

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

**Basic Financial Statements  
and Additional Information for the  
Year Ended December 31, 2009 and  
Independent Auditors' Report**

# Employees' Retirement System of the City of Milwaukee

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# INTRODUCTORY SECTION



**City of Milwaukee**  
Employees' Retirement System

**Bernard J. Allen**  
Executive Director

**Thomas A. Rick, CFA**  
Chief Investment Officer

**Martin Matson**  
Deputy Director

July 14, 2010

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, 2009. The ERS provides retirement and disability benefits, counseling and other services to approximately 26,800 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 decreased from 131.2% at January 1, 2008 to 99.1% at January 1, 2009 due to market decreases in 2008. 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.

A handwritten signature in black ink, appearing to read "Bernard J. Allen", is written over a light blue horizontal line.

Bernard J. Allen  
Executive Director

## List of Principal Officials

### Annuity & Pension Board Members

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

**William C. Carey, Board Vice Chairman**  
Elected Representative - Retiree

**John Barmore**  
Milwaukee Fire Department  
Elected Representative – Active

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

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

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

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

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

### Employes' Retirement System Administrative Personnel

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

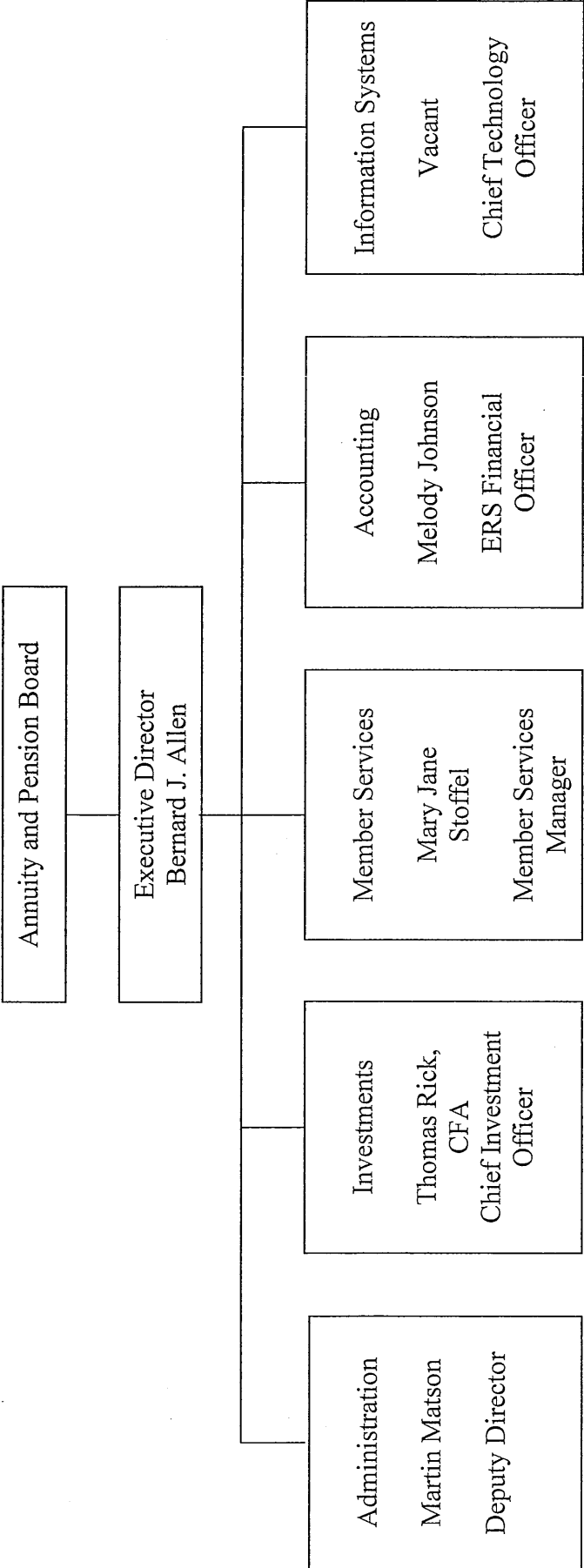
**Martin Matson**  
Deputy Director

**Thomas Rick, CFA**  
Chief Investment Officer

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

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

# Employees' Retirement System Organization Chart



# FINANCIAL SECTION



BAKER TILLY

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, 2009, 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, 2009, 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 July 14, 2010 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 2009 information which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The additional information on pages 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  
July 14, 2010

## Management's Discussion and Analysis Section

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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*To help facilitate a better understanding of the Employees' Retirement System of the City of Milwaukee (ERS) financial condition as of December 31, 2009, 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 fixed monthly benefit to retirees after reaching a minimum retirement age depending upon employment history.

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

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

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#### **Global Combined Fund**

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

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

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

**Non-Consenter Funds**

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

- **Retirement Fund:** The Retirement Fund provides for retirement and ordinary disability (non work related disability) benefits for non-consenting members enrolled prior to February 1, 1996.
- **Combined Retirement Fund:** The Combined Retirement Fund provides for retirement and disability benefits (both ordinary and duty related) for non-consenting members enrolled on or after February 1, 1996.
- **General Employees' Duty Disability Fund:** The General Employees' Duty Disability Fund provides for duty disability benefits for non-consenting general (non fire and police) members enrolled prior to February 1, 1996.

**Dormant Non-Consenter Funds**

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

- **Firemen and Policemen's Duty Disability Fund:** The Firemen and Policemen's Duty Disability Fund provides for duty disability benefits for non-consenting fire and police members enrolled prior to February 1, 1996. As of December 31, 2004 all former members have consented to the global settlement and all remaining balances were transferred to the Global Combined Fund. This fund, although still active, is not likely to ever be used again.
- **Firemen's Heart and Lung Fund:** Accounts for fire heart and lung duty disability benefits of non-consenters. As of December 31, 2002 all former members have either consented to the global settlement or are deceased. This fund, although still active, is not likely to ever be used again.

