

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
Milwaukee, Wisconsin**

**FINANCIAL STATEMENTS
December 31, 2011 and 2010**

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Independent Auditor's Report

Deferred Compensation Board
City of Milwaukee Deferred Compensation Plan
Milwaukee, Wisconsin

We have audited the accompanying statements of net assets available for benefits of the City of Milwaukee Deferred Compensation Plan (the Plan) as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan'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 net assets available for benefits of the City of Milwaukee Deferred Compensation Plan as of December 31, 2011 and 2010, and the changes in its net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
June 21, 2012

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

This discussion and analysis of the City of Milwaukee Deferred Compensation Plan (the Plan) financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2011, 2010 and 2009. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

The Statements of Net Assets Available for Benefits provide the financial position of the Plan at December 31, 2011, including comparative amounts for the year ended December 31, 2010.

The Statements of Changes in Net Assets Available for Benefits summarize the Plan's financial activities that occurred during the year ended December 31, 2011 and comparative amounts for the year ended December 31, 2010.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The analysis below focuses on Net Assets Available for Benefits (Table 1) and Changes in Net Assets Available for Benefits (Table 2).

**Table 1
Net Assets Available for Benefits**

	2011	2010	2009
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 624,446,487</u>	<u>\$ 635,943,703</u>	<u>\$ 577,981,807</u>

**Table 2
Changes in Net Assets Available for Benefits**

	2011	2010	2009
TOTAL ADDITIONS (DEDUCTIONS)	<u>\$ (11,497,216)</u>	<u>\$ 57,961,896</u>	<u>\$ 99,726,141</u>

Financial Analysis of the Plan

The statement of net assets available for benefits and the statement of changes in net assets available for benefits report information about the Plan's growth. The Plan's net assets provide information on the financial strength of the Plan.

Also non-financial factors such as changes in Plan participation, economic conditions and new or changed governmental legislation can also impact the financial strength of the Plan.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

2011 Financial Highlights

- Total assets available for plan benefits decreased by approximately \$11.5 million during 2011 from \$635,943,703 at December 31, 2010 to \$624,446,487 at December 31, 2011. The decrease was due to investment losses in most investment asset classes.
- Employee contributions decreased from \$36,109,905 for the year ended December 31, 2010 to \$32,298,497 for the year ended December 31, 2011. The overall decrease is due to employee contribution decreases and changes in deferral amounts as a result of the challenging economic environment.
- The Plan's 2011 participant roll-in dollars, included in contributions, totaling approximately \$3.7 million mostly came from Employees' Retirement System Global Pension Settlements, IRA, 401(k), 403(b) and 457 plan to plan transfers.
- Distributions to participants decreased from \$33,412,752 for the year ended December 31, 2010 to \$33,080,628 for the year ended December 31, 2011. Net decrease in payouts was \$332,124.
- Administrative expenses increased approximately 6.7% for the year ended December 31, 2011. Administrative expenses increased from \$196,403 for the year ended December 31, 2010 to \$209,646 for the year ended December 31, 2011.
- The Plan's 2011 operating income included a carryover of \$164,070. The carryover was amortized over a three year period and it will be applied as a reduction in participant fees.
- The Plan decreased 12b-1 revenue from \$154,673 in 2010 to \$154,422 in 2011, a decrease of \$251. This was due to decreased market value.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011**

2010 Financial Highlights

- Total assets available for plan benefits increased by approximately \$58 million during 2010 from \$577,981,807 at December 31, 2009 to \$635,943,703 at December 31, 2010. The increase was due to contributions and investment earnings in all investment asset classes.
- Employee contributions decreased from \$37,072,525 for the year ended December 31, 2009 to \$36,109,905 for the year ended December 31, 2010. The overall decrease is due to employee contribution decreases and changes in deferral amounts as a result of the challenging economic environment.
- The Plan's 2010 participant roll-in dollars, included in contributions, totaling approximately \$5.3 million mostly came from Employees' Retirement System Global Pension Settlements, IRA, 401(k), 403(b) and 457 plan to plan transfers.
- Distributions to participants increased from \$23,828,972 for the year ended December 31, 2009 to \$33,412,752 for the year ended December 31, 2010. Net increase in payouts was \$9,583,780, as a result of increased retirements.
- Administrative expenses increased approximately 2.9% for the year ended December 31, 2010. Administrative expenses increased from \$190,831 for the year ended December 31, 2009 to \$196,403 for the year ended December 31, 2009.
- The Plan's 2010 operating income included a carryover of \$164,070. The carryover was amortized over a three year period and it will be applied as a reduction in participant fees.
- The Plan increased 12b-1 revenue from \$113,164 in 2009 to \$154,673 in 2010, an increase of \$41,509. This was due to increased market value.

