2001

EMPLOYEES' RETIREMENT SYSTEM

Milwaukee County

June 26, 2002

Retirement System Members:

We are pleased to present the 2001 Annual Report of your Pension Board. As can be seen, the Retirement System experienced a loss as a result of the continued downturn in the stock market. Since the events of September 11, 2001, however, the System has shown positive results. Total assets at the end of the year are nearly of $1.5 billion and the Actuarial Value of Assets continues to exceed the Actuarial Accrued Liability, indicating an adequately funded System.

The description of the Employees' Retirement System, included in this report, highlights major plan provisions. County ordinances, labor agreements, Pension Board rules and the Governmental Accounting Standards Board prevail over the contents of this report. If you have any questions, please call the Retirement System office at 278-4207.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the Retirement Division at 278-4208 for further information regarding these programs. If you are interested in meeting with a retirement counselor to discuss retirement, please schedule an appointment by calling 278-5127.

Several options are available to members who retire or otherwise leave County service. Before terminating employment, you should become fully informed of the various opportunities so you can make the best choice for your situation.

Each year, Milwaukee County distributes benefit statements reflecting balances as of the end of the previous year. You should be aware that, in the event you ever worked for Milwaukee County on a part-time basis, the benefit statement that you received may slightly overstate your pension service credit total. If it is overstated, the pension service credit will be adjusted at the time of your retirement.

Remember to keep your beneficiary designations current by informing the Retirement System Office of any changes. Retired members should also notify the Retirement System Office in writing of any changes in residence or address so that your checks and year-end 1099R statements are properly mailed.

Sincerely,

The Pension Board

COURTHOUSE, ROOM 210-C • 901 NORTH 9TH STREET • MILWAUKEE, WI 53233 • (414) 278-4207

ANDERSEN

Report of Independent Public Accountants

To the Honorable Members of the Pension Board of the Employees' Retirement System of the County of Milwaukee:

We have audited the accompanying statements of plan net assets of the Employees' Retirement System of the County of Milwaukee (the "Retirement System") as of December 31, 2001 and 2000, and the related statements of changes in plan net assets for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in 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 audits provide 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, 2001 and 2000, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on pages 11, 12 and 13 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The additional information is the responsibility of the Retirement System's management and the 2001 and 2000 information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
April 26, 2002

STATEMENTS OF PLAN NET ASSETS

	December 31, 2001	December 31, 2000
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 13,929,450	$ 11,739,152
RECEIVABLES		
Receivable for foreign exchange contracts	10,928,833	14,520,401
Accrued interest and dividends	8,582,093	8,981,042
Due from sale of investments	15,565,239	5,017,862
County of Milwaukee	2,370,618	251,983
Miscellaneous receivables	451,509	630,715
TOTAL RECEIVABLES	37,898,292	29,402,003
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	549,986,363	620,378,532
Corporate bonds	495,879,424	467,044,799
International common and preferred stocks	199,677,824	248,482,197
Federal agency and mortgage-backed certificates	94,016,805	102,978,139
International fixed income	60,746,039	65,685,178
US Government and state obligations	23,097,464	33,092,663
Real estate investment trusts	33,159,319	32,666,331
Venture capital	16,673,617	20,324,641
SBA loan-backed securities	134,786	253,183
TOTAL INVESTMENTS	1,473,371,641	1,590,905,663
Securities lending - collateral (See Note 5)	87,026,904	59,206,986
TOTAL ASSETS	1,612,226,287	1,691,253,804
LIABILITIES		
Securities lending - collateral (See Note 5)	87,026,904	59,206,986
Payable for foreign exchange contracts	10,310,796	13,569,078
Payable for securities purchased	30,232,954	7,820,820
Miscellaneous payables	2,210,048	2,399,181
Payable to OBRA Retirement Plan	662,409	612,583
TOTAL LIABILITIES	130,443,111	83,608,648
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,481,783,176	$1,607,645,156

(A schedule of funding progress is presented on page 11)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2001	Year Ended December 31, 2000
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	$ 2,646,523	$ 629,279
Plan participants	265,567	180,729
	2,912,090	810,008
INVESTMENT INCOME (EXPENSE)		
Net depreciation in fair value	(84,772,744)	(71,515,716)
Interest and dividends	55,555,759	56,169,059
Security lending income	3,478,739	4,068,346
Other income	532,883	363,748
Total investment income	(25,205,363)	(10,914,563)
Less: Securities lending rebates and fees	(3,103,672)	(3,812,158)
Investment expense	(4,195,202)	(4,209,224)
Net investment loss	(32,504,237)	(18,935,945)
TOTAL ADDITIONS	(29,592,147)	(18,125,937)
DEDUCTIONS:		
Benefits paid to retirees and beneficiaries	(94,842,239)	(85,664,789)
Administrative expenses	(1,193,862)	(1,110,971)
Withdrawal of membership accounts	(233,732)	(257,600)
TOTAL DEDUCTIONS	(96,269,833)	(87,033,360)
NET CHANGE IN PLAN ASSETS:	(125,861,980)	(105,159,297)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	1,607,645,156	1,712,804,453
End of year	$1,481,783,176	$1,607,645,156

The accompanying notes are an integral part of these financial statements.