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

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### **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 2009, to be collected in early 2010 amounts to \$329,672. The benefits paid during 2009 were to some 101 annuitants and widows. Benefit payments amounted to approximately \$1,050,000. 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**

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- Total assets of the ERS increased by \$950 million or 26.32% during 2009. The increase was primarily due to favorable conditions in most of the financial markets during 2009.
- 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 2009 amounted to \$1,079,000.
- As of January 1, 2009, the date of the latest actuarial valuation, the ERS actuarially funded ratio was 99.1%, a decrease from the January 1, 2008 funding level of 131.2%. This decrease reflects the negative investment returns experienced in 2008. The funded ratio based on the market value of assets declined to 82.7 % as of January 1, 2009 from 132.2% as of January 1, 2008.
- In 2009, Northern Trust, ERS' custodian, reported a 23.6% annual gross of fees total fund return while in 2008 the return was -30.7%. As of December 31, 2009, the fund's 5-year performance ranks in the bottom quartile of the Mercer/Russell Mellon database. This database contains 62 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**

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**Overview of the Financial Statements**

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

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

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**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**

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

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<b>Changes in Assets</b> <i>(Dollars in Thousands)</i>	<u><b>2009</b></u>	<u><b>2008</b></u>	<u><b>Total Percentage Change</b></u>
<b>Assets</b>			
Cash and Cash Equivalents	\$ 82,156	\$ 102,105	-19.54%
Investments	3,893,738	3,264,943	19.26%
Receivables	189,498	32,175	488.96%
Software Devel & Equip Cost (net)	8,926	10,826	-17.55%
Securities Lending Collateral	384,206	198,660	93.40%
<b>Total Assets</b>	<u>\$ 4,558,524</u>	<u>\$ 3,608,709</u>	<u>26.32%</u>
<b>Liabilities</b>			
Benefits Payable	\$ 136	\$ 99	37.37%
Due to City of Milwaukee	946	0	100.00%
Investments purchased	151,256	7,267	1981.41%
Securities Lending Collateral	384,206	198,660	93.40%
<b>Total Liabilities</b>	<u>\$ 536,544</u>	<u>\$ 206,026</u>	<u>160.43%</u>
<b>Net Assets Held In Trust For Pension Benefits</b>	<u>\$ 4,021,980</u>	<u>\$ 3,402,683</u>	

Presented here are the amounts of total assets for 2009 and 2008 respectively. Cash and investments increased by approximately \$609 million. This increase is primarily due to favorable conditions in most of the financial markets during 2009.

Accounts receivable increases are primarily traceable to the increase in investment sales initiated at the end of 2009, but not settled until the beginning of 2010, and actuarially required contributions from member agencies. The accounts payable increases are primarily traceable to increased investment purchases that were initiated at the end of 2009, but not settled until the beginning of 2010.

In 2003, ERS began to capitalize its hardware and software development costs to better allocate these costs over their useful lives. The current year capitalization was \$106,054. In August of 2006, the MERITS System came on-line. As a result, all major 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>	<u>2009</u>	<u>2008</u>	<b>Total Percentage Change</b>
<b>Additions</b>			
Employer Contributions	\$ 60,098	\$ -	N/A
Member Contributions	35,894	33,897	5.9%
Investment Income (Loss)	727,875	(1,701,573)	142.8%
Interest & Dividends	79,072	102,898	-23.2%
Less: Investment Expense	(10,800)	(14,434)	25.2%
<b>Total Additions, Net of Losses</b>	<u>\$ 892,139</u>	<u>\$ (1,579,212)</u>	<u>156.5%</u>
<b>Deductions</b>			
Administrative expenses	\$ 12,247	\$ 11,658	5.1%
Benefits paid	252,699	236,957	6.6%
Refund of Contributions	2,315	2,827	-18.1%
<b>Total Deductions</b>	<u>\$ 267,261</u>	<u>\$ 251,442</u>	<u>6.3%</u>
Net increase (decrease) in assets held in trust			
for pension benefits	\$ 624,878	\$ (1,830,654)	
Less Transfer from City Reserve	(5,581)	-	
Assets held in trust for benefits			
Beginning of year:	<u>3,402,683</u>	<u>5,233,337</u>	
End of year:	<u>\$ 4,021,980</u>	<u>\$ 3,402,683</u>	

Employer contributions were required of the City and all other participating agency in 2009. In addition, the City utilized \$5,581,000 in the Employer's Reserve Fund to cover normal plan contributions at the end of 2009. Net investment returns increased to \$728 million in 2009 compared to a -\$1.7 billion loss in 2008. This occurred because most of the financial markets experienced gains during 2009 and most financial markets experienced losses in 2008.

Benefits paid increased to \$253 million in 2009 from \$237 million in 2008 due in large part to pension escalators. Administrative expenses increased by 5.1% in 2009 when compared to 2008

The January 1, 2009 actuarial valuation also reallocated assets from the non-consenter funds to the Global Combined Fund as of January 1, 2009 for those individuals who were non-consenters as of January 1, 2008 and who then subsequently consented to GPS during 2009. The amount of \$1.08 million was transferred to the Global Combined Fund for this reallocation of assets.