Financial Contact

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Deferred Compensation Director for the City of Milwaukee Deferred Compensation Plan at 414-286-5563.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
INVESTMENTS AND NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 624,446,487</u>	<u>\$ 635,943,703</u>

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

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Employee contributions	\$ 32,298,497	\$ 36,109,905
Net investment income (loss)		
Mutual funds	(12,628,488)	46,861,846
Common stocks	(2,094,026)	3,201,358
Stable value account	4,168,414	5,347,819
Annuity contract interest income	48,661	50,123
Net investment income (loss)	<u>(10,505,439)</u>	<u>55,461,146</u>
Total additions	<u>21,793,058</u>	<u>91,571,051</u>
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Distributions to participants	33,080,628	33,412,752
Administrative expenses	<u>209,646</u>	<u>196,403</u>
Total deductions	<u>33,290,274</u>	<u>33,609,155</u>
NET INCREASE (DECREASE)	(11,497,216)	57,961,896
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>635,943,703</u>	<u>577,981,807</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$ 624,446,487</u>	<u>\$ 635,943,703</u>

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

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 - DESCRIPTION OF THE PLAN

The City of Milwaukee Deferred Compensation Plan (the Plan) was established by Section 5.50 of the Milwaukee City Charter (1971 compilation as amended). The Plan operates pursuant to a Master Agreement for Plan of Deferred Compensation adopted by the City of Milwaukee (the City), amended and restated December 8, 2011.

Contributions

Under the Plan provisions, eligible employees may contribute to the Plan through payroll deductions. Eligible employees are individuals who perform services for the City as an employee. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contributions to an amount not to exceed the lesser of \$16,500 (for 2011) or 100% of the individual's gross annual salary, or if appropriate, adjusted gross salary. Individuals age 50 or over may make an additional "catch-up" contribution effective for tax years after December 31, 2001. Additional catch-up contributions are allowed for participants within three years of retirement. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. An employee's interest in his/her account is fully vested at all times. The City does not make any contributions to the Plan.

Participant Accounts

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. At December 31, 2011 and 2010, the Plan met the requirements of the SBJPA.

The Plan is governed by the City of Milwaukee Deferred Compensation Board (the Board) and is administered by a third party. The Board is also the trustee of the Plan.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 - DESCRIPTION OF THE PLAN (continued)

Participant Accounts (continued)

Participants direct the investment of their account balances and have the following investment options to choose from:

- Stable Value account, which invests primarily in fixed income securities and investment contracts.
- Variable earnings investment accounts consisting of various underlying mutual fund investments that have different investment risks and return objectives:
 - Actively Managed Income Account
 - Socially Conscious Balanced Account
 - Passively Managed U.S. Equity Account
 - Actively Managed Equity Account
 - Passively Managed International Equity Account
 - Conservative Model Portfolio
 - Accumulator Model Portfolio
 - Wealth Builder Model Portfolio
 - Aggressive Model Portfolio
- Self-directed option - Personal Choice Retirement Accounts (PCRA) offered by Charles Schwab & Co., Inc. (Schwab):
 - Participants with a minimum account balance of \$1,000 may elect to self-direct the investment of their account balance through a PCRA account. The PCRA account investments primarily consist of common stocks, mutual funds and bonds.

Some of the Plan's investments are still held in a group annuity contract underwritten by American United Life Insurance Company (AUL), which is not available for new deferrals.

Payment of Benefits

Employees participating in the Plan may withdraw the value of their accounts upon termination of employment from the City, because of financial hardship, if approved by the City of Milwaukee Deferred Compensation Board, or in order to satisfy minimum distribution requirements of the IRC.

Participants may select various payout options, which include lump sum, periodic or annuity payments.

In the case of death, with certain exceptions, any amount invested under the participant's account is paid to the beneficiary or the participant's estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for benefits and the net changes in those assets.

Use of Estimates in Preparing Financial Statements

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 additions to net assets and deductions from net assets during the reporting period. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Variable earning investments (mutual funds) and PCRA's are presented at fair values based on published quotations. Purchases and sales of investments are recorded on a trade-date basis.

The Stable Value account investment is presented at contract value, which approximates fair value. Contract value represents contributions received plus interest earned to date less applicable charges and amounts withdrawn. The interest rate credited to the account is based on the overall rate of return for the entire portfolio. The interest rate was 2.05% and 2.64% as of December 31, 2011 and 2010, respectively. The assets held in the group annuity contract are actuarially valued as reported by AUL.

Interest income is recorded as earned on the accrual basis.

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds. Earnings are accrued to individual participants' accounts based upon the investment performance of the specific options selected.