Notes to The Financial Statements
For the Year Ended December 31, 2001

(1) Description of Retirement System –

The following brief description of the provisions of the Employees' Retirement System of the County of Milwaukee ("ERS" or the "Retirement System") is provided for financial statement purposes only. Participants should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreement for more complete information.

The Retirement System is a single-employer plan that was created to encourage qualified personnel to enter and remain in the service of the County of Milwaukee (the "County") by providing for a system of retirement, disability and death benefits to or on behalf of its employees. By the passage of Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. It did so by the passage of Section 201.24 of the General Ordinance of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board. The Pension Board consists of seven members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), the County's Director of Human Resources and three employee members elected by the employee participants.

	As of December 31	
Participants –	**2001**	**2000**
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	7,859	7,857
Current employees –		
Vested	4,451	3,642
Non-vested	1,626	2,676
Total current employees	6,077	6,318
Total participants	13,936	14,175

Contributions –

The Retirement System is substantially noncontributory. However, participants meeting certain criteria have the option to contribute to membership accounts. In addition, the County contributes to membership accounts of most employee participants enrolled prior to 1971. Member account balances are as follows:

	As of December 31	
	2001	**2000**
Membership accounts –		
Participants and County contributed	$21,347,817	$22,690,459
Voluntary savings accounts	358,697	348,975

Contributions due from the County to the Retirement System consist of amounts sufficient to fund the annual normal cost and interest on and amortization of the unfunded or overfunded actuarial accrued liability. A substantial portion of the current year's contribution is paid to the Retirement System in the following year.

The County makes contributions to the Retirement System based upon actuarially determined contribution requirements, as well as additional contributions made at the discretion of the County Board. Actuarially determined contribution requirements are set during the County's budget process. The data available for the determination is based upon the prior fiscal year's demographics. The actuarially determined contribution requirements set during the budgeting process may differ from the annual required contribution (ARC) for the current period as a result of changes in the plan provisions implemented subsequent to approval of the County budget. During the year, the Retirement System accrues only those contributions that the County is statutorily required to pay. This consists of those contributions that were included in the County's current year's budget and any additional contributions that may have been committed at the discretion of the County Board. For 2001, the County contribution recorded by the Retirement System was $5,939,920 less than the ARC for 2001.

Benefits –

The normal retirement benefit is a monthly pension for the life of the participant. For deputy sheriff participants with less than 30 years of service, the normal retirement age is 57. For all other participants the normal retirement age is 60, although some labor agreements require a minimum of 5 years creditable service at age 60. Active participants are also eligible to retire when their age added to their years of service equals 75. The normal retirement benefit payable to a participant whose membership began prior to January 1, 1982, is equal to 2.5% for deputy sheriffs and elected officials, and 2% for all other participants, of the participant's three-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. The amount of normal retirement benefits payable for a participant whose membership began after January 1, 1982 is as follows: 2.5% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired before July 1, 1995; 2% for deputy sheriffs, deputy sheriff lieutenants, deputy sheriff ECPs and DA investigators hired after June 30, 1995; 2% for elected officials; 2% for firefighters and non-represented firefighters beginning January 1, 1999; and 1.5% for all other participants, of the participant's five-year final average monthly salary, as defined in the Ordinance and labor agreements, multiplied by the number of years of credited service. Each year after retirement, the amount of monthly benefit is increased by an amount equal to 2% of the benefit paid for the first full month of retirement. The maximum benefit, excluding any post-retirement increases, payable to a participant cannot exceed the sum of 80% of the participant's final average monthly salary.

As of January 1, 2001, certain plan changes became effective, except for represented deputy sheriffs. These changes are noted below:

- The County will pay the accrued sick allowance in full upon retirement for those participants hired prior to January 1, 1994. Previously, a member received both a cash payment from the County and pension service credit for a portion of the accrued sick allowance.

- A bonus of 7.5% per year, up to a maximum of 25%, is added to the Final Average Salary for those employees whose membership in the Employee's Retirement System began before January 1, 1982, or July 1, 1995 for a non-represented Deputy Sheriff.

- All service credit earned after January 1, 2001 will be credited with a 2% multiplier for those employees whose membership in the Employee's Retirement System began after December 31, 1981, or June 30, 1995 for a non-represented Deputy Sheriff. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 shall be credited with an additional .5% multiplier.

- A "back drop" payment option was established that would permit an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member would be entitled to from a prior date (back drop date) to the date that the member terminates employment plus compounded interest. The back drop date must be at least one year prior to the termination date and the member must have been eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit based on the back drop date once the member terminates employment.

The following changes were made effective on January 1, 2002:

- Effective March 15, 2002, the County will pay non-represented employees for the first 400 hours of accrued sick allowance and 16% of any sick allowance in excess of 400 hours. No pension service credit is added for this accrued sick allowance payout.

- Effective January 1, 2003, the pension benefit for employees who became members after December 31, 1981 shall be based upon a final average salary equal to the three highest consecutive years of earnings instead of the five highest consecutive years of earnings.