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

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**Analysis of Investment Position and Strategies**

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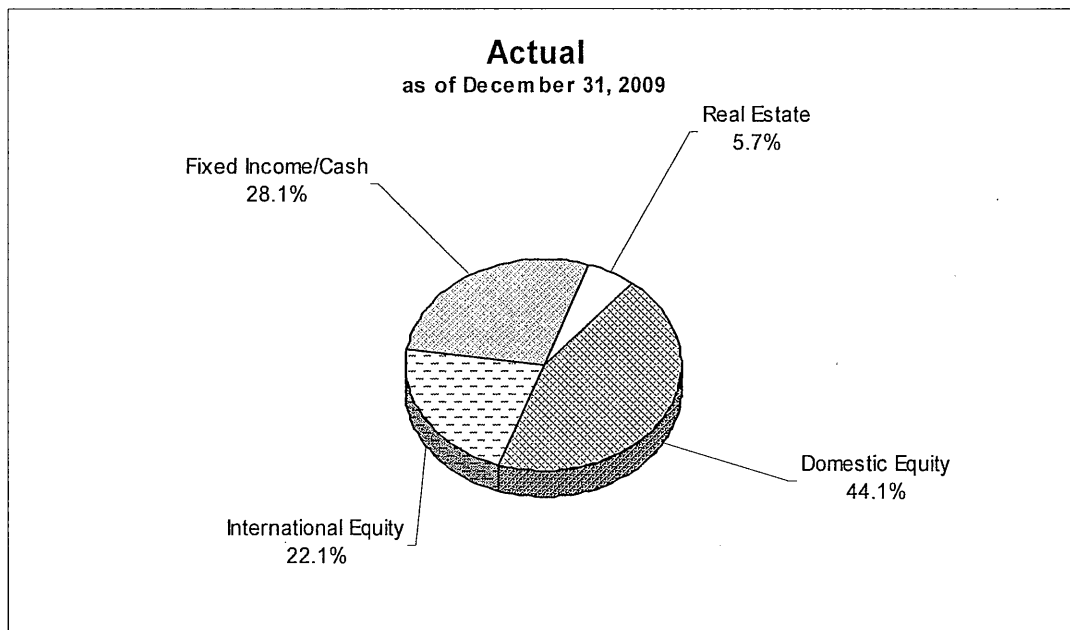
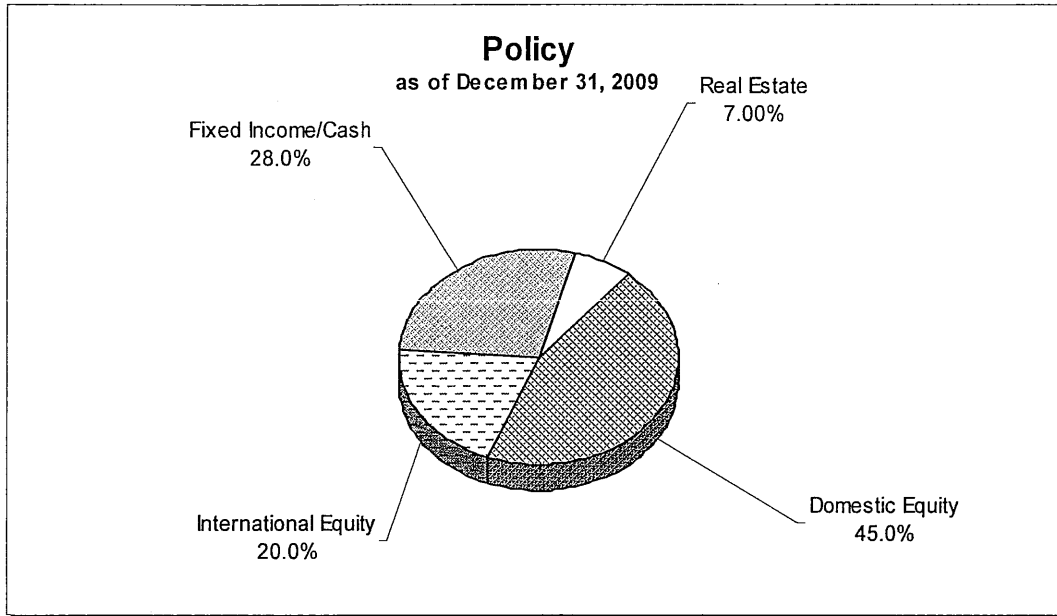
ERS has one strategic asset allocation for all of its funds. Resources of all the funds are pooled together and invested consistent with this strategy. The return from investments is allocated to the individual funds based on fund balances at the beginning of the year. The table below reports returns for 2009 and 2008 categorized by asset class with the corresponding benchmark results (real estate results are lagged by one quarter). Mercer Consulting, ERS' consultant, provided the real estate data and Northern Trust, ERS' custodian, reported the data for the other asset classes and benchmarks listed below. In 2009, the total fund produced a positive return and outperformed its reference benchmark. Within the Fund, investments in all asset classes except for real estate produced positive returns and outperformed their respective benchmark.

<u>Asset Class</u>	<u>Benchmark</u>	<u>2009 Returns</u>		<u>2008 Returns</u>	
		<u>Gross</u>	<u>Benchmark</u>	<u>Gross</u>	<u>Benchmark</u>
Domestic Equity	(Russell 3000 Index)	31.6%	28.3%	-40.7%	-37.3%
International Equity	(MSCI EAFE Index)	36.1%	31.8%	-44.9%	-43.4%
Fixed Income	(Barclays Capital Aggregate)	25.5%	5.9%	-7.6%	5.2%
Real Estate	(NCREIF Property Index)	-38.8%	-22.1%	-4.7%	5.3%
Total Fund	(Reference Index)	23.6%	18.9%	-30.7%	-25.6%

As of December 31, 2009, the Fund's actual asset allocation was within the interim allocation tolerance ranges established by the Board in the 4<sup>th</sup> Quarter of 2009.

