EMPLOYEES' RETIREMENT SYSTEM

of the County of Milwaukee

2011 Annual Report of the Pension Board

as of December 31, 2011

901 North 9th Street, Room 210-C
Milwaukee, Wisconsin 53233
Telephone: (414) 278-4207

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EMPLOYEES' RETIREMENT SYSTEM (ERS)

Milwaukee County

July 30, 2012

Retirement System Members:

We are pleased to present the 2011 Annual Report of your Pension Board. The Employees' Retirement System (ERS) experienced a positive investment return for the year of 0.2%. However, net assets available for pension benefits decreased $153.1 million. This decrease was mainly caused by benefit payments of $187.5 million. Total net assets at the end of the year were $1.742 billion. For further detailed information regarding ERS' performance, please see the management's discussion and analysis, financial statements and footnotes that follow.

The description of ERS included in this report highlights major plan provisions. County Ordinances, labor agreements, Pension Board rules and Governmental Accounting Standards Board pronouncements prevail over the contents of this report. If you have any questions, please call the ERS office at 414-278-4142.

Members considering retirement within the next few years are reminded to watch for announcements from the County for retirement information programs. Please call the ERS office at 414-278-4207 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 414-278-4207.

Several options are available to members who retire or otherwise leave County service with respect to their pension benefits. Before terminating employment, you should become fully informed of the various opportunities available to you 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. Remember to keep your beneficiary designations current by informing the Retirement System Office of any changes. Retired members should also notify the ERS office in writing of any changes in residence or address to insure benefit payments and year-end 1099R statements are properly mailed.

The Pension Board

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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the 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, 2011 and 2010, 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 of America. 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, 2011 and 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Schedules of Funding Progress and Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The ten-year historical trend and related information on pages 20 and 21 are 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 30, 2012

Management's Discussion and Analysis
(In Thousands of Dollars)

Management is pleased to provide this overview and analysis of the financial activities of the Employees' Retirement System of the County of Milwaukee ("ERS", or the "Retirement System") for the year ended December 31, 2011. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

FINANCIAL HIGHLIGHTS

PLAN NET ASSETS

- Plan net assets for ERS decreased ($153,060) as of 12/31/11 vs. 12/31/10 following an increase of $72,627 as of 12/31/10 vs. 12/31/09. Fixed Income, Real Estate and Infrastructure experienced positive returns in 2011. Domestic and International Equities and Long/Short had negative returns. For the year, the fund experienced a positive return of 0.2%.
- The rate of return on total assets of the pension fund, net of fees, was 0.2%, 12.1%, and 20.4% for the years ended December 31, 2011, 2010 and 2009, respectively.
- Receivables decreased ($4,447) as of 12/31/11 vs. 12/31/10 due primarily to a decrease in receivables from sales of investments and decreased ($46,638) as of 12/31/10 vs. 12/31/09 due primarily to a decrease in forward foreign exchange contracts.
- Other assets decreased ($57,074) as of 12/31/11 vs. 12/31/10 and increased $58,992 as of 12/31/10 vs. 12/31/09 due largely to changes in securities lending – collateral of ($57,033) and $58,889, respectively.
- Liabilities decreased ($58,056) from 2010 to 2011. This decrease was due to a reduction in securities lending – collateral.
- ERS buys and sells financial futures contracts to improve the performance of the fund. ERS purchases contracts that approximate the amount of cash held by US equity managers and cash used to pay benefits and expenses.

ADDITIONS AND DEDUCTIONS TO PLAN NET ASSETS

- Total additions decreased ($200,645) in 2011 vs. 2010 and decreased ($534,815) in 2010 vs. 2009. The 2011 decrease was due primarily to a ($199,265) reduction in investment income (loss). The 2010 decrease is mainly due to a one-time contribution that occurred in 2009 of $397.8 million.
- Benefit payments increased $24,796 and $17,457 in 2011 and 2010 respectively. The increase in 2011 was due to an increase in monthly benefits of $6.3 million and an increase of $18.5 million in lump-sum payments. The increase in 2010 was due to an increase in monthly benefits of $5.9 million and an increase of $11.6 million in lump-sum payments.
- 2011 saw a 69% increase in retirements from 2010. This large increase was due mainly to the County of Milwaukee eliminating the Medicare part B reimbursement for most new retirees during the year.
- As of December 31, 2011, 2010 and 2009, the funding ratio (actuarial value of the assets divided by the actuarial accrued liability) for the plan was 89.2%, 92.2% and 93.3%, respectively. The funding ratio gives an indication of how well the liabilities of the pension plan are funded. The higher the funding ratio the better the plan is funded. The ratio increases due to investment gains and pension contributions and declines due to investment losses, increases in the plan benefits, large pension payouts and underpayment of pension annual required contributions.

The Board of Trustees of ERS ("The Board") has the responsibility for the overall performance of the Retirement System. The Board's principal means to achieve this goal is by (a) determining an asset allocation policy which is expected to provide the long-term rate of return sufficient to fund benefits while minimizing the risk of loss through diversification (b) selecting an appropriate number of investment managers to manage the assets within an asset class and monitoring the performance of such investment managers relative to specified benchmarks, and (c) implementing cost containment measures intended to reduce the investment fees and costs associated with investing the Retirement System's assets. The Board is the fiduciary of the Retirement System and is responsible for carrying out the investment functions solely in the interest of the members and benefit recipients.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Retirement System's financial statements. The financial section is comprised of four components: (1) financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Management's Discussion and Analysis
(In Thousands of Dollars)

Financial Statements. There are two financial statements presented for the plan. The Statement of Plan Net Assets as of December 31, 2011 and 2010 indicates the net assets available to pay future benefits and gives a snapshot of the financial assets available for pension benefits at a particular point in time. The Statement of Changes in Net Plan Assets for the years ended December 31, 2011 and 2010 provides a view of the additions and deductions to the plan for the years presented.

Notes to financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements.

Required supplementary information. The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status of the plan. These schedules provide historical trend information, which contributes to understanding the changes in the funded status of the plan over time.

Other supplementary schedules. The additional schedules (Ten-Year Historical Trend Information, Net Fund Assets, Actual County Contributions, Active Membership Statistics, Retirements and Survivors) are presented for the purpose of additional analysis.