A participant who meets the requirements for an accidental or ordinary disability benefit is entitled to an amount equal to the normal retirement benefit, but not less than 60% of a participant's final average salary for accidental disability. Fifteen years of credited service is required to apply for ordinary disability.

A participant who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The participant would be entitled to a benefit equal to the normal retirement benefit with a lifetime reduction of 5% for each year prior to the normal retirement date.

A participant is vested upon attaining 5 years of creditable pension service. Most participants are immediately vested upon attaining age 60. A vested participant is eligible for a deferred pension beginning as of the member's normal retirement date.

Upon the death of an employee participant and usually after one year of service, which varies by labor agreement, a dependent spouse with one dependent child, as defined in the Ordinance, will receive 40% of the deceased participant's salary, reduced by an amount equal to Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. The total benefit, if there are more than five eligible children, generally cannot exceed 90% of the prior salary level. The total benefit includes Social Security benefits. Upon attaining age 60, the dependent spouse will receive 50% of the normal retirement benefit based upon service projected to age 60 of the employee participant. If there is no dependent spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased participant's final average salary, but not to exceed $2,000. Deputy sheriffs are covered by special provisions if their death occurs as a result of an accident in actual performance of duty.

Currently, employee participants may choose between several options when retiring. The available options are:

– Maximum This option is a pension benefit that is payable over the life of the participant and ceases upon the participant's death;

– Membership Account Refund This option is an actuarially reduced pension benefit that ceases upon the death of the participant. This option, however, guarantees that the participant will receive the total balance in his/her Membership Account as of the retirement date. The Membership Account balance is reduced each month by an actuarial determined amount. Any balance remaining upon the participant's death will be paid to the participant's beneficiary. Generally, only participants hired prior to 1971 have a Membership Account and, therefore, are the only employees eligible for this option;

– 25% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 25% of the pension benefit is payable over the life of a named beneficiary, if living;

– 50% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;

– 75% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 75% of the pension benefit is payable over the life of a named beneficiary, if living;

– 100% This option is a reduced pension benefit that is payable over the life of the participant. Upon the participant's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;

– 10-Year Certain This option is a reduced pension benefit payable over the life of the participant but is guaranteed for a period of 10-years, in the event that the participant should die within 10 years after the retirement date.

– Board Discretion This option is at the discretion of the Pension Board and is the payment of a benefit in a form other than those set forth above provided that payments in such other form shall be the actuarial equivalent of the benefit otherwise payable. An administrative charge is assessed for each calculation performed under this option.

Benefits of $94.8 million and $85.7 million were paid in 2001 and 2002, respectively, including periodic pension benefit payments of $88.6 million and lump-sum pension benefit payments of $6.2 million in 2001. There were no lump-sum benefit payments made in 2000. From the period of January 1, 2002 through March 31, 2002, lump-sum pension benefit payments were $2.4 million.

(2) Summary of Significant Accounting Policies:

Basis of Accounting –

The accompanying financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed and expenses are recorded when the corresponding liabilities are incurred.

Investments –

Investments, primarily stocks, bonds, certain government loans and mortgage-backed certificates, are stated at quoted fair value. Temporary cash investments are valued at cost, which approximates fair value. Investments in venture capital partnerships are valued at estimated fair value, as provided by the Retirement System's venture capital investment manager. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method.

	As of December 31	
	2001	**2000**
Domestic common and preferred stocks	**$ 513,203,272**	**$ 518,610,406**
Corporate bonds	**495,527,533**	**476,265,209**
International common and preferred stocks	**211,810,318**	**218,520,312**
Federal agency and mortgage-backed certificates	**92,419,787**	**101,776,092**
International fixed income	**59,463,122**	**62,078,907**
US Government, State & Local obligations	**23,352,167**	**30,125,874**
Real estate investment trusts	**30,110,580**	**28,925,412**
Venture capital	**24,614,975**	**24,537,992**
SBA loan-backed securities	**134,786**	**253,183**
Cash and cash equivalents	**13,933,083**	**11,732,839**
Total investments at cost	**$1,464,569,623**	**$1,472,826,226**

Valuation of International Securities –

Securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts on the date of valuation. Purchases and sales of securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions.

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $774,526 and $772,022 in 2001 and 2000, respectively.

Use of Estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Reclassification of Prior Year Amounts –

Certain amounts in the prior year financial statements have been reclassified to conform with the current presentation.

(3) Income taxes –

The Internal Revenue Service ruled on July 23, 2001, that the Plan was in compliance with Section 401(a) of the Internal Revenue Code (IRC), and, therefore, is a tax-qualified plan. The Retirement System has been subsequently amended. Management believes that the Plan continues to be in compliance with the IRC and maintains its tax-qualified status.

(4) Contributions Required and Contributions Made –

The Retirement System's funding policy provides for periodic County contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Payroll contribution rates are determined using the Aggregate Entry Age Normal method of funding. The Retirement System also uses the level percentage of payroll method to amortize the unfunded liability through the year 2035. The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the pension benefit obligation.

