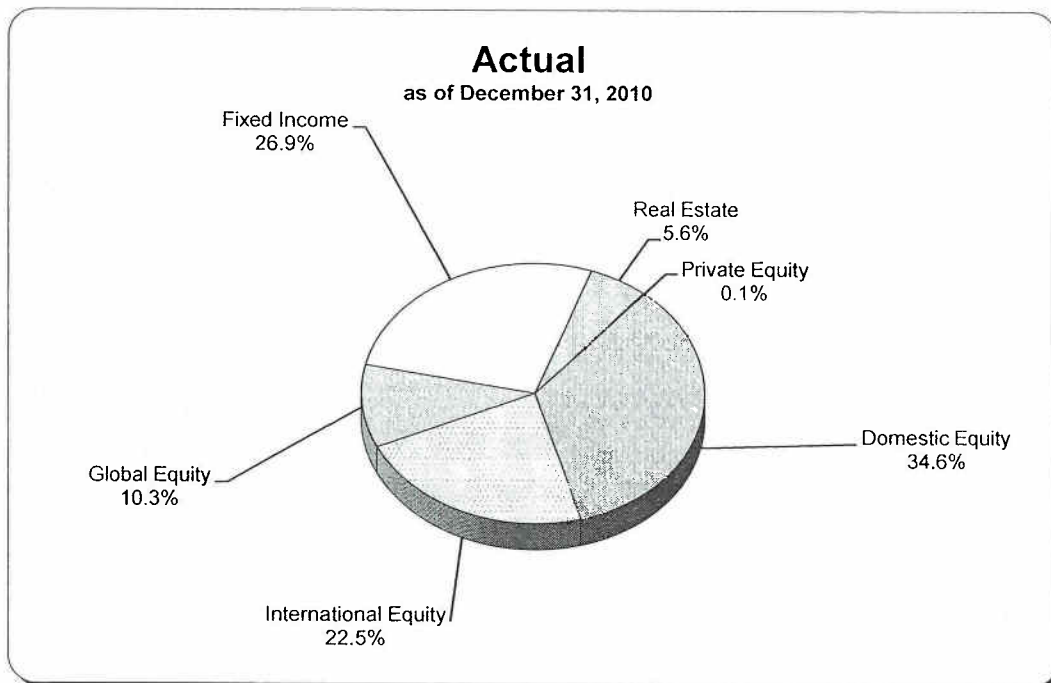
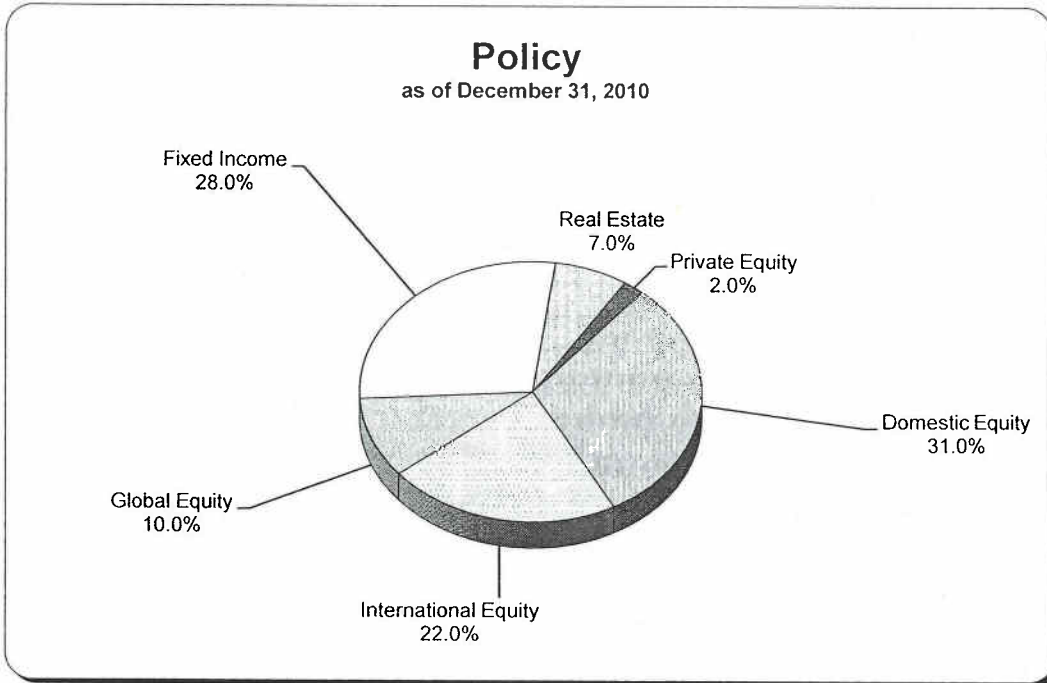
---

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 2010 and 2009 categorized by asset class with the corresponding benchmark results (real estate results are lagged by one quarter). Mercer Consulting, ERS' consultant in 2010, provided the real estate data and Northern Trust, ERS' custodian, reported the data for the other asset classes and benchmarks listed below. Global Equity and Private Equity, asset classes that the ERS initiated investments in during 2010, are excluded from the table because these investments were not held in the Fund for the whole calendar year. In 2010, the total fund produced a positive return and outperformed its reference benchmark. Within the Fund, investments in all asset classes produced positive returns and, with the exception of Real Estate, all outperformed their respective benchmark.