COMPARATIVE FINANCIAL STATEMENTS

Retirement System's Net Assets	12/31/2011	12/31/2010	12/31/2009	Difference	% Change
Assets					
Cash and cash equivalents	$84,108	$63,139	$328,976	($244,868)	(74.4%)
Receivables	42,352	46,799	93,437	(51,085)	(54.7%)
Investments, at fair value	1,618,148	1,788,712	1,468,387	149,761	10.2%
Other assets	64,488	121,562	62,569	1,919	3.1%
Total Assets	1,809,096	2,020,212	1,953,369	(144,273)	(7.4%)
Liabilities					
Security lending obligations	58,499	115,532	56,643	1,856	3.3%
Other liabilities	8,490	9,513	74,186	(65,696)	(88.6%)
Total Liabilities	66,989	125,045	130,829	(63,840)	(48.8%)
Net assets available for benefits	$1,742,107	$1,895,167	$1,822,540	($80,433)	(4.4%)

Retirement System's Changes in Net Assets	2011	2010	2009	Difference	% Change
Additions					
Employer contributions	$28,276	$32,894	$457,789	($429,513)	(93.8%)
Member contributions	3,314	76	132	3,182	2410.6%
Investment income (loss)	7,381	206,646	316,509	(309,128)	(97.7%)
Total Additions	38,971	239,616	774,430	(735,459)	(95.0%)
Deductions					
Benefit payments	(187,460)	(162,664)	(145,345)	(42,115)	29.0%
Administrative expenses	(4,501)	(4,186)	(4,359)	(142)	3.3%
Withdrawals	(70)	(139)	0	(70)	0.0%
Total Deductions	(192,031)	(166,989)	(149,704)	(42,327)	28.3%
Changes in net assets available for benefits	(153,060)	72,627	624,726	(777,786)	(124.5%)
Net assets held in trust for pension benefits:					
Beginning of year	1,895,167	1,822,540	1,197,814	697,353	58.2%
End of year	$1,742,107	$1,895,167	$1,822,540	($80,433)	(4.4%)

Requests for financial information:

The financial report is designed to provide the Board, our membership, taxpayers, investment managers and creditors with a general overview of ERS finances and to demonstrate ERS' accountability for the funds under its stewardship. Please address any questions about this report or requests for additional financial information to:

Milwaukee County ERS
901 N. 9th Street Room 210C
Milwaukee, WI 53233

(See independent auditors' report)

STATEMENTS OF PLAN NET ASSETS

	December 31, 2011	December 31, 2010
ASSETS:		
CASH AND CASH EQUIVALENTS	$ 84,107,639	$ 63,138,826
RECEIVABLES		
County of Milwaukee	30,252,388	32,071,082
Accrued interest and dividends	2,527,511	2,472,524
Miscellaneous receivables	819,444	568,377
Due from sale of investments	8,752,715	11,632,484
Receivable for foreign exchange contracts	-	54,861
TOTAL RECEIVABLES	42,352,058	46,799,328
INVESTMENTS AT FAIR VALUE		
Domestic common and preferred stocks	388,657,810	443,570,674
Long/Short hedge funds	174,104,924	190,166,445
Corporate bonds and convertible debentures	249,379,923	347,665,724
International common and preferred stocks	306,112,944	351,785,721
Real estate and REIT's	114,522,432	95,306,754
Infrastructure	134,188,424	129,471,845
Federal agency and mortgage-backed certificates	133,475,643	116,571,497
U.S. Government and state obligations	75,427,923	78,257,732
International fixed income	14,673,730	10,814,665
Private equity	27,604,723	25,101,387
TOTAL INVESTMENTS	1,618,148,476	1,788,712,444
OTHER ASSETS		
Software development costs, net (See Note 2)	5,988,807	6,029,436
Securities lending - collateral (See Note 5)	58,498,948	115,532,131
TOTAL OTHER ASSETS	64,487,755	121,561,567
TOTAL ASSETS	1,809,095,928	2,020,212,165
LIABILITIES:		
Securities lending - collateral (See Note 5)	58,498,948	115,532,131
Miscellaneous payables	6,707,712	5,351,780
Payable for securities purchased	238,929	2,704,169
Payable to OBRA Retirement Plan	1,543,452	1,402,225
Payable for foreign exchange contracts	-	55,017
TOTAL LIABILITIES	66,989,041	125,045,322
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$1,742,106,887	$1,895,166,843

(A schedule of funding progress is presented on page 18)

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended December 31, 2011	Year Ended December 31, 2010
ADDITIONS:		
CONTRIBUTIONS		
County of Milwaukee	$ 28,275,594	$ 32,893,562
Plan participants	3,313,807	75,584
	31,589,401	32,969,146
INVESTMENT INCOME		
Net appreciation (depreciation) in fair value	(18,672,797)	183,467,955
Interest and dividends	24,069,225	26,396,272
Security lending income	222,054	234,581
Other income	5,636,028	830,406
Total investment income	11,254,510	210,929,214
Less: Securities lending rebates and fees	(67,730)	(23,750)
Investment expense	(3,805,527)	(4,259,266)
Net investment income	7,381,253	206,646,198
TOTAL ADDITIONS	38,970,654	239,615,344
DEDUCTIONS:		
Benefits paid to retirees and beneficiaries	(187,460,030)	(162,664,454)
Administrative expenses	(4,500,457)	(4,185,796)
Withdrawal of membership accounts	(70,123)	(138,136)
TOTAL DEDUCTIONS	(192,030,610)	(166,988,386)
NET CHANGE IN PLAN NET ASSETS:	(153,059,956)	72,626,958
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	1,895,166,843	1,822,539,885
End of year	$1,742,106,887	$1,895,166,843

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

(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. Members should refer to Section 201.24 of the General Ordinances of Milwaukee County and their respective bargaining agreements for more complete information.

The Retirement System is a single-employer defined benefit 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. Under Chapter 201 of the Laws of Wisconsin for 1937, the County was mandated to create the Retirement System as a separate legal entity. The County did so by passing Section 201.24 of the General Ordinances of Milwaukee County. The authority to manage and control the Retirement System is vested in the Pension Board of ERS (the "Board"). The Board consists of nine members – three members appointed by the County Executive (subject to confirmation by the County Board of Supervisors), three employee members elected by active employee members, two members appointed by the County Board chairperson and one retiree member elected by retirees.

The Board created two (2) committees to assist in the administration of the Board's duties. The Investment Committee reviews the investment portfolio on a monthly basis, endorses strategies and submits investment recommendations to the full Board. The Audit Committee reviews legal issues, Ordinance adherence and submits recommendations to the full Board regarding the annual audit and the Annual Report of the Pension Board.

	As of December 31	
Members –	2011	2010
Retiree and beneficiaries currently receiving benefits	7,747	7,441
Vested and terminated employees not yet receiving benefits	1,341	1,493
Current employees	3,972	4,448
Total participants	13,060	13,382

Contributions –

The Retirement System had been substantially noncontributory. However, starting in 2011, certain classes of members began making mandatory contributions. By 2012, most employees will make contributions of some sort. The employee contributions will be a percentage of compensation that varies from year to year based on an analysis performed by the Retirement System's actuary. The percentage may change from year to year based on the actuary's analysis.

In addition, the County contributes to membership accounts of most employee participants enrolled prior to 1971. The last employee receiving a contribution from the County retired in 2011. This contribution ended in early 2011.