County contributions totaling $2,646,523 and $629,279 were recorded in 2001 and 2000, respectively, in accordance with amounts budgeted by the County which are based on 100% of the total actuarial required contribution using the Aggregate Entry Age Normal method of funding with normal cost computed as a level percentage of pay. See the Schedule of Employer Contributions in the Required Supplementary Information. The County's contributions to the Retirement System were 1.1% and .3% of annual covered payroll for 2001 and 2000, respectively.

The 2001 and 2000 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2000 and 1999, respectively. These amounts were included in the County's 2001 and 2000 budgets. Due to the plan changes which became effective on January 1, 2001, a new 2001 contribution was determined. The unpaid portion of the 2001 and 2000 contributions are reflected as a contribution receivable by the Retirement System as of December 31, 2001 and 2000, respectively.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 9.0% and 8.5%, compounded annually, in 2001 and 2000, respectively, (b) projected salary increases averaging 5.5% per year compounded annually, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2001 and 2000.

(5) Investments –

Investment Concentrations –

The Retirement System has the following investments (other than those issued or guaranteed by the U.S. Government) that represent 5 percent or more of the plan net assets at December 31, 2001:

- The Mellon Capital Management Employee Benefit Stock Index Fund of $120.707 million.
- The Mellon Capital Management Employee Benefit Market Completion Fund of $119.219 million.
- The Mellon Capital Management Employee Benefit Large Cap Growth Stock Index Fund of $95.591 million.

Cash –

The following table presents the Retirement System's total deposits as of December 31, 2001:

	Schedule of Cash (in thousands of dollars)	
	Carrying Value	Bank Balance
Deposits with banks	$4,464	$7,740
Money market deposits held at bank	9,464	9,464
Total Deposits	**$13,929**	**$17,205**

The difference between the carrying values and bank balances are due to outstanding checks and deposits not yet processed by the bank.

Other Investments –

The following table presents the total investments held at December 31, 2001, categorized to give an indication of the level of risk assumed by the Retirement System. Investments not evidenced by securities are not categorized. The categories for investments are:

1. Insured or registered securities, or securities held by the custodian in the Retirement System's name.
2. Uninsured and unregistered, with the securities held by the custodian, in the Retirement System's name.
3. Uninsured and unregistered, with the securities held by the custodian, but not in the Retirement System's name.

The Retirement System does not hold any Category 2 or 3 investments.

The Retirement System's deposits have been categorized to give an indication of the level of custodial credit risk assumed. This risk categorization does not reflect market risk. The categories are:

1. Insured or collateralized with securities held by the Retirement System or by its agent in the Retirement System's name
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Retirement System's name
3. Uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the Retirement System's name.

The Retirement System does not hold any Category 2 or 3 deposits.

Schedule of Investments and Deposits by Custodial Credit Risk

	Total Fair Value
Investments - Category 1	
Domestic and preferred common stocks	$ 549,986,363
Corporate bonds	495,879,424
International common and preferred stocks	199,677,824
Federal agency and mortgage-backed certificates	94,016,805
International fixed income	60,746,039
US Government Obligations	23,097,464
Real estate investment trusts	33,159,319
SBA loan-backed securities	134,786
TOTAL	$1,456,698,024
Investments - Not categorized	
Venture capital	$ 16,673,617
Deposits - Category 1	
Deposits	$ 13,929,450

Security Lending –

The Retirement System participates in a security lending program for the lending of corporate bonds, equity and government securities to qualified brokers. Collateral received for securities loaned consists primarily of cash. Other forms of collateral are letters of credit and government agency securities. Collateral for domestic issues is set at 102% of the fair value of the securities loaned at the time of the initial transaction. If the value falls to 100% of the fair value of the securities loaned, additional collateral is obtained to reestablish collateral at 102% of the fair value of the securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The net investment income earned on collateral is divided between the custodian, as a fee for its services under the program, and the Retirement System, according to agreed-upon rates. For 2001 and 2000, the net investment income realized from security lending was $375,067 and $ 256,188, respectively.

Securities loaned and the collateral held were as follows:

	As of December 31	
	2001	**2000**
Fair Value of Securities Loaned:	$89,804,396	$64,387,399
Fair Value of Collateral:	$91,605,927	$65,804,054
Percentage Collateral to Securities Loaned:	102.01%	102.20%

The collateral received from security lending transactions are recorded as assets at quoted fair value on the financial statement date. The Retirement System records an identical amount as a liability, representing the obligation of the Retirement System to return the collateral at the time the borrower of the Retirement System's securities returns those securities.

The collateral received from securities lending transactions includes cash of $87,026,904 and $59,206,986, U.S. Treasury securities of $4,145,059 and $4,110,575, Government agency securities of $316,400 and $2,096,350 and letters of credit of $117,563 and $390,143 for years ended December 31, 2001 and 2000, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. Non-cash collateral in the amount of $4,579,021 and $6,597,068 for years ended December 31, 2001 and 2000, respectively, is controlled by the custodian and, correspondingly, is not reflected in the Statement of the Plan Net Assets Available for Plan Benefits.

(6) Financial Instruments With Off-Balance Sheet Risks –

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 located in a major money market. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuations. 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. Prior to termination of the contract, the Retirement System records the amount receivable or payable at fair value, with the unrealized gain or loss reported as a component of net appreciation in fair value.