Risks and Uncertainties

The Plan invests in various investment securities. These securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain values of 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 financial statements. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions and have responsibility for managing their exposure to fair value loss.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3 - INVESTMENTS

The fair value of investments held by the Plan at December 31, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Fixed earnings investment		
Stable Value Account	\$ 237,554,361	\$ 227,283,948
Variable earnings investments		
Actively Managed Income Account	49,530,412	45,448,709
Socially Conscious Balanced Account	20,747,220	20,610,870
Passively Managed U.S. Equity Account	89,872,084	93,408,757
Actively Managed Equity Account	150,945,857	166,361,343
Passively Managed International Equity Account	45,463,142	57,876,704
Conservative Model Portfolio	27,820	-
Accumulator Model Portfolio	232,524	-
Wealth Builder Model Portfolio	53,010	-
Aggressive Model Portfolio	48,214	-
Self-directed option		
PCRAs - Charles Schwab	28,546,418	23,522,731
Group annuity contract		
AUL	<u>1,425,425</u>	<u>1,430,641</u>
Total investments	<u>\$ 624,446,487</u>	<u>\$ 635,943,703</u>

The following individual underlying investments exceeded 5% of Plan net assets at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Vanguard Total Stock Market Index Trust-Mutual fund	\$ 89,964,827	\$ 93,380,665
Vanguard FTSE All-World ex-US Index-Mutual fund	45,454,836	57,869,736
Morley Stable Value Fund	237,554,361	227,283,948

The Plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of December 31, 2011, the Plan had the following investments and maturities in its fixed earnings investment and certain mutual funds which include investments in bonds.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3 - INVESTMENTS (continued)

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Quality</u>
Fixed earnings investment			
Stable Value Account	\$ 237,554,361	1.52	AA+
Variable earnings investments			
PNC Ultra Short Bond Fund	328,967	0.90	A
American Funds Bond Fund of America	6,045,228	6.60	AA
Baird Intermediate Bond Fund	7,674,077	4.80	A
Black Rock High Yield Bond Fund Inst	1,115,893	6.20	CCC
Dodge & Cox Income Fund	4,344,236	7.00	A
Franklin Templeton Global Bond Fund	3,730,473	3.10	BBB
Loomis Sayles Bond Fund	7,420,563	10.30	BBB
Pimco Total Return Fund Inst	6,989,306	6.70	Not Rated
Vanguard Inflation - Protected Securities Fund	8,356,951	9.40	AAA
Vanguard GNMA Fund	6,447,844	4.80	AAA
Vanguard Short-Term Treasury Fund (VFIUX)	1,511,968	5.20	AAA
Vanguard Short-Term Federal Fund	315,623	2.20	AAA
Vanguard Short-Term Investment Fund	2,328,468	2.50	A
Vanguard High-Yield Corporate Fund	1,076,369	6.90	BB
Vanguard Short-Term Treasury Fund	104,687	2.50	AAA

As of December 31, 2010, the Plan had the following investments and maturities in its fixed earnings investment and certain mutual funds which include investments in bonds.

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Credit Quality</u>
Fixed earnings investment			
Stable Value Account	\$ 227,283,948	1.24	AAA
Variable earnings investments			
Allegiant (PNC) Ultra Short Bond Fund	328,220	0.80	AA
American Funds Bond Fund of America	2,708,838	6.80	BBB
Baird Intermediate Bond Fund	8,376,556	5.01	BBB
Black Rock High Yield Bond Fund Inst	194,738	4.77	B
Dodge & Cox Income Fund	4,445,300	6.33	BBB
Franklin Templeton Global Bond Fund	2,450,688	4.25	BBB
Loomis Sayles Bond Fund	10,123,957	10.32	BB
Pimco Total Return Fund Inst	9,029,146	6.55	A
Vanguard Inflation - Protected Securities Fund	5,735,459	8.70	AAA
Vanguard GNMA Fund	1,311,439	5.20	AAA
Vanguard Short-Term Treasury Fund (VFIUX)	327,024	5.80	AAA
Vanguard Short-Term Federal Fund	306,925	2.50	AAA
Vanguard Short-Term Investment Fund	2,216,938	3.00	BBB
Vanguard High-Yield Corporate Fund	1,274,806	6.40	B
Vanguard Short-Term Treasury Fund	102,270	2.30	AAA

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3 - INVESTMENTS (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates that could adversely affect the fair value of the investment. The Trust has investments in foreign investments that are issued outside of the U.S. The fair value of these investments was \$45,463,142 and \$57,876,704 as of December 31, 2011 and 2010, respectively.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not the Trust's name.

All deposits of the Trust are held on behalf of the Trust by the Trust custodian in accordance with the formal deposit policy for custodial credit risk and are not exposed to custodial credit risk as defined by *Governmental Accounting Standards Board Statement No. 40*.

NOTE 4 - TAX STATUS

The Plan is reviewed by legal counsel to ensure conformity with Section 457 of the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or otherwise made available to the participant or other beneficiary.

NOTE 5 - RELATED PARTIES

All members of the Deferred Compensation Board are participants in the Plan.

NOTE 6 - TERMINATION OF PLAN

The City reserves the right to terminate the Plan at any time and such termination shall act as a termination as to all participants. Upon termination of the Plan, the City reserves the right to make distributions to participants at such time and in such manner the City may deem advisable.

**CITY OF MILWAUKEE
DEFERRED COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 7 - SUBSEQUENT EVENTS

Management evaluated subsequent events through June 21, 2012, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to June 21, 2012 that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2011.

This information is an integral part of the accompanying financial statements.