As of December 31, 2011 and 2010 member account balances were $6,790,218 and $3,446,230 respectively.

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 the Annual Required Contribution ("ARC") and legal requirements, at the discretion of the County Board. An actuary hired by the Pension Board establishes the ARC. Data used in the determination of the ARC is based upon the prior fiscal year's demographics. The actual contribution made to the pension plan is set during the County's budget process and may differ from the ARC as a result of changes in plan provisions implemented subsequent to establishment of the ARC and budgetary restraints. During the year, the Retirement System accrues those contributions that the County has included in its current year's budget. For 2011 and 2010, the County contribution recorded by the Retirement System was $4,781,364 and $5,343,572 more than the Funding Contribution Amount for 2011 and 2010, respectively. The Actual Funding Contribution is calculated by the Retirement System's actuary using census data, following plan guidelines and compared to current net assets. The object is to calculate a contribution that allows the Retirement System to fulfill its obligations to its members.

Benefits –

The normal retirement benefit is a monthly pension for the life of the member beginning at normal retirement age. The pension amount is determined by the following formula:

Multiplier x Creditable Service x Final Average Salary.

For most members, the normal retirement age is either 60 or 64 depending on ERS enrollment date and collective bargaining agreement. A few labor agreements also require a minimum of 5 years creditable service in addition to the age requirement. For deputy sheriff members, the normal retirement age is 57 or age 55 with 15 years of creditable service. Depending on enrollment date and collective bargaining agreement, some active members are eligible to retire when their age added to their years of creditable service equals 75 (the "Rule of 75"). The multiplier is determined by Ordinance, collective bargaining agreement and ERS enrollment date. At this time, the multiplier percentage can be 1.5%, 1.6%, 2% or 2.5%. A member's three or five consecutive years of highest earnings are used to calculate their final average salary as defined by the Ordinance and labor agreement. Annually after retirement, the monthly benefit is increased by 2% of the benefit paid for the first full month of retirement subject to IRS limits. By Ordinance, the maximum benefit (excluding post-retirement increases) payable to a member cannot exceed the sum of 80% of the member's final average monthly salary.

For some members, depending on enrollment date and collective bargaining agreement, the member may elect to receive a backdrop benefit. This benefit permits an employee to receive a lump-sum payment plus a monthly pension benefit upon retirement. The lump-sum payment is the total of the monthly pension amounts, adjusted for COLA increases, that a member would be entitled to from a prior date ("backdrop date") to the date that the member terminates employment plus compounded interest. The backdrop date must be at least one calendar 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 based on the backdrop date once the member terminates employment.

A member who meets the requirements for an accidental or ordinary disability retirement benefit is entitled to an amount computed in the same manner as a normal pension but not less than 60% of the member's final average salary for accidental disability (75% for a represented deputy sheriff). A total of 15 years of creditable service is required to apply for ordinary disability.

Most members are immediately vested upon attaining age 60 or 64. A vested member is eligible for a deferred pension beginning as of the member's normal retirement date.

A member who is 55 years of age and has 15 years of credited service may elect to receive early reduced retirement benefits. The member 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.

Upon the death of a member (generally after 1 year of service and depending on collective bargaining agreements), a spouse with a dependent child as defined by Ordinance will receive 40% of the deceased member's salary, reduced by Social Security benefits payable to the spouse. An additional 10% of salary, reduced by Social Security benefits, is paid for each dependent child. Generally, the total benefit, including Social Security benefits, cannot exceed 90% of the prior salary level of the member. At age 60, the spouse will receive 50% of the normal retirement benefit based on the member's projected service to age 60. If there is no spouse or child, the death benefit payable to a designated beneficiary is equal to 50% of the deceased member's final average salary, but not to exceed $2,000.

A member who becomes eligible for normal retirement, but continues to work may elect a Protective Survivorship Option ("PSO") designating a person to receive a pension (100% or 50% option) in the event of their death while in active service. The PSO election must be filed in writing on an approved form. In the absence of an election, a surviving spouse will be paid a 100% survivorship pension.

Currently, members may choose among several benefit payment options when retiring. The available pension options are:

– <u>Maximum</u>
  Benefit payable for the member's lifetime and ceases upon member's death.

– <u>Option 1 – Membership Account Refund</u>
  This option is an actuarially reduced benefit that ceases upon member's death. This option guarantees that the member will receive the total Membership Account balance as of the retirement date. The Membership Account balance is reduced monthly by an actuarially determined amount. Any balance remaining upon the member's death will be paid to the member's beneficiary.

– <u>Option 2 – 50%</u>
  This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 50% of the pension benefit is payable over the life of a named beneficiary, if living;

– <u>Option 3 – 100%</u>
  This option is an actuarially reduced pension benefit that is payable over the life of the member. Upon the member's death, 100% of the pension benefit is payable over the life of a named beneficiary, if living;

– <u>Option 4 – 25%</u>

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

– Option 5 – 75%

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

– Option 6 – 10 Year Certain

This option is an actuarially reduced pension benefit payable over the member's life but is guaranteed for a period of 10 years. If the retiree dies within 10 years, the benefits continue to the beneficiary for the balance of the 10 years.

– Option 7 – Board Discretion

This option is at the Pension Board's discretion and is a payment of a benefit in a form other than those set forth above. The payment in other form must be the actuarial equivalent of the benefit otherwise payable. A member requesting this option is responsible for all expenses incurred in the application for and calculation of the benefit.

Benefits of $187.5 million and $162.7 million were paid in 2011 and 2010, respectively, including periodic pension payments of $148.7 million and $142.4 million, respectively, and backdrop lump sum pension payments of $38.8 million and $20.3 million in 2011 and 2010, respectively.

(2) Summary of Significant Accounting Policies:

GASB Statement No. 50

The Retirement System follows the provisions of Governmental Accounting Standards Board ("GASB") 50. GASB 50 requires that information about the funded status of the pension plan as of the most recent actuarial valuation be disclosed in notes to the financial statements. Additionally, GASB 50 requires disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and progress are based. The required schedules of funding progress immediately following the notes to the financial statements present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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, real estate, long/short hedge and infrastructure are valued at

	As of December 31	
	2011	2010
Corporate bonds and convertible debentures	$222,621,582	$ 321,804,567
Domestic common and preferred stocks	337,378,429	355,054,737
International common and preferred stocks	384,780,428	378,397,504
Long/Short hedge funds	172,331,502	180,113,685
Federal agency and mortgage backed certificates	128,141,955	112,309,768
Infrastructure	117,296,786	120,000,000
Real estate and REIT's	100,538,400	90,082,194
Private equity	29,220,641	26,970,720
International fixed income	14,170,367	10,476,191
Cash and cash equivalents	84,107,638	63,134,641
U.S. Government and state obligations	65,899,814	75,351,316
Total investments at cost	$ 1,656,487,542	$ 1,733,695,323

estimated fair value, as provided by the Retirement System's investment managers. Investment transactions are recorded on the trade date. Realized gains and losses are computed based on the average cost method.