<u>Asset Class</u>	<u>Benchmark</u>	<u>2010 Returns</u>		<u>2009 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	(Russell 3000 Index)	19.1%	16.9%	31.6%	28.3%
International Equity	(MSCI EAFE Index)	14.1%	7.8%	36.1%	31.8%
Fixed Income	(Barclays Capital Aggregate)	9.8%	6.5%	25.5%	5.9%
Real Estate	(NCREIF Property Index)	2.9%	5.8%	-38.8%	-22.1%
Total Fund	(Reference Index)	14.2%	11.6%	23.6%	18.9%

As of December 31, 2010, the Fund's actual asset allocation was within the interim allocation tolerance ranges established by the Board in the 3<sup>rd</sup> Quarter of 2010.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS

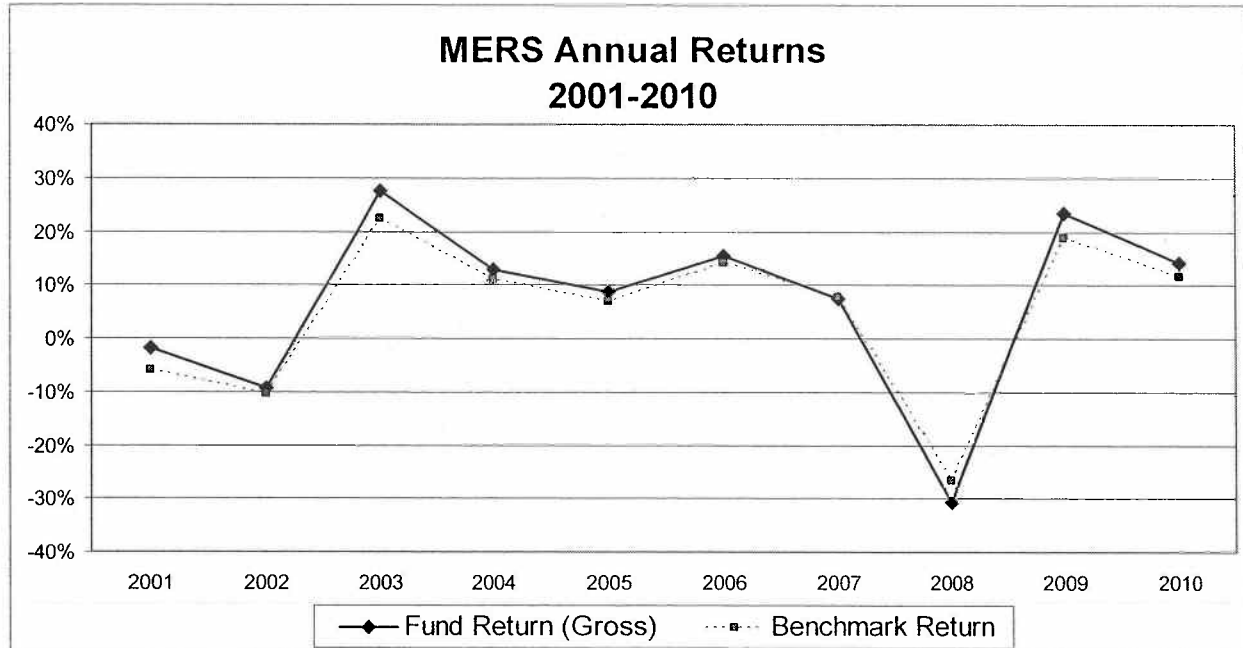


(See Independent Auditors' Report)

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

Over the ten-year period ending December 31, 2010, the Fund returned 5.5% annually gross of fees while the benchmark returned 4.0%.