Unrealized gains on forward foreign exchange contracts at year-end were $618,836 and $951,323 for 2001 and 2000, respectively. At year-end, the Retirement System holds forward foreign exchange contracts in the Euro-currency, Japanese Yen, UK Pound, Canadian Dollar and the Swiss Franc, primarily.

(7) Commitments and Contingencies –

The Retirement System is involved in litigation and certain other 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 financial statements.

(8) OBRA 1990 Retirement System of the County of Milwaukee –

The County established the OBRA 1990 Retirement System of the County of Milwaukee (OBRA) to cover seasonal and certain temporary employees who are not enrolled in the Retirement System. Assets of the OBRA are commingled for investment purposes with the assets of the Retirement System. As the assets of the Retirement System are legally available to pay benefits of either the ERS or OBRA and all assets have been commingled, the Retirement System is considered a single plan for financial reporting purposes. Net assets identified for OBRA benefits as of December 31, 2001 and 2000, were as follows:

	(Unaudited)	
	2001	**2000**
Cash	**$ 176**	**$ 12,228**
Contributions receivable from County	**250,094**	**229,359**
Assets held by Retirement System	**412,139**	**370,996**
Net assets available for benefits	**$662,409**	**$612,583**

Changes in net assets available for benefits for OBRA for the years ended December 31, 2001 and 2000, were as follows:

	(Unaudited)	
	2001	**2000**
Contributions from County	**$250,094**	**$229,359**
Investment income	**(3,000)**	**(9,900)**
Investment and administrative expenses	**(109,857)**	**(100,656)**
Benefits paid	**(87,411)**	**(90,503)**
Net increase in assets available for benefits	**$49,826**	**$ 28,300**

As of December 31, 2001 and 2000, respectively, there were 7,961 and 7,554 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2001 and 2000, was $1,890,289 and $ 1,845,671, respectively, leaving net assets available less than the actuarial accrued liability of ($1,227,880) and ($1,233,088), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

(9) Subsequent Event –

As of January 1, 2002, certain plan changes became effective. See Note 3 of the Required Supplementary Information for a description of the 2002 plan changes. These changes reduce the actuarial accrued liability as of January 1, 2002 by $72 million.

Required Supplementary Information

Schedule of Funding Progress
(in thousands of dollars)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability– AAL (b)	Funded ratio (a/b)	(Overfunded) Unfunded AAL– UAAL (b-a)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/02	1,620,157	1,492,072	108.6%	(128,085)*	238,387	(53.7%)**
1/1/01	1,670,601	1,499,261	111.4%	(171,340)*	238,195	(71.9%)**
1/1/00	1,622,710	1,336,573	121.4%	(286,137)*	230,324	(124.2%)**
1/1/99	1,562,824	1,211,563	129.0%	(351,261)*	215,091	(163.3%)**
1/1/98	1,442,016	1,213,254	118.9%	(228,762)*	209,974	(108.9%)**
1/1/97	1,265,857	1,184,236	106.9%	(81,621)*	204,481	(39.9%)**

* These amounts represent actuarial value of assets in excess of actuarial accrued liabilities.

** These percentages represent the amount of overfunded actuarial assets as a percentage of payroll.

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

Schedule of Employer Contributions for the Year Ended December 31,

Fiscal Year	Annual Required Contribution (ARC)	Percentage Contributed
2001	8,586,443	30.8%*
2000	629,279	100.0%
1999	2,756,636	100.0%
1998	10,816,807	100.0%
1997	12,942,084	100.0%
1996	18,442,468	100.0%

* In 2000, the County budgeted for the biweekly mandatory contributions for the 2001 pension contribution based on the plan benefits in effect on January 1, 2000. A new ARC calculation was performed in 2001 as a result of the changes in benefits that became effective January 1, 2001. The new benefits increased the 2001 ARC. The actual County contribution included the biweekly mandatory contributions of $546,523 and an additional contribution of $2.1 million. The 2001 contribution deficiency will be contributed in 2002 through 2006.

Notes to Required Supplementary Information

(1) Description –

The historical trend information is presented as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

(2) Actuarial Assumptions and Methods –

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of January 1, 2002, for the plan year ending December 31, 2001. The actuarial valuations consider the changes effective January 1, 2002. Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/02
Actuarial Cost Method	Aggregate Entry Age
Amortization Method	Level percent closed
Remaining amortization period	20 years
Asset valuation method	5-year moving average (unrealized); immediate recognition (realized)
Actuarial Assumptions:	
Investment rate of return	9.0%
Projected salary increases	5.5%
Mortality	The Sex-Distinct 1994 Uninsured Pensioner Table

(3) Significant Factors Affecting Trends in Actuarial Information –

2002 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in annual compensation limit to $200,000.
- Increase in maximum annual benefit limit to $160,000.
- Increase in discount rate to 9.0%.
- For purposes of computing the ARC by the County, the unfunded actuarial accrued liability of $(128,085,000) will be reamortized over a 20-year period ending December, 2020. The unfunded actuarial liability, as of January 1, 1996, was being amortized over a 40-year period ending December, 2035. Plan and assumption changes, as well as, actuarial gains and losses since January 1, 1996, were also being amortized through December, 2035. Effective January 1, 2002, future plan and assumption changes, as well as, actuarial gains and losses will be amortized over 20 years.