A summary of investments at cost is as follows:

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.

Software Development Costs –

Capitalized software development costs represent direct costs related to the development and implementation of software programs utilized in the Retirement System. The amounts are being amortized over ten years using the straight-line method. Amortization expense is included in Administrative Expenses in the accompanying Statement of Changes in Plan Net Assets.

	As of December 31	
	2011	2010
	(in thousands of dollars)	
Software development costs		
Beginning balance:	$ 7,174	$ 6,426
Acquisitions	679	748
Ending balance	$ 7,853	$ 7,174
Accumulated amortization		
Beginning balance:	$ 1,145	$ 499
Amortization expense	719	646
Ending balance	$ 1,864	$ 1,145
Software development costs, net	$ 5,989	$ 6,029

Expenses –

Administrative expenses incurred by the County related to the Retirement System are payable by the Retirement System to the County. Such expenses totaled $1,548,921 and $1,310,356 in 2011 and 2010, respectively.

Use of Estimates –

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

Certain 2010 amounts have been reclassified to conform with classifications adopted in 2011.

New Accounting Standards –

In June 2012, the GASB approved GASB Statement No. 67 ("GASB 67"), "Financial Reporting for Pension Plans", which revises existing guidance for the financial reports of most pension plans.

GASB 67 replaces the requirements of GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", and GASB Statement No. 50, "Pension Disclosures", as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

The provisions in GASB 67 are effective for financial statements for periods beginning after June 15, 2013.

(3) Income Taxes –

Management has submitted to the Internal Revenue Service, as part of a Voluntary Compliance Program, any compliance issues that have been discovered through a self-administered review where the provisions contained in the Internal Revenue Code, the County Pension Ordinances or Pension Rules differ from actual practice. Management is waiting for a response from the Internal Revenue Service regarding what action will be required to bring the pension system into compliance in all of its practices in order to maintain 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 over a 30 year period. 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 $28,275,594 and $32,893,562 were recorded in 2011 and 2010, respectively. The 2011 contribution was $4,781,364 above the Funding Contribution Amount ("FCA"). Member contributions were $3,313,807 for the year ended December 31, 2011 and $75,584 for the year ended December 31, 2010. This large increase was caused by changes in County Ordinances and State Statutes. By the end of 2011, most County employees were required to make pension contributions. See the Schedule of Employer Contributions in the Required Supplementary Information.

The 2011 and 2010 contributions reflected in the accompanying statements were actuarially determined as of January 1, 2010 and 2009. These amounts were included in the County's 2011 and 2010 budgets. The Retirement System's financial statements as of December 31, 2011 and 2010 reflected the unpaid portion of the 2011 and 2010 contributions as a contribution receivable.

Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8.0%, compounded annually in 2011 and 2010, (b) projected payroll growth increases averaging 3.5% per year compounded annually in 2011 and 2010, attributed to inflation, seniority and merit, and (c) post-retirement benefit increases of 2.0% per year for both 2011 and 2010.

(5) Deposit and Investment Risk Disclosure –

As provided by state legislative act and County Ordinance, the Board has exclusive control and management responsibility of the Retirement System's funds and full power to invest the funds. In exercising its fiduciary responsibility, the Board is governed by the "prudent person" rule in establishing investment policy. The "prudent person" rule, requires the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to permanent disposition of their funds, considering the probable income as well as the probable safety of the principal. The Board has adopted a Statement of Investment Policy to formally document investment objectives and responsibilities. This policy establishes guidelines for permissible investments of the Retirement System. The Retirement System's investments are subject to various risks. Among them are credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each of these risks is discussed in more detail below.

Concentration of Credit Risk –

Concentration of credit risk is a risk of loss that may be attributed to the magnitude of the Retirement System's investment in a single issuer, generally investments in any one issuer that represents five (5) percent or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this definition. The Retirement System has no investments in one issuer other than U.S. Government securities and mutual funds that exceed five (5) percent of the total investments.

Credit Risk –

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services ("Moody's"), Standard and Poor ("S & P") and Fitch Ratings ("Fitch's"). With the exception of the Mellon Capital Management Aggregate Bond portfolio, bonds purchased and owned in each portfolio must have a minimum quality rating of Baa3 (Moody's) or BBB- (S & P or Fitch's). The average quality of each portfolio must be A or better. The fixed income securities for the Mellon Capital Management Aggregate Bond portfolio should have a minimum quality rating of A, with the exception of 15% of the portfolio which may have a minimum quality rating of BBB. The credit quality ratings of investments in fixed income securities by Moody's, a nationally recognized statistical rating agency, as of December 31, 2011 and 2010 are as follows: (amounts are in thousands of dollars)

Moody's Quality Ratings	12/31/11 Fair Value	12/31/10 Fair Value
AAA	$14,175	$20,350
AA1	1,849	2,109
AA2	6,179	5,419
AA3	5,629	6,156
A1	10,520	9,609
A2	10,489	9,727
A3	11,445	8,255
BAA1	11,355	8,015
BAA2	9,446	5,843
BAA3	4,418	1,805
BA1	526	507
BA2	993	35
BA3	388	155
B1	796	-
B2	155	178
B3	703	164
CAA2	224	231
CAA3	193	219
CA	511	688
NR	15,821	16,172
Total Credit Risk Fixed Income Securities	**$105,815**	**$95,637**
U.S. Government and Agencies	208,904	194,829
Units of Participation (Not Rated)	158,238	262,843
Total Investment in Fixed Income	**$472,957**	**$553,309**

Of the $15.8 million not rated by Moody's as of December 31, 2011, $15.0 million is rated by Standard & Poor's as investment grade. Moody's quality rating of BAA3 or above is considered investment grade. $0.8 million is also not rated by Standard & Poor's. As of December 31, 2010, $0.7 million was not rated by Standard & Poor's or Moody's.

Custodial Credit Risk – Deposits and Investments

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 are held by the counterparty.

No formal policy exists on custodial risk. However, substantially all assets of the Retirement System are held in its name. The Retirement System did not own any repurchase agreements as of December 31, 2011 or December 31, 2010.

As of December 31, 2011 and 2010, all deposits with banks are fully insured by the Federal Depository Insurance Corporation or the State Deposit Guarantee Fund.

The following table presents the Retirement System's total cash, deposits and cash equivalents as of December 31, 2011 and 2010: (amounts are in thousands of dollars)

Schedule of Cash and Cash Equivalent Investments

	12/31/11		12/31/10	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash held by various investment managers	$81,712	$81,712	$61,443	$61,443
Deposits with banks	2,396	3,967	1,695	2,231
Foreign currency	-	-	-	-
Repurchase agreement	-	-	-	-
Money market deposits	-	-	-	-
Total Deposits	$84,108	$85,679	$63,139	$63,674

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

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.