---

**Requests for Information**

Members of the retirement board and the senior management of the ERS are fiduciaries of the pension fund and, as such, are charged with the responsibility of ensuring that the 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:

Bernard J Allen  
Executive Director  
Employees' Retirement System - City of Milwaukee  
789 North Water Street, Suite 300  
Milwaukee, WI 53202

(See Independent Auditors' Report)

Basic Financial Statements as of and for the Year Ended December 31, 2010

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

**STATEMENT OF PLAN NET ASSETS**  
December 31, 2010  
(in thousands)

	Employees' Retirement System Funds				Fiduciary Fund		Total
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Employees' Retirement 2010	Policemen's Annuity & Benefit 2010	
<b>ASSETS:</b>							
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 116,165	\$ 1,795	\$ (5,482)	\$ 1,112	\$ 113,590	\$ (701)	\$ 112,889
INVESTMENTS (Notes 2 and 9):							
Bonds and collateralized mortgage obligations	771,955	3,653	3,057	-	778,665	375	779,040
Common and preferred stocks	2,050,133	9,702	8,119	-	2,067,954	995	2,068,949
Baird Bond Index Funds	300,348	1,422	1,189	-	302,959	146	303,105
DFA Small Cap Fund	238,561	1,129	945	-	240,635	116	240,751
Northern Trust Company Collective Equity Index Fund	352,758	1,670	1,397	-	355,825	171	355,996
Russell 1000 Alpha Value Fund	181,743	860	720	-	183,323	88	83,411
Real Estate Investments	250,996	1,189	994	-	253,179	122	253,301
Private Equity Investments	6,814	32	27	-	6,873	3	6,876
Total investments	4,153,308	19,657	16,448	-	4,189,413	2,016	4,191,429
RECEIVABLES:							
Employer (Note 2)	(71)	-	-	-	(71)	-	(71)
Member (Note 2)	1,671	-	-	-	1,671	-	1,671
Interest, dividends and foreign tax recoverable (Note 2)	14,699	70	58	-	14,827	-	14,827
Investments sold	15,242	73	60	-	15,375	-	15,375
Tax Levy (Note 11)	-	-	-	-	-	269	269
Total receivables	31,541	143	118	-	31,802	269	32,071
Software development and equipment (net of depreciation) (Note 2)	7,251	-	-	-	7,251	-	7,251
Securities lending collateral (Note 9)	-	-	-	291,091	291,091	-	291,091
Total assets	4,308,265	21,595	11,084	292,203	4,633,147	1,584	4,634,731
LIABILITIES:							
Benefits payable	95	-	-	-	95	-	95
City of Milwaukee (Note 7)	2,305	-	-	-	2,305	-	2,305
Securities lending obligation (Note 9)	-	-	-	291,091	291,091	-	291,091
Investments purchased	16,021	76	63	-	16,160	-	16,160
Total liabilities	18,421	76	63	291,091	309,651	-	309,651
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 4,289,844	\$ 21,519	\$ 11,021	\$ 1,112	\$ 4,323,496	\$ 1,584	\$ 4,325,080

(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, 2010**  
(in thousands)

	Employees' Retirement System Funds					Fiduciary Fund		Total
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Employees' Retirement 2010	Police & Annuity & Benefit 2010	Total	
<b>ADDITIONS:</b>								
Contributions:								
Employer (Note 5)	\$ 35,374	\$ 325	\$ -	\$ -	\$ 35,699	\$ -	\$ -	\$ 35,699
Member	-	-	-	-	-	-	297	297
Tax Levy	-	-	-	-	-	-	-	-
Total contributions	<u>35,374</u>	<u>325</u>	<u>-</u>	<u>-</u>	<u>35,699</u>	<u>-</u>	<u>297</u>	<u>35,996</u>
Investment income:								
Net appreciation in fair value of investments	485,499	2,298	1,923	-	489,720	-	236	489,956
Interest, dividends and other investment income	79,002	374	313	1,588	81,277	-	38	81,315
Less investment expense (Note 7)	564,501	2,672	2,236	1,588	570,997	-	274	571,271
	<u>12,720</u>	<u>-</u>	<u>-</u>	<u>476</u>	<u>13,196</u>	<u>-</u>	<u>4</u>	<u>13,200</u>
Net investment income	<u>551,781</u>	<u>2,672</u>	<u>2,236</u>	<u>1,112</u>	<u>557,801</u>	<u>-</u>	<u>270</u>	<u>558,071</u>
Total additions	<u>587,155</u>	<u>2,997</u>	<u>2,236</u>	<u>1,112</u>	<u>593,500</u>	<u>-</u>	<u>567</u>	<u>594,067</u>
<b>DEDUCTIONS:</b>								
Administrative expenses (Note 7)	11,935	-	-	1,340	13,275	-	24	13,299
Benefits paid	268,675	265	-	-	268,940	-	894	269,834
Refunds of contributions	2,693	76	-	-	2,769	-	-	2,769
Total deductions	<u>283,303</u>	<u>341</u>	<u>-</u>	<u>1,340</u>	<u>284,984</u>	<u>-</u>	<u>918</u>	<u>285,902</u>
NET INCREASE (DECREASE) BEFORE TRANSFERS	<u>303,852</u>	<u>2,656</u>	<u>2,236</u>	<u>(228)</u>	<u>308,516</u>	<u>(7,000)</u>	<u>(351)</u>	<u>308,165</u>
TRANSFERS (Notes 3, 4 and 11)	<u>3,264</u>	<u>(3,264)</u>	<u>(7,000)</u>	<u>-</u>	<u>(7,000)</u>	<u>-</u>	<u>-</u>	<u>(7,000)</u>
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>307,116</u>	<u>(608)</u>	<u>(4,764)</u>	<u>(228)</u>	<u>301,516</u>	<u>(7,000)</u>	<u>(351)</u>	<u>301,165</u>
Net assets held in trust for pension benefits:								
Beginning of year	3,982,728	22,127	15,785	1,340	4,021,980	-	1,935	4,023,915
End of year	<u>\$ 4,289,844</u>	<u>\$ 21,519</u>	<u>\$ 11,021</u>	<u>\$ 1,112</u>	<u>\$ 4,323,496</u>	<u>\$ -</u>	<u>\$ 1,584</u>	<u>\$ 4,325,080</u>