2001 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in maximum annual benefit limit to $140,000.
- Except for represented deputy sheriff members, vesting was changed from ten years to five years for those hired after December 31, 1981.
- Except for represented deputy sheriff members, the accrued sick allowance will be paid in full by the County of Milwaukee upon retirement for those hired prior to January 1, 1994. Previously, a member received both a cash payment and pension service credit for a portion of the accrued sick allowance.
- Except for represented deputy sheriff members, those employees whose membership in the Employees' Retirement System began before January 1, 1982, or for a nonrepresented Deputy Sheriff, July 1, 1995, will receive a bonus added to their final average salary of 7.5% for each year of service credit earned after January 1, 2001 up to a maximum bonus of 25% of final average salary.
- Except for represented deputy sheriff members, those employees whose membership in the Employees' Retirement System began after December 31, 1981, or for a nonrepresented Deputy Sheriff, June 30, 1995, will have all service credited after January 1, 2001 with a 2% multiplier. Also, for each year of pension service earned after January 1, 2001, eight (8) years of service earned prior to January 1, 2001 will be credited with an additional .5% multiplier.
- Except for represented deputy sheriff members, a "back drop" payment option was established that will permit an employee to receive a lump-sum cash payment and a monthly pension benefit upon retirement. The lump-sum cash payment is the total of the monthly pension benefits, adjusted for COLA increases, that a member will be entitled to from a prior date (back drop date) to the date that the member terminates employment plus interest compounded monthly. The back drop date must be at least one year prior to the termination date and the member must be eligible to retire as of that date. The member will be entitled to a COLA adjusted monthly pension benefit as if the member had retired on the back drop date.
- Assumption that 25 percent of eligible retirees will elect to receive both a backdrop payment option and a monthly pension benefit upon retirement.
- Except for represented deputy sheriff members, beginning January 1, 2003, the pension benefit for employees who became members of the Employee's Retirement System after December 31, 1981 will be based upon a final average salary equal to the three highest consecutive years of earnings instead of the five highest consecutive years of earnings.

2000 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Increase in annual compensation limit to $170,000.
- Increase in maximum annual benefit limit to $135,000.
- Formula increased for Firefighters, DA Investigators and Nonrepresented Deputy Sheriffs.
- Revised mortality assumptions.

1999 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Salary Scale and Retirement Rates Assumptions were changed.

1998 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Military Service Credit was extended to pre-1985 retirees.
- Increased maximum annual benefit limit to $130,000.

1997 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- The formula was increased for Deputy Sheriffs hired from 1/1/82 to 6/30/95.
- Increased annual compensation limit to $160,000.
- Increased maximum annual benefit limit to $125,000.

1996 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Decreased maximum annual compensation limit to $150,000.
- In 1995, an early retirement window was offered to members meeting specific requirements. The early retirement window allowed the member additional service to be used in selection of an increased benefit or a decreased reduction for early commencement.
- For purposes of computing the ARC by the County, the unfunded actuarial accrued liability of $115,841,970 was reamortized over a 40-year period ending December 31, 2035. The previous 40-year amortization was through December 2028. The approximate impact of this change was a reduction in the 1996 annual contribution of $1,680,000.
- Changed the method for determining the Actuarial Value of the Assets. Under the revised method, realized gains and losses are recognized immediately instead of over a 5-year period. The approximate impact of this change was a reduction in the 1996 annual contribution of $7,256,000.

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE

(Unaudited)

Revenues by Source

Fiscal Year	Participant Contributions	County Contributions*	Investment Income (Loss)**	Total
2001	$265,567	$2,646,523	$(28,309,035)	$(25,396,945)
2000	180,729	629,279	(14,726,721)	(13,916,713)
1999	140,834	2,756,636	243,675,430	246,572,900
1998	156,915	10,816,807	120,415,049	131,388,771
1997	130,253	12,942,084	256,829,536	269,901,873
1996	176,722	18,442,468	161,746,888	180,366,078
1995	314,544	20,309,361	275,737,913	296,361,818
1994	156,986	17,681,251	(22,637,446)	(4,799,209)
1993	341,700	17,403,247	136,561,001	154,305,948
1992	383,566	17,487,506	87,405,678	105,276,750