This footnote is a required disclosure when the Retirement System directly owns investments denominated in a foreign currency. As of December 31, 2011, the Retirement System directly owned less than $1,000 in investments denominated in foreign currencies. As of December 31, 2010, the Retirement System's exposure to foreign currency was as follows: (amounts are in thousands of dollars)

	12/31/2010			
Currency Unit	**Equity and Private Equity**	**Fixed Income and Convertible Debenture**	**Cash and Cash Equivalents**	**Total**
Australian Dollar	$ 1,710	-	-	$ 1,710
British Pound Sterling	923	-	-	923
Canadian Dollar	358	-	-	358
Euro Currency Unit	1,109	-	-	1,109
Hong Kong Dollar	2,317	-	-	2,317
Japanese Yen	2,348	-	-	2,348
Norwegian Krone	57	-	-	57
Singapore Dollar	1,033	-	-	1,033
Swedish Krona	128	-	-	128
Swiss Franc	113	-	-	113
Totals	**$ 10,096**	**$ -**	**$ -**	**$ 10,096**

Interest Rate Risk –

Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. The Option-Adjusted Duration for a security is the percentage price sensitivity to interest rate changes of 100 basis points (or 1.0%). For example, an Option-Adjusted Duration of 5.20 means that the price of the security should fall approximately 5.20% for a 1.0% rise in the level of interest rates. Conversely, the price of a security should rise approximately 5.20% for a 1.00% fall in the level of interest rates. Interest rate changes will affect securities with negative durations in the opposite direction. The Option-Adjusted Duration method of measuring duration takes into effect the embedded options on cash flows.

The Retirement System does not have a formal investment policy that limits investment maturities as a means of managing exposure to losses arising from increasing interest rates with the exception of the cash equivalent portfolio. The investment policy limits the duration of individual securities held in the cash equivalent portfolio to 2.5 years. In addition, the duration of the entire cash equivalent portfolio should be between 1 and 2 years.

As of December 31, 2011 and 2010, the Retirement System had the following Option-Adjusted Durations for the fixed income investments: (amounts are in thousands of dollars)

Fixed Income Sector	12/31/11 Fair Value	12/31/11 Option Adjusted Duration	12/31/10 Fair Value	12/31/10 Option Adjusted Duration
ABS-Car Loan	$ 2,709	0.41	$ 2,219	0.88
ABS-Equipment	1,039	1.28	1,453	0.94
ABS-Home Equity	1,944	0.33	2,320	0.62
Aerospace & Defense	247	4.41	-	0.00
Agency for Int'l. Devel. Backed Debt	921	5.58	-	0.00
Automobiles & Components	187	4.49	129	2.45
Banking & Finance	21,365	4.35	21,020	4.59
BSDT Reserve Deposit Accts.	802	0.08	758	0.07
Canadian Government Bonds	105	2.94	-	0.00
Capital Goods	257	3.06	187	1.95
Chemicals	1,592	5.56	128	6.82
CMO - Conduit	10,253	2.81	10,305	3.65
CMO-U.S. Agencies	7,659	2.25	3,216	6.59
CMO-Comm/Corp	-	0.00	818	(0.15)
Collateralized Mortgage Obligation	1,508	1.53	-	0.00
Commercial Services & Supplies	109	5.03	-	0.00
Commingled Fds Cash Equivalents	75,721	0.08	56,875	0.08
FHLMC Multiclass	38,708	1.26	34,650	1.55
FHLMC Pools	10,149	1.97	10,541	1.87
FNMA Pools	27,938	2.66	28,180	1.93
FNMA REMIC	39,293	1.92	32,220	2.07
Food Beverage & Tobacco	742	6.67	102	5.33
Food Products	1,568	5.78	815	5.45
GNMA Multi Family Pools	2,684	1.65	85	1.34
GNMA Single Family Pools	1,166	1.25	2,340	2.84
Health Care	337	8.09	106	2.78
Household Products	13	5.54	13	6.05
Industrial	438	5.28	6,212	5.83
Insurance	1,319	4.32	679	6.20
International Corporate Bonds	-	0.00	124	3.55
Materials	72	4.21	169	3.34
Mining	302	6.39	155	4.78
News/Media	2,252	7.27	968	7.23
Non-US Corporate Bonds	3,665	4.96	-	0.00
Non-US Corporate Private Placements	1,513	3.26	-	0.00
Non-US Government Bonds	95	13.41	-	0.00
Oil & Gas	2,277	6.98	1,500	7.22
Other Corporate Bonds	108	6.95	627	5.55
Other Govenment Obligations	658	7.96	-	0.00
Private Placements - ABS	301	.20	-	0.00
Private Placements - MBS	864	0.05	475	2.87
Private Placements-More than 1 yr	7,802	4.05	6,915	5.06
Provincials (Canadian)	-	0.00	262	6.45
Retail	1,103	10.03	691	9.66
Supranational Issues	189	3.66	-	0.00
Taxable Municipals	710	14.50	382	11.60
Technology	2,670	6.15	848	6.35
Transportation	1,782	7.82	926	6.28
Treasury Bills - Less Than 1 Year	5,178	0.49	3,810	0.57
U.S. Agencies	4,911	5.20	3,848	5.69
U.S. Governments	75,428	6.58	78,258	5.97
Utility-Electric	5,157	6.09	4,454	5.40
Utility-Gas	638	6.80	259	3.87
Utility-Other	250	4.90	-	0.00
Utilty-Telephone	3,249	7.97	3,186	6.61
Whole Loan - CMO	20,975	0.47	24,430	2.79
Whole Loan - Re-securitization	462	0.02	73	0.73
Yankee Bonds	1,367	6.21	196	2.30
Other*	159,907		266,826	
Total	**$ 554,658**		**$ 614,753**	

*For 2011 this represents $158,238 in units of participation, $56 in ABS - Home Equity, $712 in FHLMC Multiclass, $592 in Utility - Telephone and $309 in Whole Loan CMO. For 2010, this represents $262,843 in units of participation and $1,124 in FNMA REMIC bonds, $369 in FHLMC pools, $599 in CMO's and $1,891 in Whole Loans.

Security Lending –

Section 201.24 (9.1) of the General Ordinances of Milwaukee County and Board policies permit ERS to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. ERS participates in such a security lending program through its custodian, the Bank of New York Mellon, acting as ERS's securities lending agent. ERS requires collateral from the borrower in the form of cash or 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 securities loaned. Collateral for international securities is maintained at a level of 105% of the fair value of securities loaned at all times. The securities lending program guidelines attempt to preserve capital while earning a moderate rate of return. Earnings from securities lending, after all fees are paid, are split on a percentage basis with the custodian. For 2011 and 2010, the net investment income realized from security lending was $154,324 and $210,831, respectively.