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

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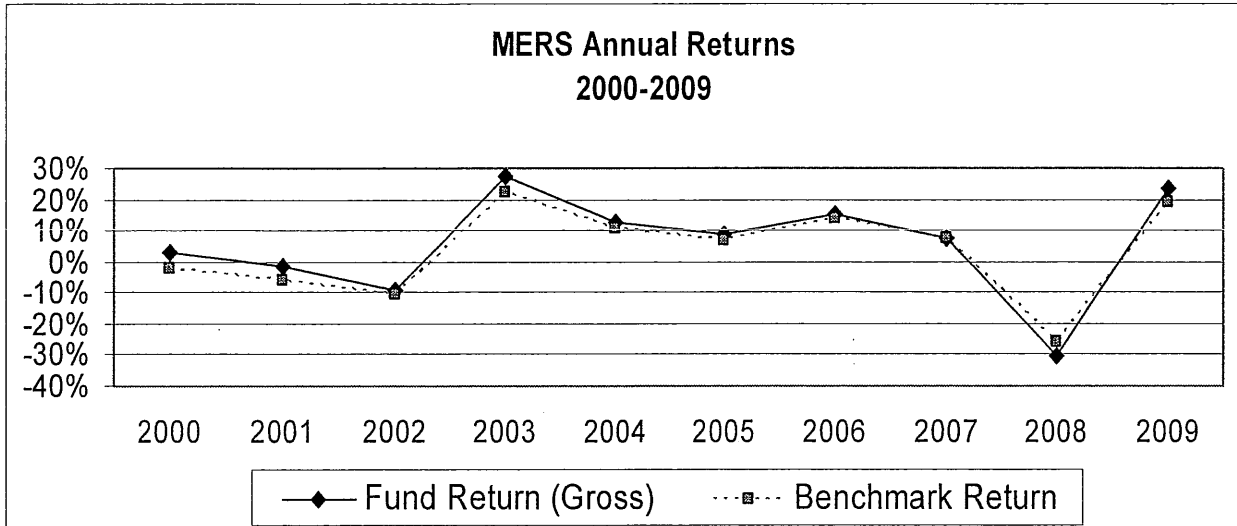


(See Independent Auditors' Report)

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

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Over the ten-year period ending December 31, 2009 the Fund returned 4.4% annually gross of fees while the benchmark returned 2.7%.



**Requests for Information**

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

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, 2009

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

**STATEMENT OF PLAN NET ASSETS**  
December 31, 2009  
(in thousands)

	Employees' Retirement System Funds					Fiduciary Fund		Total
	Global Combined Fund	Non-consenter Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Employers' Retirement 2009	Policeans' Annuity & Benefit 2009	Total	
<b>ASSETS:</b>								
SHORT TERM CORPORATE NOTES, CERTIFICATES OF DEPOSITS, COMMERCIAL PAPER	\$ 82,921	\$ 1,775	\$ (3,880)	\$ 1,340	\$ 82,156	\$ (854)	\$ 81,302	
<b>INVESTMENTS (Notes 2 and 9):</b>								
Bonds and collateralized mortgage obligations	809,458	4,284	4,156	-	817,898	516	818,414	
Common and preferred stocks	1,529,150	8,094	7,851	-	1,545,095	976	1,546,071	
Barclay Bond Index Funds	275,826	1,459	1,416	-	278,701	176	278,877	
DFA Small Cap Fund	232,957	1,233	1,196	-	235,386	149	235,535	
Northern Trust Company Collective Equity Index Fund	330,437	1,749	1,697	-	333,883	211	334,094	
Russell 1000 Alpha Value Fund	466,879	2,471	2,397	-	471,747	298	472,045	
Real Estate Investments	208,850	1,106	1,072	-	211,028	133	211,161	
Total investments	3,853,557	20,396	19,785	-	3,893,738	2,459	3,896,197	
<b>RECEIVABLES:</b>								
Employer (Note 2) Member (Note 2)	55	80	-	-	135	-	135	
Actuarially Determined Contributions (Note 12)	1,596	-	-	-	1,596	-	1,596	
Interest, dividends and foreign tax recoverable (Note 2)	60,098	63	62	-	60,098	-	60,098	
Investments sold	12,172	604	586	-	12,297	-	12,297	
Tax Levy (Note 11)	114,182	-	-	-	115,372	-	115,372	
Total receivables	188,103	747	648	-	189,498	330	189,828	
Software development and equipment (net of depreciation) (Note 2)	8,926	-	-	-	8,926	-	8,926	
Securities lending collateral (Note 9)	-	-	-	384,206	384,206	-	384,206	
Total assets	4,133,507	22,918	16,553	385,546	4,558,524	1,935	4,560,459	
<b>LIABILITIES:</b>								
Benefits payable	136	-	-	-	136	-	136	
City of Milwaukee (Note 7)	946	-	-	-	946	-	946	
Securities lending obligation (Note 9)	-	-	-	384,206	384,206	-	384,206	
Investments purchased	149,697	791	768	-	151,256	-	151,256	
Total liabilities	150,779	791	768	384,206	536,544	-	536,544	
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>	<b>\$ 3,982,728</b>	<b>\$ 22,127</b>	<b>\$ 15,785</b>	<b>\$ 1,340</b>	<b>\$ 4,021,980</b>	<b>\$ 1,935</b>	<b>\$ 4,023,915</b>	