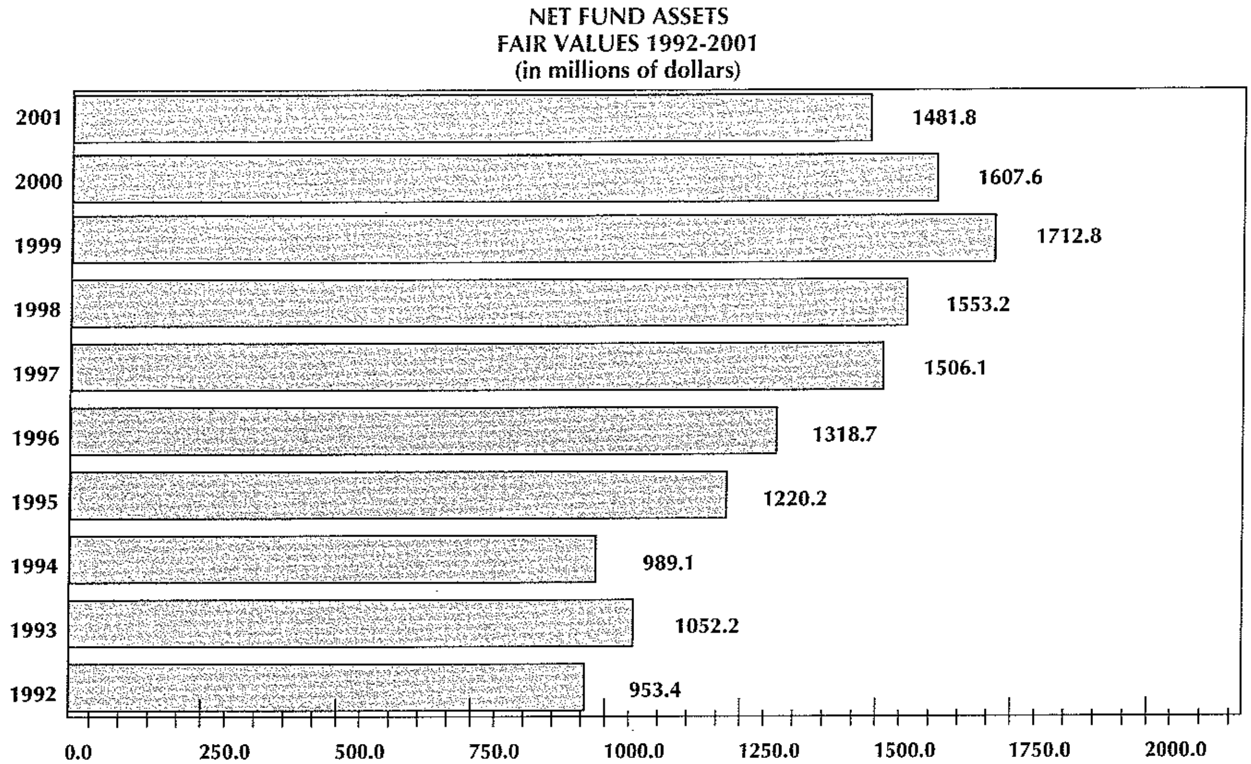
Expenses by Type

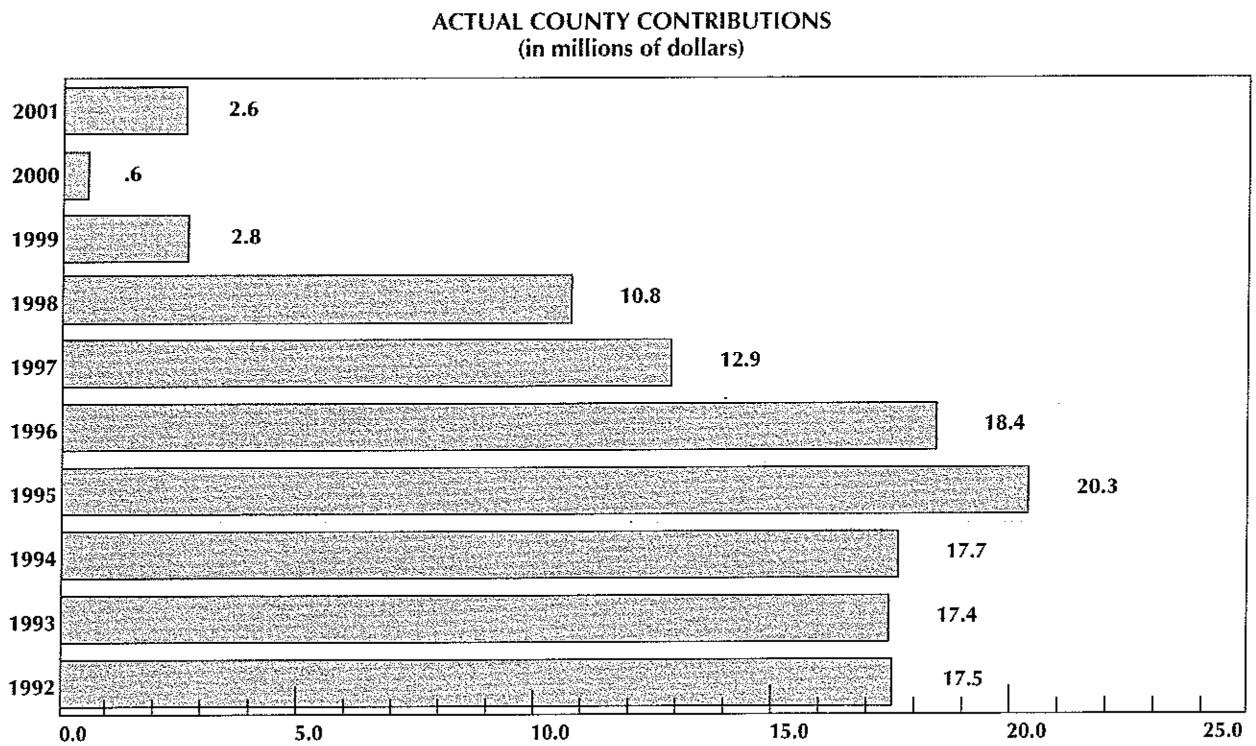
Fiscal Year	Benefits***	Investment and Administrative Expenses	Withdrawals	Total
2001	$94,842,239	$5,389,064	$233,732	$100,465,035
2000	85,664,789	5,320,195	257,600	91,242,584
1999	82,022,948	4,966,393	16,866	87,006,207
1998	79,261,523	4,913,214	50,504	84,225,241
1997	77,831,307	4,651,792	53,967	82,537,066
1996	76,921,047	4,605,169	115,956	81,642,172
1995	61,333,535	3,825,400	123,464	65,282,399
1994	54,936,274	3,177,094	117,904	58,231,272
1993	52,373,826	2,826,743	317,907	55,518,476
1992	51,216,087	3,641,257	186,526	55,043,870