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

## Notes to the Basic Financial Statements

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

---

### 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 98% 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 (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, non-certified staff of Milwaukee Public Schools and some employees of 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% for general city employees, and 7% for 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 hired prior to January 1, 2010. After January 1, 2010, some employee groups are required to make their own pension contributions. 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.

Chapter 36 was amended so that various groups of represented and nonrepresented City employees hired on or after January 1, 2010 shall contribute 5.5% of their earnable compensation. These new employees are exempt from the 1.6% contribution requirements mentioned above.

The GPS provides that members enrolled through June 28, 2000, must provide written consent to the ERS in order to be eligible for the benefit enhancements of GPS. Members enrolled after June 28, 2000, are automatically participants in the Combined Fund.



# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2010

---

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

Since the January 1, 2010 actuarial valuation was completed, 21 individuals who were eligible for ERS benefits as of June 28, 2000, and who had not consented to GPS, have now consented. The January 1, 2011 valuation reflects the impact of this change.

On an annual basis, the City and city agencies are required to contribute amounts determined actuarially in the annual valuation. The contributions required are limited by ordinance to an amount which brings the expected actuarial funded status of the fund, as of the date the contributions are payable, to a percentage not more than 100%.

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.

Chapter 36 of the Milwaukee City Charter 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 (before the Global Pension Settlement), 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 Chapter 36 of the Milwaukee City Charter. The Retirement System also provides for ordinary and duty disability benefits as well as ordinary and duty death benefits.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010

---

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, 2010, 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>15,328</u>
Current Employees:	
Vested	9,624
Nonvested	<u>2,040</u>
Total Current Employees	<u>11,664</u>
Total Participants	<u><u>26,992</u></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 and debt participation in diversified real estate investments. The majority of properties in the portfolio are offices, industrial warehouses, multi-family and retail. The real estate investments are carried at market value, which approximates fair value, as of December 31, 2010. An annual review performed by independent professional appraisers is used to assess the market value.

Private equity consists of equity and debt participation in diversified private equity investments. The majority of investments in the portfolio consist of buyouts and venture capital. The private equity investments are carried at market value, which approximates fair value, as of December 31, 2010.

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 63.3% of the total assets, as measured by their cost, in stocks of corporations.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

---

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

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.

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. The system went live in 2006. The new system will be depreciated over its estimated useful life of eight years. As of December 31, 2010, the total cost of Employees' Retirement System hardware and software development costs totaled \$16,745,560. The total accumulated depreciation totaled \$9,494,840 with \$2,058,566 of depreciation being recognized during 2010, which is included in Administrative Expenses in the accompanying Statement of Changes in Plan Net Assets.
- g. *Funded Status and Funding Progress - Employees' Retirement System* - As of January 1, 2010, the most recent actuarial valuation date for the Employees' Retirement System, the plan was 112.8 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$4.269 billion, and the actuarial value of assets was \$4.814 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$554 million.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

---

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Percent of Pay
Remaining Amortization Period	24 years as of January 1, 2010
Asset Valuation Method	5-year smoothed market, 20% corridor

Actuarial Assumptions:

Investment Rate of Return	8.5%
Projected Salary Increases	General City 3.5% - 8.5% Police & Fire 4% - 15.4%
Assumed Wage Inflation Rate	Pay assumed to grow at 3% per year
Mortality Table	For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females.

- h. *Funded Status and Funding Progress- Policemen's' Annuity and Benefit Fund* - As of January 1, 2010, the most recent actuarial valuation date for the Policemen's Annuity and Benefit Fund, the fund was 52.5 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$3.687 million, and the actuarial value of assets was \$1.936 million.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.



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

**NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010**

---

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

Additional information as of the latest actuarial valuation is as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	8.5%
Projected Salary Increases	None
Assumed Wage Inflation Rate	3.0%
Group Size - Growth Rate	Zero - The Plan is Closed
Mortality Table	For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females.

