

**NEW ISSUE
BOOK ENTRY ONLY**

RATINGS: Fitch Moody's Standard & Poor's
 "F1+" "MIG 1" "SP-1+"
(See "RATINGS" herein)

In the opinion of Katten Muchin Rosenman LLP, and of Hurtado, S.C., Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Notes will not be includable in gross income for federal income tax purposes. Interest on the Notes is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income" and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes.

\$228,000,000
CITY OF MILWAUKEE, WISCONSIN
SCHOOL REVENUE ANTICIPATION NOTES, SERIES 2009 M4
(Not a general obligation of the City)

Dated: Expected Date of Delivery

Due: June 30, 2010

The School Revenue Anticipation Notes, Series 2009 M4 (the "Notes") are issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases will be made in the principal amounts of \$5,000 or any integral multiple thereof and will be in book-entry-only form. Purchasers will not receive certificates representing their beneficial ownership in the Notes. Interest shall be payable at maturity. The Notes are not a general obligation of the City, do not constitute an indebtedness for the purpose of determining the City's constitutional debt limitation, and no tax shall be levied to pay the Notes or the interest thereon. The Notes are not subject to redemption prior to maturity.

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
June 30, 2010	\$208,000,000	2.00%	0.52%
June 30, 2010	20,000,000	2.50	0.52

The Notes are issued for the purpose of financing the Milwaukee Public School's general operating purposes pending receipt of school State Aid Payments from the State of Wisconsin (the "State"). School Operations Fund revenues have been pledged as security for the repayment on the Notes. In addition, the City has pledged available surplus revenues in its Debt Service Fund to the payment of interest due on the Notes at maturity. (See "THE NOTES – SECURITY AND PURPOSE" herein.)

The Notes have been offered for sale by competitive bid in accordance with the Official Notice of Sale dated August 11, 2009 and are being issued subject to the legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and of Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, and other conditions specified in the Official Notice of Sale. Delivery of the Notes will be on or about September 3, 2009 (the "Expected Date of Delivery") in New York, New York.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THIS ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

For Further Information Contact:
W. Martin Morics, City Comptroller and Secretary to Public Debt Commission
City Hall, Room 404, 200 East Wells Street - Milwaukee, WI 53202 - Phone (414) 286-3321

No dealer, broker, salesperson or other person has been authorized by the City of Milwaukee or Milwaukee Public Schools to give any information or to make any representation other than as contained in this Official Statement in connection with the sale of these securities and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities by a person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Milwaukee or Milwaukee Public Schools since the date hereof. The Notes have not been registered pursuant to the Securities Act of 1933, in reliance upon exemptions contained in such Act.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
INTRODUCTION TO OFFICIAL STATEMENT.....	3
Summary Statement.....	3
THE NOTES.....	5
Authority.....	5
Security and Purpose.....	5
Maturity, Interest Rate(s) and Redemption.....	6
Statutory Borrowing Limitations.....	6
MILWAUKEE PUBLIC SCHOOLS.....	7
General.....	7
Borrowing - General Obligation Debt.....	7
Borrowing - Revenue Bonds.....	9
Borrowing - Future Financing.....	12
Board of School Directors.....	12
Public Services and Facilities.....	12
Enrollment.....	13
Employee Relations.....	14
Financial Information.....	14
Insurance.....	14
Investment Policies.....	15
REVENUES OF MILWAUKEE PUBLIC SCHOOLS.....	16
Sources of Funding.....	16
Local Property Tax.....	16
State Aids.....	18
State Aid-General Aids.....	19
Annual Revenues Per Pupil.....	19
State Aid-Categorical Aids.....	19
Parental Choice Program.....	20
Federal School Aids.....	21
General Fund Trends.....	21
General Fund-Four Year Summary.....	22
School Operations Fund-Budget.....	23
Operations Fund-Monthly Cash Flow Summary.....	24
Operations Fund- Cash Flow Actuals.....	25
Operations Fund- Cash Flow Projections.....	26
THE CITY OF MILWAUKEE.....	27
General.....	27
City of Milwaukee Selected Economic Data.....	27
Building Permits.....	28
Leading Business and Industrial Firms Located Within Milwaukee County.....	29
EMPLOYMENT AND INDUSTRY.....	30
Annual Unemployment Rates.....	30
Recent Monthly Unemployment Rates.....	30
Ten Largest Taxpayers With 2008 Assessed Valuations....	31
BOOK-ENTR-ONLY SYSTEM.....	32
LEGAL MATTERS.....	34
Litigation.....	34
Legal Opinion.....	35
TAX STATUS.....	36
State Tax Matters.....	38
NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS.....	38
CONTINUING DISCLOSURE.....	38
RATINGS.....	39
FINANCIAL ADVISOR.....	39
UNDERWRITING.....	39
LEGISLATION.....	39
CLOSING DOCUMENTS AND CERTIFICATES.....	39
REPRESENTATIONS OF THE CITY.....	40
ADDITIONAL INFORMATION.....	40
APPENDICES	
Appendix A – Audited Annual Financial Report of the Milwaukee Public Schools for the Year Ended June 30, 2008-Selected Sections of the Comprehensive Annual Financial Report and Independent Auditors’ Report	
Appendix B - Draft Form of Legal Opinion	
Appendix C - Form of Continuing Disclosure Certificate	