* Contributions were made based upon actuarially determined contribution requirements, as well as additional contributions made at the discretion of the County Board.

** Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income, and other income.

*** Included in the benefits for year 2001 are lump-sum payments in the amount of $6.2 million.


NET FUND ASSETS
FAIR VALUES 1992-2001
(in millions of dollars)
2001
1481.8
2000
1607.6
1999
1712.8
1998
1553.2
1997
1506.1
1996
1318.7
1995
1220.2
1994
989.1
1993
1052.2
1992
953.4
0.0
250.0
500.0
750.0
1000.0
1250.0
1500.0
1750.0
2000.0


ACTUAL COUNTY CONTRIBUTIONS
(in millions of dollars)
2001
2.6
2000
.6
1999
2.8
1998
10.8
1997
12.9
1996
18.4
1995
20.3
1994
17.7
1993
17.4
1992
17.5
0.0
5.0
10.0
15.0
20.0
25.0

ACTIVE MEMBERSHIP STATISTICS (Unaudited)

	2001
Members as of January 1	**7,707***
Changes During the Year:	
New enrollments	**446**
Transferred to nonvested inactive	**(477)**
Retirements	**(237)**
Withdrawals	**(14)**
Deaths in active service	**(21)**
Members as of December 31	**7,404***

**This total includes vested inactive members.*

RETIREMENTS AND SURVIVORS (Unaudited)

	Retirements Granted								Survivors & Beneficiaries	Total
	Maximum Pension	Option								
		Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2001	2,350	963	993	35	1,265	56	29	24	838	6,553
Changes During the Year:										
Retirements	116	2	41	10	21	28	11	3	5	237
Pensioner deaths	(118)	(55)	(35)	—	(54)	—	(1)	—	(15)	(278)
December 31, 2001	2,348	910	999	45	1,232	84	39	27	828	6,512

CONSULTANTS
as of December 31, 2001

Legal Advisors:

Milwaukee County
Corporation Counsel
Robert G. Ott

Reinhart, Boerner,
Van Deuren, Norris
& Reiselbach, S.C.
Milwaukee, Wisconsin

Foley & Lardner
Milwaukee, Wisconsin

Actuary:

William M. Mercer, Inc.
Milwaukee, Wisconsin

Disbursing Agent:

County Treasurer

Custodian/Securities Agent:

Mellon Trust
Boston, Massachusetts

Medical Board:

Aurora Occupational Health Services

Investment Consultant:

William M. Mercer
Investment Consulting, Inc.
Chicago, Illinois

Cash Management Manager:

Mellon Trust
Boston, Massachusetts

Boston Company Asset Management, Inc.
Boston, Massachusetts

Venture Capital Investment Managers:

Adams Street Partners, Inc.
Chicago, Illinois

Progress Investment Management Co.
San Francisco, California

Real Estate Investment Trusts Manager:

CRA Real Estate Securities
Radnor, Pennsylvania

Equity Investment Managers:

Ariel Capital Management Group, Inc.
Chicago, Illinois

Artisan Partners
Milwaukee, Wisconsin

Boston Partners Asset Management, Inc.
Boston, Massachusetts

Mellon Capital Management
Pittsburgh, Pennsylvania

MFS Institutional Advisors, Inc.
Boston, Massachusetts

US Bancorp Piper Jaffray Asset Management
Minneapolis, Minnesota

Westfield Capital Management Co., Inc.
Boston, Massachusetts

Fixed Income Investment Managers:

Loomis, Sayles & Company, Inc.
Boston, Massachusetts

Mellon Capital Management
Pittsburgh, Pennsylvania

Miller & Schroeder Small Business Capital Corp.
Milwaukee, Wisconsin

NCM Capital Management Group, Inc.
Durham, North Carolina

Stein Roe & Farnham
Chicago, Illinois

Strong Capital Management
Milwaukee, Wisconsin

International Investment Managers:

Capital Guardian Trust Company
Brea, California

Granthum, Mayo, Van Otterloo & Co.
Boston, Massachusetts