**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, 2010 actuarial valuation, 495 Retirement System members were identified as being non-consenting. Of this number, 150 were active members, 318 were inactive members, and 27 were benefit recipients. During 2010, 21 of these members elected to consent to the GPS resulting in a transfer of \$3,263,726 to the Global Combined Fund from the non-consenter funds.

**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, 2010, the City of Milwaukee is the only agency choosing to participate in this fund. During 2010, the City of Milwaukee utilized \$7.0 million of their reserve.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010

5. FUNDING STATUS AND PROGRESS

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2010. Significant actuarial assumptions used in the January 1, 2010 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 8.5% for General City and between 4.0% and 15.4% 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) For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females. The excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation as of January 1, 2010 was as follows (in thousands):

Net assets available for benefits (actuarial basis)	<u>\$ 4,814,402</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,637,961
Current employees:	
Member contributions	551,605
Employer financed portion	1,079,758
Reserve for adverse experience	545,078
Total pension benefit obligation	<u>\$ 4,814,402</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.

The GPS, effective January 1, 2000, 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 2010. Employer contributions for non-consenting members were not required for 2010. This amount was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2010. All actuarial computations were made by an independent consulting actuary to satisfy the requirements of 36.08(2) of the Milwaukee Charter.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

---

### 6. TEN-YEAR HISTORICAL TREND INFORMATION

Ten-year historical trend information is 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 \$8,567,000, real estate manager fees of \$4,153,000, and administrative expenses of \$11,935,000 were charged to the Global Combined Fund in 2010.

In addition, the Annuity and Pension Board authorized the payment of \$1,340,000 of administrative costs from the Securities Lending Fund during 2010. This reduced the amounts needed from the Global Combined Fund to fund the costs to administer the Retirement System (see Note 9).

### 8. INCOME TAX STATUS

The Retirement System obtained its latest determination letter on July 13, 2006, in which the Internal Revenue Service (IRS) stated that the Retirement System, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. In January 2009, as part of the regular IRS 5 year cycle, the Retirement System filed for an IRS determination letter. 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

#### 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 System's name, and held by the counterparty. As of December 31, 2010, 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 \$2.519 million as of December 31, 2010.

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

**9. INVESTMENTS (cont.)**

**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, 2010, the fair market carrying value of the investments are as follows (in thousands):

<u>Investment Type</u>	<u>Carrying Value</u> <u>2010</u>
Common Stock	\$ 2,034,234
Preferred Stock	25,305
Convertible Equity	112
Corporate Convertible Bonds	9,298
Barclays Lehman Intermediate Aggregate Index Fund	303,105
Northern Trust S&P 500 Index Fund	355,996
DFA Small Cap Fund	240,751
Barclays Russell 1000 Alpha Tilts Fund	183,411
Government Bonds	212,012
Government Agencies	43,451
Municipal/Provincial Bonds	28,860
Corporate Bonds	422,849
Gov Mortgage Backed Sec	43,178
Comm Mortgage Backed Sec	4,910
Asset Backed Securities	19,303
Non-Gov Backed C.M.O.S.	4,477
Real Estate Investments	253,301
Private Equity	6,876
Total Investments	\$ <u>4,191,429</u>



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2010**

**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. The duration of the Retirement Systems active fixed income managers must either be between 80% and 250% of the duration of the Barclays Capital Aggregate Index, or +/- 2 years of the Barclays Capital Aggregate Index, depending on the manager. As of December 31, 2010, the segmented time distribution of the various investment types of debt securities for the Retirement System is as follows (in thousands):

	<b>2010</b>				
<u>Investment</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10+Years</u>
Government Bonds	\$ 400,007	\$ 56,596	\$ 265,609	\$ 54,187	\$ 23,615
Government Agencies	43,451	-	5,736	24,975	12,740
Municipal/Provincial Bonds	28,860	13,657	8,081	-	7,122
Corporate Bonds	412,861	12,286	113,980	69,038	217,557
Gov Mortgage Backed Sec	158,289	-	115,121	35,987	7,181
Comm Mortgage Backed Sec	13,929	-	9,020	1,570	3,339
Asset Backed Securities	20,271	2,163	17,315	237	556
Non-Gov Backed C.M.O.S.	4,477	-	298	-	4,179
Corporate Convertible Bonds	9,298	-	-	-	9,298
Short-term Investment Funds	43,858	43,858	-	-	-
<b>Totals</b>	<b>\$ 1,135,301</b>	<b>\$ 128,560</b>	<b>\$ 535,160</b>	<b>\$ 185,994</b>	<b>\$ 285,587</b>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2010