ERS also invested in several commingled funds managed by Mellon Capital Management that participated in securities lending programs. The earnings and losses attributable to the commingled funds' securities lending programs are combined with the commingled funds' performance and are not reported separately in ERS's financial statements.

Securities loaned and the collateral held were as follows: (amounts are in thousands of dollars)

	As of December 31			
	2011		2010	
Securities Lent for Cash Collateral	**Securities Lent**	**Collateral**	**Securities Lent**	**Collateral**
Fixed income	$ 10,538	$ 10,740	$ 52,956	$ 53,876
Domestic stocks	46,233	47,759	56,524	58,271
REITS	-	-	3,297	3,385
Subtotal	56,771	58,499	112,777	115,532
Securities Lent for Securities Collateral				
Fixed income	7,828	7,993	-	-
Domestic stocks	-	-	-	-
REITS	-	-	80	82
Subtotal	7,828	7,993	80	82
Grand Total	$ 64,599	$ 66,492	$112,857	$ 115,614
Percent Collateral to Securities Loaned		102.93%		102.44%

The collateral received from securities lending transactions are recorded as assets at quoted fair value of 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 return those securities.

The collateral received from securities lending transactions includes cash of $58,499 and $115,532 and U.S. Treasury securities and REIT's of $7,993 and $82 for the years ended December 31, 2011 and 2010, respectively. Under the terms of the securities lending agreement, the Retirement System has the right to sell or pledge the cash collateral. The non-cash collateral in the amount of $7,993 and $82 for the years ended December 31, 2011 and 2010, respectively, is controlled by the custodian and, correspondingly, is not reflected in the Statement of Net Assets Available for Plan Benefits.

At year-end, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. The contract with the Retirement System's custodian requires it to indemnify the Retirement System if a borrower fails to return the securities (and if the collateral is inadequate to replace the securities lent) or fails to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan.

(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. All contracts are short-term in duration and mature within 90 days.

Financial instruments with off-balance sheet risk held were zero as of December 31, 2011 and were as follows as of December 31, 2010: (amounts are in thousands of dollars)

	Cost	**Market Value**	**Gain/(Loss)**
As of December 31, 2010			
Currency forward receivables	**$ 55**	**$ 55**	**$ 0**
Currency forward payables	**(55)**	**(55)**	**0**
Total gain (loss)			**$ 0**

ERS invests in financial futures contracts in order to improve the performance of the fund. The Retirement System purchases contracts that approximate the amount of cash held by US equity investment managers and cash used to pay benefits and expenses. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price.

The market values of the futures contracts vary from the original contract price. A gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio. All contracts are short-term in duration and mature within 90 days.

ERS is subject to credit risk in the event of non-performance by counter parties to financial futures and forward contracts. ERS generally only enters into transactions with credit worthy institutions. The Retirement System 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 in accordance with risk limits set by ERS management and by buying or selling futures or forward contracts. The cash or securities to meet these obligations are held in the investment porfolio.

	As of December 31 2011 (in thousands of dollars)	As of December 31 2010 (in thousands of dollars)
US Equity Managers		
Cash Held		
US Equity Investment Managers	$ 13,545	$ 14,291
Futures Purchased		
S&P 500 (US Equity)	13,278	13,908
Futures Above\(Below) Cash	(267)	(383)
Market Value	$ 226	$ 141

	As of December 31 2011 (in thousands of dollars)	As of December 31 2010 (in thousands of dollars)
Cash Used to Pay Benefits and Expenses		
Cash Held	$ 65,486	$ 41,709
Futures Purchased		
Barclays AGG (Fixed Income)	26,437	19,905
S&P 500 (US Equity)	25,115	14,597
MSCI EAFE (International Equity)	11,909	7,391
	63,461	41,893
Futures Above\(Below) Cash	(2,025)	184
Market Value	778	117
Total Market Value	**$ 1,004**	**$ 258**

(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 system are commingled for investment purposes with the assets of the Retirement System. 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 and OBRA are considered a single plan for financial reporting purposes. Net assets identified for OBRA benefits as of December 31, 2011 and 2010, were as follows:

	(Unaudited) 2011	2010
Assets		
Cash	$ 60,700	$ 763
Contributions receivable from County	2,022,000	786,000
Assets held by Retirement System	(539,248)	615,462
Other Assets	28,648	-
Total assets	**1,572,100**	**$1,402,225**
Liabilities		
Taxes payable	40,521	-
Total liabilities	**40,521**	**-**
Net assets available for benefits	**$1,531,579**	**$1,402,225**

Changes in net assets available for benefits for OBRA for the years ended December 31, 2011 and 2010, were as follows:

	2011	(Unaudited) 2010
Contributions from County	**$2,022,000**	**$786,000**
Investment income (loss)	**(56,201)**	**100,815**
Investment and administrative expenses	**(691,775)**	**(519,351)**
Benefits paid	**(1,144,670)**	**(3,846)**
Net increase (decrease) in assets available for benefits	**$129,354**	**$363,618**

As of December 31, 2011 and 2010, respectively, there were 3,502 and 11,539 participants with vested benefits in OBRA. The actuarial accrued liability of OBRA at December 31, 2011 and 2010, was $2,444,436 and $5,519,524, respectively, leaving net assets available less than the actuarial accrued liability of ($1,208,911) and ($4,117,299), respectively. These amounts are not reflected in the required supplementary information tables that follow the notes to the financial statements.

(9) Funded Status and Actuarial Information

The Retirement System engages an independent actuarial firm to perform an annual actuarial valuation. The funded status of the Retirement System as of January 1, 2012, the most recent actuarial valuation date, is as follows: (dollar amounts in thousands)

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
$1,836,543	$2,059,554	$223,011	89.2%	$190,748	116.9%

The schedules of funding progress, presented as required supplementary information (RSI) immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the AALs for benefits.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates about the future. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. These calculations reflect long-term perspectives and use techniques that are designed to reduce short-term volatility.

Following is a listing of the actuarial method significant assumptions used to determine the Annual Required Contribution (ARC) for the current year:

Valuation date	1/1/2012
Actuarial cost method	Aggregate Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization methods:	
Contribution variance	Level dollar, closed
Administrative expenses	Level dollar, closed
All other unfunded liability	Level percent of payroll, closed
Remaining amortization periods:	
Contribution variance	5 years
Administrative expenses	10 years
All other unfunded liability	30 years
Actuarial Assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.50%
Post-retirement benefit increases	2%, simple

(10) Subsequent Events

The Retirement System has evaluated subsequent events occuring through July 30, 2012. 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

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)
12/31/11	$1,836,543	$2,059,554	89.2%	$223,011	$190,748	116.9%
12/31/10	1,929,428	2,091,927	92.2%	162,499	221,647	73.3%
12/31/09	1,956,444	2,097,332	93.3%	140,888	237,040	59.4%
* 12/31/08	1,968,518	2,057,377	95.7%	88,859	233,820	38.0%
12/31/07	1,627,288	2,024,923	80.4%	397,635	227,364	174.9%
12/31/06	1,525,532	1,931,220	79.0%	405,688	223,005	181.9%

* Includes the anticipated impact from the $397.8 million in pension obligation bonds that was actually received by the plan during plan year 2009.