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

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

**STATEMENT OF CHANGES IN PLAN NET ASSETS  
YEAR ENDED DECEMBER 31, 2009**  
(in thousands)

	Employees' Retirement System Funds					Fiduciary Fund		Total
	Global Combined Fund	Non-consentor Retirement Funds	Employers' Reserve Fund	Securities Lending Fund	Employees' Retirement 2009	Policeans' Annuity & Benefit 2009	Total	
<b>ADDITIONS:</b>								
Contributions:								
Employer (Note 5)	\$ 60,098	\$ -	\$ -	\$ -	\$ 60,098	\$ -	\$ 60,098	
Member	35,453	441	-	-	35,894	-	35,894	
Tax Levy	-	-	-	-	-	358	358	
Total contributions	95,551	441	-	-	95,992	358	96,350	
Investment income:								
Net appreciation in fair value of investments	720,365	3,812	3,698	-	727,875	460	728,335	
Interest, dividends and other investment income	76,499	405	393	1,775	79,072	49	79,121	
Less investment expense (Note 7)	796,864	4,217	4,091	1,775	806,947	509	807,456	
Net investment income	10,365	-	-	435	10,800	5	10,805	
Total additions	786,499	4,217	4,091	1,340	796,147	504	796,651	
	882,050	4,658	4,091	1,340	892,139	862	893,001	
<b>DEDUCTIONS:</b>								
Administrative expenses (Note 7)	9,357	-	-	2,890	12,247	24	12,271	
Benefits paid	252,437	262	-	-	252,699	1,050	253,749	
Refunds of contributions	2,241	74	-	-	2,315	-	2,315	
Total deductions	264,035	336	-	2,890	267,261	1,074	268,335	
NET INCREASE (DECREASE) BEFORE TRANSFERS	618,015	4,322	4,091	(1,550)	624,878	(212)	624,666	
TRANSFERS (Notes 3, 4 and 11)	1,079	(1,079)	(5,581)	-	(5,581)	-	(5,581)	
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	619,094	3,243	(1,490)	(1,550)	619,297	(212)	619,085	
Net assets held in trust for pension benefits:								
Beginning of year	3,363,634	18,884	17,275	2,890	3,402,683	2,147	3,404,830	
End of year	3,982,728	22,127	15,785	1,340	4,021,980	1,935	4,023,915	

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, 2009

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### 1. DESCRIPTION OF RETIREMENT SYSTEM

The following brief description of the more common provisions of the Employees' Retirement System of the City of Milwaukee (the "Retirement System") is provided for financial statement purposes only. The provisions described reflect changes to the Retirement System enacted in 2000 as part of what is known as the Global Pension Settlement (GPS). GPS increased benefits to all members who consented to the settlement in exchange for allowing the City to make certain changes in plan administration, including allowing the use of Retirement System assets to pay for all costs to administer the System. Over 99% 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 57% 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.

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%.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

The normal retirement benefit is a monthly pension for the life of the member. A service retirement allowance is payable to any member who elects to retire after attaining the minimum service retirement age 60, for general employees and age 57 for police officers and firefighters. General City employees who have attained age 55 and completed 30 years of creditable service are eligible for service retirement. Police officers of any age with 25 years of creditable service and firefighters who have attained age 49 and completed 22 years of creditable service are eligible for service retirement.

For general employees, the amount of a member's service retirement allowance is equal to 2% of final average salary (the highest average of earnable compensation during any 3 years preceding retirement, death or termination) for each year of creditable service. The service retirement allowance for general employees who retire after January 1, 1989 cannot exceed 70% of final average salary. For police officers and firefighters, the retirement allowance is 2.5% of the final average salary (computed on the year of creditable service during which earnable compensation was highest) for each year of creditable service. The retirement allowance for firefighters hired after March 1, 1989 and police officers hired after July 1, 1989 is limited to 90% of final average salary (excluding any imputed service credit provided under the GPS). For elected officials of the City of Milwaukee, the retirement allowance is 2.6% of final average salary for each year of creditable service prior to January 1, 1996. After January 1, 1996; the retirement allowance is 2.0% of final average salary for the mayor and 2.5% of final average salary for all other elected officials for each year of creditable service.

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.

### 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

- 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, 2009, 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>15,225</u>
Current Employees:	
Vested	9,615
Nonvested	<u>1,966</u>
Total Current Employees	<u>11,581</u>
Total Participants	<u><u>26,806</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, 2009. An annual review performed by independent professional appraisers is used to assess the market value.

All investments are made in accordance with the provisions of Section 36-09 of Chapter 36 of the Milwaukee City Charter. In accordance with these provisions, the several funds of the Retirement System are invested within the requirements of ss. 40.03(1)(n) and 62.63 (3) Wisconsin Statutes. The Retirement System did not invest more than 63.1% of the total assets, as measured by their cost, in stocks of corporations.

The Retirement System has investments in certain financial instruments such as U.S. Treasury Strips, collateralized mortgage obligations and asset backed securities. These investments are made in compliance with the Annuity and Pension Board Investment Policy and Guidelines. The Retirement System's investment managers may temporarily invest small amounts of available cash in short-term investments prior to purchasing securities consistent with their investment strategy.

The Retirement System's international equity managers may invest in warrants and foreign exchange forward contracts as a hedge to foreign currency fluctuations. These investments are not significant to the financial position of the Retirement System and are carried at fair value.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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

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, 2009, the total cost of Employees' Retirement System hardware and software development costs totaled \$16,363,000. The total accumulated depreciation totaled \$7,437,000 with \$2,005,000 of deprecation being recognized during 2009, 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, 2009, the most recent actuarial valuation date for the Employees' Retirement System, the plan was 99.1 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$4.113 billion, and the actuarial value of assets was \$4.076 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$537 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, 2009**

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

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

Valuation Date	January 1, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Percent of Pay
Remaining Amortization Period	25 years as of January 1, 2009
Asset Valuation Method	5-year smoothed market, 20% corridor

Actuarial Assumptions:

Investment Rate of Return	8.50%
Projected Salary Increases	General City 3.5% - 8.5% Police & Fire 4% - 15.4% Pay assumed to grow at 3% per year
Assumed Wage Inflation Rate	
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, 2009, the most recent actuarial valuation date for the Policemen's Annuity and Benefit Fund, the fund was 50.0 percent funded on an actuarial basis. The actuarial accrued liability for benefits was \$4.296 million, and the actuarial value of assets was \$2.147 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.