---

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, 2010, 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	\$ 2,048
Brazilian real	18,316
British pound sterling	218,586
Canadian dollar	87,971
Danish krone	9,792
Euro	283,400
Hong Kong dollar	19,317
Indonesian rupiah	8,753
Japanese yen	193,833
Malaysian ringgit	907
Mexican peso	16,673
New Israeli shekel	3,066
New Zealand dollar	30,578
Norwegian krone	6,441
Singapore dollar	11,436
Swedish krona	15,337
Swiss franc	58,675
Total	\$ <u>985,129</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, 2010, 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, 2010**

**9. INVESTMENTS (cont.)**

**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, 2010 are as follows (in thousands):

Investment Type	AAA	AA	A	BBB	BB	B	CCC	CC	US Government Guaranteed	Not Rated Quality Rating Not Available
Asset Backed Securities	\$ 14,512	\$ 2,299	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	3,460
Comm Mortgage Backed Sec	4,910	9,020	-	-	-	-	-	-	-	-
Corporate Bonds	-	14,785	61,407	191,529	55,767	79,567	564	143	-	9,099
Corporate Convertible Bonds	-	-	7,757	-	191	1,350	-	-	-	-
Government Agencies	12,148	18,563	-	-	-	-	-	-	12,741	-
Government Bonds	129,699	187,994	15,431	8,296	-	-	-	-	58,586	-
Gov Mortgage Backed Sec	1,256	-	-	-	-	-	-	-	157,032	-
Index Linked Government Bonds	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	8,081	13,657	-	-	7,121	-	-	-	-	-
Non-Gov Backed C.M.O.S.	2,073	-	-	-	-	-	161	-	-	2,243
Short-term Investment Funds	* 43,857	-	-	-	-	-	-	-	-	-
<b>Total Value by Rating</b>	<b>\$ 216,536</b>	<b>\$ 246,318</b>	<b>\$ 84,595</b>	<b>\$ 199,825</b>	<b>\$ 63,079</b>	<b>\$ 80,917</b>	<b>\$ 725</b>	<b>\$ 143</b>	<b>\$ 228,359</b>	<b>\$ 14,802</b>

Note: The Retirement System held no investments in the C or D quality rating at the end of 2010.

\* 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, 2010

---

### 9. INVESTMENTS (cont.)

#### Derivatives

The ERS' Statement of Investment Policy written objectives and guidelines governing the investment of Fund assets allows investment managers to use derivatives traded on a recognized derivatives exchange for hedging and efficient portfolio management purposes if the Board approves their use within the individual manager's written guidelines. No assets shall be committed to futures, options, options on futures, forwards and other derivatives unless approved by the Board.

Prohibited investments include mortgage interest only (IO), principal only (PO), inverse floaters or other CMO derivatives that have uncertain or volatile duration or price movement.

During 2010, the Fund hired a transition manager to transition certain Fund assets. The transition manager utilized equity futures contracts to equitize cash. Transition managers are given permission to use futures contracts, forward currency contracts, and exchange traded funds for the purpose of minimizing market risk by maintaining market exposure in certain markets and sectors. A futures contract is a contractual agreement, made through a recognized derivatives exchange, to buy or sell a pre-determined amount of a financial instrument at a pre-determined price in the future. As of December 31, 2010, the ERS' separate account managers did not hold any futures contracts.

Also in 2010, the Fund's separate account investment managers utilized currency forward contracts. A currency forward is a contractual agreement between two parties to pay or receive amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are entered into with the foreign exchange department of a bank.

The Fund's International and Global Equity managers entered into foreign exchange positions, such as forward and spot contracts, to hedge foreign currency exposure or obtain a currency for a pending cash transaction. Foreign currency forward contracts for defensive hedging purposes are permitted for use by ERS' International and Global Equity Managers. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Foreign currency forward contracts are included in the investments sold of the accounts receivable section of the Statement of Plan Net Assets. Prior to termination of the contract, the ERS' custodian records the amount receivable or payable at fair value, using the daily spot rate, with the unrealized gain or loss reported as a component of net appreciation in fair value. All contracts are short-term in duration and mature within 120 days. As of December 31, 2010, the ERS did not hold any foreign exchange forward contracts for hedging foreign currency purposes.

The total exposure of all hedges is limited to 100% of the total portfolio value, at market. Shorting currency exposure in countries without any underlying security exposure is prohibited. The ERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. The ERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed through the limits placed on an investment manager within the Statement of Investment Policy.

Typical counterparties for ERS are major financial institutions. A counterparty's financial condition, cash on hand, and general credit worthiness is evaluated prior to entering into a transaction. In addition, ratings agencies' evaluations are reviewed

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2010

---

### 9. INVESTMENTS (cont.)

#### 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, 2010, the Retirement System earned revenue from securities lending of \$1,588,003, and paid custodian fees of \$475,856. The fund also disbursed \$1,340,000 to offset some of the retirement systems administrative costs. As of December 31, 2010, the fair value of securities on loan was \$283,460,482. The value of collateral held for securities on loan was \$291,090,524 as of December 31, 2010 which consisted of approximately 52.49% U.S. Equities, 23.40% U.S. Government fixed obligations, 10.74% Global Equities, 11.74% U.S. Corporate Fixed securities, and 1.63% other securities.