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 Retirement 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 and Other Contributions for the Year Ended December 31,

Fiscal Year	Annual Required Contribution	Percentage Contributed
2011	$29,621,216	106.3%
2010	29,529,322	106.0%
2009	30,355,535	1,508.1%*
2008	53,063,610	65.7%
2007	52,395,263	94.1%
2006	52,638,196	52.1%

*Actual contribution includes $397.8 million in pension obligation bonds and $29.0 million from a lawsuit settlement.

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, 2012, for the plan year ending December 31, 2011. The actuarial valuations consider the changes effective January 1, 2012. Additional information as of the latest actuarial valuation follows:

(See independent auditors' report)

Valuation date	1/1/12
Actuarial Cost Method	Aggregate Entry Age Normal
Amortization Method	Level percent of payroll, closed
Equivalent Single Amortization Period	14 years
Asset valuation method	5-year smoothing of difference between total expected return versus actual return
Actuarial Assumptions:	
COLA	2% of original pension benefits
Investment rate of return*	8.0%
Projected payroll growth*	3.5%
Mortality	Sex-distinct UP – 1994 Mortality Table (for healthy pensioners) RP 2000 Disabled Mortality Table (for disabled pensioners

*Includes inflation at 3.0%

(3) Significant Factors Affecting Trends in Actuarial Information –

The changes regarding the increases in the Annual Compensation limit and the Annual benefit limit for years 2008-2012 are subject to the passage of the Ordinance Amendments by the County Board.

2012 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year -

- During 2012, the retirement age for Building and Trades and Nurses members for new hires will increase from 60 to 64.
- During 2012, the multiplier will be reduced from 2.0% to 1.6% for Building and Trades and Nurses.
- During 2011, the retirement age for DC 48 members for new hires was increased from 60 to 64.
- During 2011, the multiplier was reduced from 2.0% to 1.6% for DC 48 members.
- Increased annual compensation limit to $250,000.
- Increased annual benefit limit to $200,000.

2011 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year -

- During 2010, the multiplier was reduced from 2.0% to 1.6% for elected officials, attorneys, the Machinists and TEAMCO members.
- During 2010, the retirement age for attorneys, Machinists and TEAMCO members for new hires was increased from 60 to 64.

2010 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year -

- Multiplier was reduced from 2.0% to 1.6% for non-represented employees, except Elected Officials and Deputy Sheriffs.
- Retirement age for non-represented new hires was increased to 64.

2009 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year -

- Increased annual compensation limit to $245,000.
- Increased annual benefit limit to $195,000.

2008 Changes in Plan Provisions or Actuarial Assumptions Since Prior Year –

- Changed maximum period for backdrop period to earliest unreduced benefit.
- Increased annual compensation limit to $230,000.
- Increased annual benefit limit to $185,000.

(See independent auditors' report)

TEN-YEAR HISTORICAL TREND INFORMATION

REVENUES BY SOURCE AND EXPENSES BY TYPE
(Unaudited)

Revenues by Source

Fiscal Year	Participant Contributions	County Contributions(1)	Investment Income (Loss)(2)	Total
2011	$3,313,807	$ 28,275,594	$ 11,186,780	$ 42,776,181
2010	75,584	32,893,562	210,905,464	243,874,610
2009	131,766	457,789,154	319,997,171	777,918,091
2008	140,209	34,840,886	(352,108,625)	(317,127,530)
2007	344,782	49,291,072	106,442,068	156,077,922
2006	545,258	27,435,154	207,804,929	235,785,341
2005	360,283	35,415,185	128,528,748	164,304,216
2004	711,322	35,143,178	188,633,703	224,488,203
2003	704,758	33,980,592	292,669,096	327,354,446
2002	436,682	2,579,984	(78,508,968)	(75,492,302)

Expenses by Type

Fiscal Year	Benefits(3)	Investment and Administrative Expenses(4)	Withdrawals	Total
2011	$187,460,030	$8,305,984	$70,123	$195,836,137
2010	162,664,454	8,445,062	138,136	171,247,652
2009	145,345,520	7,846,655	-0-	153,192,175
2008	144,160,665	7,385,443	23,557	151,569,665
2007	139,990,962	7,715,976	56,626	147,763,564
2006	130,730,539	6,622,923	13,571	137,367,033
2005	148,307,335	6,294,816	36,963	154,639,114
2004	161,368,700	6,302,951	154,522	167,826,173
2003	111,109,514	5,662,380	12,999	116,784,893
2002	118,078,160	5,301,678	30,230	123,410,068

FOOTNOTES ARE IN THOUSANDS OF DOLLARS:

(1) Contributions are set during the County's budget process and are made at the discretion of the County Board.

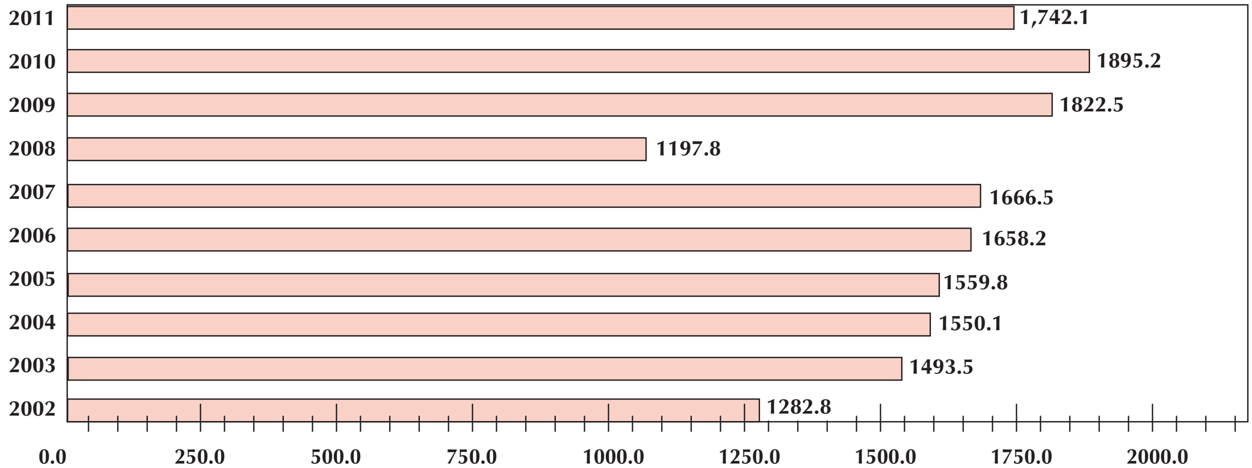
(2) Includes interest and dividends, net appreciation (depreciation) of fair value, net security lending income and other income.