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

Valuation Date	January 1, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Open – Level Dollar
Remaining Amortization Period	10 Years
Asset Valuation Method	Market Value

**EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2009**

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

Actuarial Assumptions:

Investment Rate of Return	8.50%
Projected Salary Increases	None
Assumed Wage Inflation Rate	3.00%
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, 2009 actuarial valuation, 503 Retirement System members were identified as being non-consenting. Of this number, 158 were active members, 317 were inactive members, and 28 were benefit recipients. During 2009, 13 of these members elected to consent to the GPS resulting in a transfer of \$1,079,000 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, 2009, the City of Milwaukee is the only agency choosing to participate in this fund. During 2009, the City of Milwaukee utilized \$5.581 million of their reserve.

**5. FUNDING STATUS AND PROGRESS**

The pension benefit obligation was determined as part of an actuarial valuation at January 1, 2009. Significant actuarial assumptions used in the January 1, 2009 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

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

**NOTES TO BASIC FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2009**

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

depending on the class of employee, and (d) mortality assumption – the UP-94 Mortality Table, with mortality improvements projected to the year 2000. The excess of net assets available for projected benefits over the present value of the accrued pension benefit obligation as of January 1, 2009 was as follows (in thousands):

Net assets available for benefits (actuarial basis)	<u>\$ 4,076,297</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	2,527,962
Current employees:	
Member contributions	533,199
Employer financed portion	<u>1,051,928</u>
Total pension benefit obligation	<u>\$ 4,113,089</u>
Shortfall of net assets available for projected benefits under the present value of the accrued pension benefit obligation	<u><u>\$ (36,792)</u></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, effectively merged funding for duty disability and retirement benefits for consenting Retirement System members in the Global Combined Fund resulting in a \$60,098,000 employer contribution being due for this group for 2009. Employer contributions for non-consenting members were \$80,000 for 2009. This amount was determined in accordance with existing statutory requirements using the projected unit credit method as of January 1, 2009. All actuarial computations were made by an independent consulting actuary to satisfy the requirements of 36.08(2) of the Milwaukee Charter.

**6. TEN-YEAR HISTORICAL TREND INFORMATION**

Ten-year historical trend information 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.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

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### 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 \$7,163,000, real estate manager fees of \$3,202,000 and administrative expenses of \$9,357,000 were charged to the Global Combined Fund in 2009.

In addition, the Annuity and Pension Board authorized the payment of \$2,890,000 of administrative costs from the Securities Lending Fund during 2009. This reduced the amounts needed from the Global Combined Fund to fund the costs to administer the Retirement System (see Note 9).

### 8. INCOME TAXES

The Retirement System obtained its latest determination letter on 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, 2009, 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 \$0 as of December 31, 2009.

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

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### 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, 2009 the fair market carrying value of the investments are as follows (in thousands):

<u>Investment Type</u>	<u>Carrying Value</u> <u>2009</u>
Common Stock	\$ 1,526,218
Preferred Stock	11,874
Convertible Equity	106
Corporate Convertible Bonds	7,872
Barclays Lehman Intermediate Aggregate Index Fund	278,878
Northern Trust S&P 500 Index Fund	334,093
DFA Small Cap Fund	235,535
Barclays Russell 1000 Alpha Tilts Fund	472,045
Bank Loans	90
Government Bonds	223,085
Government Agencies	7,605
Municipal/Provincial Bonds	30,046
Corporate Bonds	450,483
Gov Mortgage Backed Sec	62,183
Comm Mortgage Backed Sec	14,609
Asset Backed Securities	22,265
Non-Gov Backed C.M.O.S.	8,049
Real Estate Investments	211,160
Total Investments	\$ <u>3,896,197</u>

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

**NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2009**

**9. INVESTMENTS (cont.)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's investment guidelines limit how much each fixed income manager may deviate duration from their respective benchmarks. Duration is the approximate percentage change in price for a 100-basis-point change in yield. Although the exact range allowed in the guidelines varies slightly for each manager, the duration of the Retirement Systems active fixed income managers must be between 75% and 250% of the duration of the Barclays Capital Aggregate Index. As of December 31, 2009, the segmented time distribution of the various investment types of debt securities for the Retirement System is as follows (in thousands):

<b>Investment</b>	<b>2009</b>						<b>Maturity Not Determined</b>
	<b>Fair Value</b>	<b>Less than 1 Year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>10+Years</b>		
Bank Loans	\$ 90	\$ -	\$ 90	\$ -	\$ -	\$ -	-
Government Bonds	223,085	2,916	139,096	44,706	36,369	-	-
Government Agencies	286,483	1,846	278,878	5,758	-	-	-
Municipal/Provincial Bonds	30,046	-	13,272	8,676	8,098	-	-
Corporate Bonds	439,011	21,770	87,750	95,157	234,334	-	-
Gov Mortgage Backed Sec	62,183	-	-	13,708	25,552	22,923	-
Comm Mortgage Backed Sec	24,933	-	10,324	1,302	13,307	-	-
Asset Backed Securities	23,413	-	21,842	1,046	525	-	-
Non-Gov Backed C.M.O.S.	8,049	-	461	-	7,588	-	-
Corporate Convertible Bonds	7,872	-	-	-	7,872	-	-
Other Fixed Income	77	-	-	-	-	77	-
Short-Term Investment Funds	38,734	38,734	-	-	-	-	-
<b>Totals</b>	<b>\$ 1,143,975</b>	<b>\$ 65,266</b>	<b>\$ 551,712</b>	<b>\$ 170,353</b>	<b>\$ 333,644</b>	<b>\$ 23,000</b>	<b>\$ -</b>

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

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9. INVESTMENTS (cont.)