The two main risks in securities lending are counterparty risk and collateral investment risk. Counterparty risk is the risk that the borrower defaults on a loan and is unable to return a security. ERS' contract with Northern Trust indemnifies ERS of any losses it suffers from its securities lending program due to counterparty default. Collateral investment risk is the risk that an investment in a collateral option becomes impaired or decreases in value. ERS is responsible to refund any losses to the borrower as a result of losses in the collateral pool. As of December 31, 2010, the ERS' collateral pool was trading at or near fair market value with no impairments.

### 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.



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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2010**

---

**11. FIDUCIARY RESPONSIBILITY OF THE POLICEMEN'S ANNUITY & BENEFIT FUND**

On December 14, 2005, the Policemen'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, and 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 fund's assets as of January 3, 2006. These resources are disclosed in the financial records as a separate fiduciary fund.

The plan's funding policy is specified in the Milwaukee City Charter, Chapter 35, as amended by Charter Ordinances, Numbers 356 and 357. The annual requirement consists of an amount sufficient to amortize the present value of benefits to all active and retired employees less the value of actuarial assets in the Fund by a series of level payments over the remainder of the funding period. File numbers 950930 and 970052 provide that the Board shall adopt the assumptions which the actuary uses in the annual valuation and tax levy certification. This contribution will comply with GASB, which requires that the annual required contribution of the employer (ARC) should be actuarially determined and have a provision for amortizing the unfunded liability. In general, GASB allows an amortization period of up to 40 years, but 10 years is appropriate for this Fund. The Tax Levy for 2010 (to be collected in early 2011) would amount to \$268,667 plus budgeted administrative expenses.

As of December 31, 2010, the composition of the fund consisted of 25 annuitants and 56 widows. Once all annuitants and widows are deceased the fund is to be closed and any remaining monies are to be remitted back to the City of Milwaukee.

**12. ACTUARIALY REQUIRED CONTRIBUTIONS FROM MEMBER AGENCIES**

The Retirement System requires regular payroll contributions from its agencies and members for all active employees covered by the plan on an ongoing biweekly basis. When market conditions yield positive market returns these contributions allow the plan to remain at a 100% funded status. When market conditions produce unfavorable or negative market returns, member organizations are required to fund any shortfall to maintain the plan at a 100% funded status.

**13. SUBSEQUENT EVENTS**

The Retirement System has evaluated subsequent events occurring through June 16, 2011. The date the financial statements were available to be issued for events requiring recording or disclosure in the Retirement System's financial statements. Management feels that no material events occurred that would require disclosure.

# REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 8)

**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 less 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)
2010	\$ 4,814,402	\$ 4,269,324	\$ 545,078	112.8 %	\$ 553,846	98.4 %
2009	4,076,297	4,113,089	(36,792)	99.1 %	536,558	(6.9)%
2008	5,192,000	3,958,061	1,233,939	131.2 %	532,412	231.8 %
2007	4,899,721	3,846,481	1,053,240	127.4 %	528,854	199.2 %
2006	4,556,371	3,706,198	850,173	122.9 %	515,934	164.8 %
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	3,204,248	485,733	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 %

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 independent auditors' report and notes to required supplementary information.



**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**Required Supplementary Information**  
**Schedule of Employer Contributions**  
(in thousands)

Year Ended December 31	Annual Required			Total Required	Percentage Contributed	Voluntary Contributions Employers' Reserve Fund *	Total All Contributions
	Member Contributions	Employer Contributions	Employer Contributions				
2010	\$ 35,698,219	\$ -	\$ 35,698,219	100%	\$ -	\$ 35,698,219	
2009	35,894,509	60,098,000	95,992,509	100%	-	95,992,509	
2008	33,896,622	-	33,896,622	100%	-	33,896,622	
2007	33,021,527	-	33,021,527	100%	-	33,021,527	
2006	31,979,995	-	31,979,995	100%	-	31,979,995	
2005	32,084,484	47,000	32,131,484	100%	-	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%	-	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%	-	25,739,454	

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

See independent auditors' report and notes to required supplementary information.

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**Notes to Required Supplementary Information**

---

This 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 is as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Percent of Pay
Remaining Amortization Period	24 years as of January 1, 2010
Asset Valuation Method	5-year smoothed market, 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.5%
Projected Salary Increases	General City 3.5% - 8.5% Police & Fire 4% - 15.4%
Assumed Wage Inflation Rate	Pay assumed to grow at 3% per year
Mortality Table	For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females.

See independent auditors' report and notes to required supplementary information.