(3) Included in the benefits for 2011, 2010, 2009, 2008, 2007, 2006, 2005, 2004, and 2003 are back drop lump-sum payments of $38.8, $20.3, $8.7, $11.2, $10.5, $5.5, $25.7, $55.1, and $11.0 million, respectively.

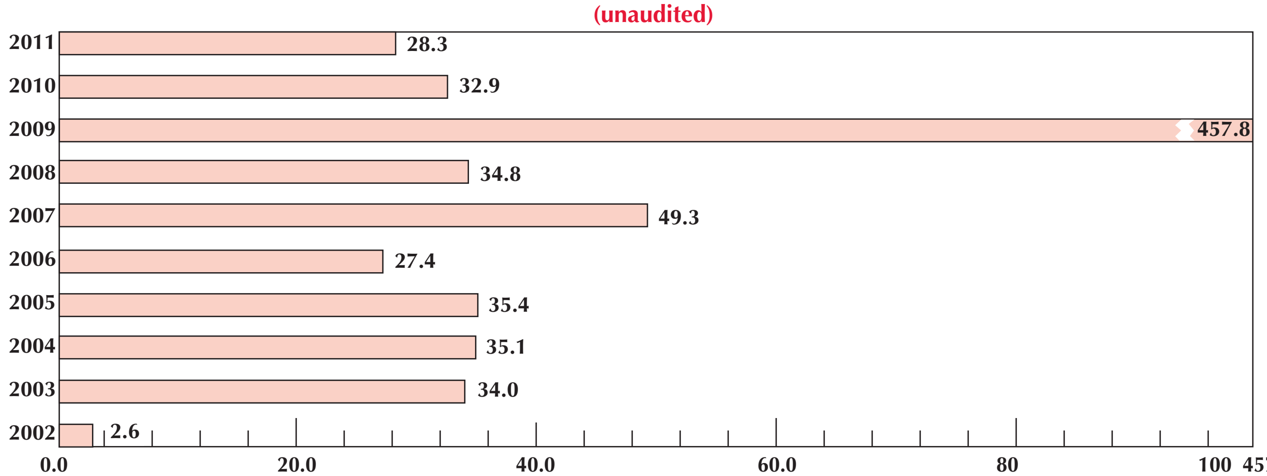
(4) The increase in investment and administrative expenses of $3,004 during the past ten years was due to increases in the following expenses:
- outside consultants of $722 with most of this increase occurring in 2008 and 2007;
- legal and corporate counsel fees of $371 due to buyback/buyin issues, RFP preparation and analysis, tax issues and various other legal matters;
- insurance expense of $191. This expense has been declining for the last seven years;
- salaries and wages of $804 due primarily to the increase in benefits and increase in staff;
- temporary help of $80 due to unfilled positions and temporary projects;
- computer system expenses of $1,134. The plan started using its new computer system as of 1/1/09. Amortization of $718 and hosting expense of $250 caused most of this increase.

(See independent auditors' report)

NET FUND ASSETS
FAIR VALUES 2011-2002
(in millions of dollars)
(unaudited)



ACTUAL COUNTY CONTRIBUTIONS
(in millions of dollars)
(unaudited)



ACTIVE MEMBERSHIP STATISTICS (Unaudited)

	2011	2010
Members as of January 1	5,941*	6,467
Changes During the Year:		
New enrollments	473	266
Rehires	-	-
Nonvested terminations	(512)	(210)
Retirements	(557)	(344)
Deaths in active service	(14)	(4)
New deferred beneficiaries	-	-
Data adjustments	(18)	(234)
Members as of December 31	5,313*	5,941

**The total includes vested inactive members of 1,493 and 1,341 as of the beginning of the year and end of the year respectively.*

RETIREMENTS AND SURVIVORS (Unaudited)

	Retirements Granted								Survivors & Benefi-ciaries	Total
	Maxi-mum Pension	Option								
		Refund	100%	75%	50%	25%	10-yr.	Other		
January 1, 2011	3,010	474	1,266	210	1,095	370	167	50	799	7,441
Changes During the Year:										
Adjustments (actuary)*	56	(78)	1	-	2	-	-	-	31	12
Retirements	310	2	119	20	40	52	14	-	91	648
Pensioner deaths	(251)	-	(41)	(2)	(48)	(4)	(1)	-	(7)	(354)
December 31, 2011	3,125	398	1,345	228	1,089	418	180	50	914	7,747

*Adjustments as a result of reclassifications made to beginning balances by the actuary.

(See independent auditors' report)

CONSULTANTS

as of December 31, 2011

Legal Advisors

Milwaukee County
Corporation Counsel
Kimberly Walker

Reinhart, Boerner, Van Deuren s.c.
Steven D. Huff, Secretary of the Pension Board
Milwaukee, Wisconsin

Actuary

Buck Consultants
Chicago, Illinois

Disbursing Agent

County Treasurer

Custodian/Securities Agent

BNY/Mellon Trust
Boston, Massachusetts

Medical Board

Columbia St. Mary's
Milwaukee, Wisconsin

Investment Consultant

Marquette Associates, Inc.
Chicago, Illinois

Cash Management Manager

Mellon Trust
Boston, Massachusetts

Cash Equitization Manager

BNY Mellon BETA Management
San Francisco, California

Private Equity Managers

Adams Street Partners
Chicago, Illinois

Progress Investment Management Company
San Francisco, California

Long/Short Managers

ABS Investment Management
Greenwich, Connecticut

K2 Advisors
Stamford, Connecticut

U.S. Equity Investment Managers

AQR Capital Management, LLC
Greenwich, Connecticut

Artisan Partners
Milwaukee, Wisconsin

Fiduciary Management Associates, LLC
Chicago, Illinois

Robeco Investment Management
(formerly Boston Partners Asset Management)
Boston, Massachusetts

Mellon Capital Management
Pittsburgh, Pennsylvania

Fixed-Income Investment Managers

JPMorgan Investment Management
Columbus, Ohio

Mellon Capital Management
Pittsburgh, Pennsylvania

International Investment Managers

Barings Asset Management, Inc.
Boston, Massachusetts

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

Real Estate

American Realty Advisors
Glendale, California

Morgan Stanley
New York, New York

Infrastructure Managers

IFM Investment Advisor
New York, New York

JP Morgan
New York, New York

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