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or deposit. The Retirement System's investment guidelines allow foreign currency contracts for defensive hedging purposes only and limit the total exposure of all currency hedges to 100% of the manager's total portfolio value. In addition, the guidelines recommend adequate diversification by country and currency. As of December 31, 2009, 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	\$ 18,983
Brazilian real	7,727
British pound sterling	125,850
Canadian dollar	95,483
Danish krone	4,563
Euro	194,440
Hong Kong dollar	5,096
Indonesian rupiah	7,646
Iceland krona	1,846
Japanese yen	109,254
Mexican peso	16,479
New Zealand dollar	25,500
Norwegian krone	8,695
Singapore dollar	11,417
South Korean won	5,769
Swedish krona	7,232
Swiss franc	30,971
Thai baht	2,210
Total	\$ <u>679,161</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, 2009, 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, 2009**

**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, 2009 are as follows (in thousands):

Investment Type	AAA	AA	A	BBB	BB	B	CCC	US		Not Rated
								Government	Gua ranteed	
Asset Backed Securities	\$ 16,564	\$ -	\$ -	\$ -	\$ 1,139	\$ -	\$ -	\$ -	\$ -	5,710
Bank Loans	-	-	-	-	-	-	-	-	-	90
Comm Mortgage Backed Sec	3,177	12,168	6,655	-	-	-	-	-	-	2,933
Corporate Bonds	1,720	10,576	49,731	211,607	102,349	44,289	1,496	-	-	17,243
Corporate Convertible Bonds	-	-	3,255	235	124	-	-	-	-	4,257
Government Agencies	7,605	-	-	-	-	-	-	278,878	-	-
Government Bonds	135,573	-	16,479	4,039	-	-	-	63,306	-	3,687
Gov Mortgage Backed Sec	-	-	-	-	-	-	-	62,184	-	-
Municipal/Provincial Bonds	8,676	13,272	-	8,099	-	-	-	-	-	-
Non-Gov Backed C.M.O.S.	2,873	-	-	-	-	-	994	-	-	4,182
Other Fixed Income	-	-	-	-	-	-	-	-	-	77
Short-Term Investment Funds *	-	-	38,734	-	-	-	-	-	-	-
<b>Total Value by Rating</b>	<b>\$ 176,188</b>	<b>\$ 36,016</b>	<b>\$ 114,854</b>	<b>\$ 223,980</b>	<b>\$ 103,612</b>	<b>\$ 44,289</b>	<b>\$ 2,490</b>	<b>\$ 404,368</b>	<b>\$ -</b>	<b>\$ 38,178</b>

Note: The Retirement System held no investments in the C or D quality rating at the end of 2009.

\* 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, 2009

9. INVESTMENTS (cont.)

**Derivatives**

The ERS' Statement of Investment Policy written objectives and guidelines governing the investment of Fund assets states: No assets shall be committed to futures, options, options on futures, forwards and other derivatives unless approved by the Board. Under no circumstances are derivatives to be used for speculative purposes. The ability to use derivatives must be written in the individual manager's guidelines. Examples of derivatives that may be allowed include hedging currency risk or equitizing cash.

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.

As of December 31, 2009, the only derivatives used by the Fund's separate account investment managers were 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 ERS enters 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 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, 2009

(in thousands of U.S. Dollars)

	Cost	Market Value	Gain/(Loss)
Currency forward receivables	\$ 73,545	\$ 73,542	\$ (3)
Currency forward payables	(73,545)	(72,084)	1,461
Total gain/(loss)			\$ 1,458

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. As of December 31, 2009, ERS had BONY and Northern Trust as counterparties for our forward currency contracts. Typical counterparties for ERS are major

# EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF MILWAUKEE

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

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### 9. INVESTMENTS (cont.)

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.

#### 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, 2009, the Retirement System earned revenue from securities lending of \$1,775,167, paid custodian fees of \$435,253 and disbursed \$2,890,000 to pay administrative costs. As of December 31, 2009, the fair value of securities on loan was \$372,195,552. The value of collateral held for securities on loan was \$384,205,613 as of December 31, 2009 which consisted of approximately 38.9% U.S. Equities, 33.45% U.S. Government fixed obligations, 14.87% Global Equities, 11.60% U.S. Corporate Fixed securities, and 1.17% 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. In 2008, Northern Trust declared a collateral deficiency that resulted in MERS recording a payable in the amount of \$3.9 million for an unrealized loss in the securities lending program. In November 2009, Northern Trust reversed \$2.1 million of this unrealized loss, lowering MERS total collateral deficiency subject to reversal to \$1.8 million. In addition, ERS paid Northern Trust \$586 thousand in December 2009 related to realized losses incurred in the Collateral pool. This payment was more than offset by a capital contribution in 2008 and a higher security lending revenue split from Northern Trust. As of December 31, 2009, this deficiency has reduced the net fair market value of the investments on the balance sheet. As a result there is not a separate line item under the liabilities section of the accompanying balance sheet. Subsequent to year-end, Northern Trust has reversed the remaining collateral deficiency in the collateral pool.

### 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, 2009

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### 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 2009 (to be collected in early 2010) would amount to \$329,672 plus budgeted administrative expenses.

As of December 31, 2009, the composition of the fund consisted of 28 annuitants and 73 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 by-weekly 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. Due to the extreme market downturn in 2008, additional contributions as calculated by the plans actuary were required in the amount of \$60,098,000 as part of the 2009 actuarial valuation, shown as receivable on the balance sheet, and collected in subsequent to year end.