**POLICEMAN'S ANNUITY AND BENEFITS FUND – 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 less 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)
2010	\$ 1,935,745	\$ 3,686,621	\$ (1,750,876)	52.5 %	\$ 1,049,503	(166.8)%
2009	2,147,172	4,295,606	(2,148,434)	50.0 %	1,276,716	(168.3)%
2008	4,779,417	5,049,363	(269,946)	94.7 %	1,354,412	(19.9)%
2007	5,585,697	5,956,976	(371,279)	93.8 %	1,514,653	(24.5)%
2006	5,977,606	8,241,433	(2,263,827)	72.5 %	2,006,273	(112.8)%

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 Policemen's Annuity and Benefit Fund funding status on a going concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Fund. 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 Fund's progress made in accumulating sufficient actuarial value of assets to pay benefits when due. Generally, the larger this percentage, the stronger the Fund.

See independent auditors' report and notes to required supplementary information.

**POLICEMAN'S ANNUITY AND BENEFITS FUND – THE CITY OF MILWAUKEE**  
**Notes to Required Supplementary Information**

---

This 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 is as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.5%
Projected Salary Increases	None
Assumed Wage Inflation Rate	3.0%
Group Size - Growth Rate	Zero - The Plan is Closed
Mortality Table	For regular retirees and for survivors, the RP-2000 Mortality Table with mortality improvements projected to the year 2005 for males, and the UP-94 Mortality Table, with mortality improvements projected to the year 2000 for females.

See independent auditors' report and notes to required supplementary information.

# ADDITIONAL INFORMATION

(See Independent Auditors' Report on Page 8)

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

**STATEMENT OF PLAN NET ASSETS**

December 31, 2010

(in thousands)

**NON-CONSENTER RETIREMENT FUNDS**

	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	Total
<b>ASSETS:</b>							
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 1,438	\$ 344	\$ 13	\$ -	\$ -	\$ -	\$ 1,795
INVESTMENTS (Notes 2 and 9):							
Bonds and collateralized mortgage obligations	3,173	454	26	-	-	-	3,653
Common and preferred stocks	8,426	1,205	71	-	-	-	9,702
Barclay Bond Index Funds	1,235	177	10	-	-	-	1,422
DFA Small Cap Fund	981	140	8	-	-	-	1,129
Northern Trust Company Collective Equity Index Fund	1,450	208	12	-	-	-	1,670
Russell 1000 Alpha Value Fund	747	107	6	-	-	-	860
Real Estate Investments	1,032	148	9	-	-	-	1,189
Private Equity Investments	28	4	-	-	-	-	32
<b>Total investments</b>	<b>17,072</b>	<b>2,443</b>	<b>142</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,657</b>
<b>RECEIVABLES:</b>							
Employer (Note 2)	-	-	-	-	-	-	-
Member (Note 2)	-	-	-	-	-	-	-
Interest, dividends and foreign tax recoverable (Note 2)	60	9	1	-	-	-	70
Investments sold	63	9	1	-	-	-	73
<b>Total receivables</b>	<b>123</b>	<b>18</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>143</b>
<b>Total assets</b>	<b>18,633</b>	<b>2,805</b>	<b>157</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,595</b>
<b>LIABILITIES:</b>							
Benefits Payable	-	-	-	-	-	-	-
City of Milwaukee Investments purchased	66	9	1	-	-	-	76
<b>Total liabilities</b>	<b>66</b>	<b>9</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>76</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 18,567</b>	<b>\$ 2,796</b>	<b>\$ 156</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,519</b>

See independent auditors' report

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

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
YEAR ENDED DECEMBER 31, 2010**  
(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
<b>ADDITIONS:</b>							
Contributions:							
Employer (Note 5)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Member	180	145	-	-	-	-	325
Total contributions	180	145	-	-	-	-	325
Investment income:							
Net appreciation in fair value of investments	1,995	286	17	-	-	-	2,298
Interest, dividends and other investment income	325	46	3	-	-	-	374
Less investment expense	2,320	332	20	-	-	-	2,672
Net investment income	-	-	-	-	-	-	-
	2,320	332	20	-	-	-	2,672
Total additions	2,500	477	20	-	-	-	2,997
<b>DEDUCTIONS:</b>							
Benefits paid	255	10	-	-	-	-	265
Refunds of contributions	62	14	-	-	-	-	76
Total deductions	317	24	-	-	-	-	341
NET INCREASE BEFORE TRANSFERS	2,183	453	20	-	-	-	2,656
TRANSFERS (Note 3, 4 and 11)	(3,186)	(64)	(14)	-	-	-	(3,264)
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(1,003)	389	6	-	-	-	(608)
Net assets held in trust for pension benefits:							
Beginning of year	19,570	2,407	150	-	-	-	22,127
End of year	\$ 18,567	\$ 2,796	\$ 156	\$ -	\$ -	\$ -	\$ 21,519

See independent auditors' report