### 13. SUBSEQUENT EVENTS

The Retirement System has evaluated subsequent events occurring through July 14, 2010. 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 than Actuarial Accrued Liability (E.AAL) (1) - (2)	(4) Funded Ratios (1) / (2)	(5) Annual Covered Payroll	(6) E.AAL as a Percentage of Covered Payroll (3) / (5)
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	3,204,247	485,734	115.2 %	480,800	101.0 %
2002	4,242,333	3,091,511	1,150,822	137.2 %	466,757	246.6 %
2001	4,202,023	2,988,140	1,213,883	140.6 %	459,271	264.3 %
2000	4,088,042	2,979,234	1,108,808	137.2 %	466,732	237.6 %

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 supplemental 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				
2009 **	\$ 35,894,509	\$ 60,098,000	\$ 95,992,509	100%	0	\$ 95,992,509	
2008	33,896,622	0	33,896,622	100%	0	33,896,622	
2007	33,021,527	0	33,021,527	100%	0	33,021,527	
2006	31,979,995	0	31,979,995	100%	0	31,979,995	
2005	32,084,484	47,000	32,131,484	100%	0	32,131,484	
2004	30,699,729	46,000	30,745,729	100%	5,450,000	36,195,729	
2003	31,054,000	78,000	31,132,000	100%	0	31,132,000	
2002	28,970,054	32,000	29,002,054	100%	3,179,000	32,181,054	
2001	25,595,454	144,000	25,739,454	100%	0	25,739,454	
2000	28,424,609	238,000	28,662,609	100%	0	28,662,609	
1999	27,047,371	6,806,000	33,853,371	100%	0	33,853,371	

\* Employer voluntary contributions have only been permitted since the Global Pension Settlement became effective.  
\*\* See Note 12 for actuarially required member contributions.

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

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

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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, 2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Closed – Percent of Pay
Remaining Amortization Period	25 years as of January 1, 2009
Asset Valuation Method	5-year smoothed market, 20% corridor
Actuarial Assumptions:	
Investment Rate of Return	8.50%
	General City 3.5% - 8.5%
Projected Salary Increases	Police & Fire 4% - 15.4%
	Pay assumed to grow at 3% per year
Assumed Wage Inflation Rate	
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 than 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)
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 supplemental information.

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

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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, 2009
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	8.50%
Projected Salary Increases	None
Assumed Wage Inflation Rate	3.00%
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 supplemental 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, 2009

(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	\$ 1,471	\$ 293	\$ 11	\$ -	\$ -	\$ -	\$ 1,775
INVESTMENTS (Notes 2 and 9):							
Bonds and collateralized mortgage obligations	3,825	430	29	-	-	-	4,284
Common and preferred stocks	7,226	812	56	-	-	-	8,094
Barclay Bond Index Funds	1,303	146	10	-	-	-	1,459
DFA Small Cap Fund	1,101	124	8	-	-	-	1,233
Northern Trust Company Collective Equity Index Fund	1,562	175	12	-	-	-	1,749
Russell 1000 Alpha Value Fund	2,206	248	17	-	-	-	2,471
Real Estate Investments	987	111	8	-	-	-	1,106
Total investments	18,210	2,046	140	-	-	-	20,396
RECEIVABLES:							
Employer (Note 2)	-	80	-	-	-	-	80
Member (Note 2)	-	-	-	-	-	-	-
Interest, dividends and foreign tax recoverable (Note 2)	57	6	-	-	-	-	63
Investments sold	539	61	4	-	-	-	604
Total receivables	596	147	4	-	-	-	747
Total assets	20,277	2,486	155	-	-	-	22,918
LIABILITIES:							
Benefits Payable	-	-	-	-	-	-	-
City of Milwaukee Investments purchased	707	79	5	-	-	-	791
Total liabilities	707	79	5	-	-	-	791
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 19,570	\$ 2,407	\$ 150	\$ -	\$ -	\$ -	\$ 22,127

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

STATEMENT OF CHANGES IN PLAN NET ASSETS  
YEAR ENDED DECEMBER 31, 2009  
(in thousands)

**NON-CONSENTER RETIREMENT FUNDS**

	Retirement Fund	Combined Retirement Fund	General Employees' Disability Fund	Firemen and Policemen's Disability Fund	Firemen's Heart and Lung Fund	Firemen and Policemen's Survivorship Fund	Total
<b>ADDITIONS:</b>							
Contributions:							
Employer (Note 5)	\$ 214	\$ 227	\$ -	\$ -	\$ -	\$ -	\$ 441
Member	214	227	-	-	-	-	441
Total contributions	214	227	-	-	-	-	441
Investment income:							
Net appreciation in fair value of investments	3,404	382	26	-	-	-	3,812
Interest, dividends and other investment income	362	40	3	-	-	-	405
	3,766	422	29	-	-	-	4,217
Less investment expense	-	-	-	-	-	-	-
Net investment income	3,766	422	29	-	-	-	4,217
Total additions	3,980	649	29	-	-	-	4,658
<b>DEDUCTIONS:</b>							
Benefits paid	260	2	-	-	-	-	262
Refunds of contributions	49	25	-	-	-	-	74
Total deductions	309	27	-	-	-	-	336
NET INCREASE (DECREASE) BEFORE TRANSFERS	3,671	622	29	-	-	-	4,322
TRANSFERS (Note 3, 4 and 11)	(985)	(90)	(4)	-	-	-	(1,079)
NET INCREASE (DECREASE) IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	2,686	532	25	-	-	-	3,243
Net assets held in trust for pension benefits:							
Beginning of year	16,884	1,875	125	-	-	-	18,884
End of year	\$ 19,570	\$ 2,407	\$ 150	\$ -	\$ -	\$ -	\$ 22,127