INTRODUCTION TO THE OFFICIAL STATEMENT

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the City of Milwaukee (“City”), Milwaukee Public Schools (“MPS”) and the offering of \$228,000,000 School Revenue Anticipation Notes, Series 2009 M4 of the City dated the Expected Date of Delivery (the “Notes”).

The following information is furnished solely to provide limited introductory information regarding the Notes and does not purport to be comprehensive. All such information is qualified in its entirety by reference to the more detailed descriptions appearing in this Official Statement, including Appendices hereto.

SUMMARY STATEMENT

Issuer:	City of Milwaukee, Wisconsin.
Issue:	\$228,000,000 School Revenue Anticipation Notes, Series 2009 M4.
Dated Date:	Expected Date of Delivery.
Sale Date and Time:	August 18, 2009, Until 10:00 A.M. C.T.
Maturity:	June 30, 2010.
Principal Amount:	\$228,000,000
Interest:	Calculated at 297 days on a 360-day basis.
Denominations:	\$5,000 or integral multiples thereof.
Purpose:	To finance MPS operations on an interim basis pending receipt of school State Aid payments.
Security:	MPS and the City have pledged and will irrevocably segregate upon receipt, school State Aid payments in an amount sufficient with interest thereon, to pay, when due, the principal of and interest on the Notes. MPS and the City have also pledged all other revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned. The City has also pledged available surplus revenues of the City’s Debt Service Fund to the payment of interest on the Notes. (See “THE NOTES – SECURITY AND PURPOSE” herein.) The Notes are not a general obligation, do not constitute an indebtedness of the City for the purpose of determining the City’s constitutional debt limitation, and no tax shall be levied to pay the Notes or interest thereon.
Authority for Issuance:	The City of Milwaukee Common Council and the Milwaukee Board of School Directors (“MBSD”) have authorized the issuance and sale of the Notes in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes.

Form of Issuance: The Notes will be issued in fully registered “Book-Entry-Only-Form” in the name of Cede & Co., as nominee of The Depository Trust Company of New York, New York which will act as security depository for the Notes. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Tax Exemption: Under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Notes will not be includable in gross income for federal income tax purposes. Interest on the Notes is not required to be included as an item of tax preference for purposes of computing individual or corporate “alternative minimum taxable income” and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes. (See “TAX STATUS” herein)

Redemption Feature: The Notes are not subject to redemption prior to maturity.

Official Statement: The City will provide the original purchaser(s) of the Notes with up to 100 copies (pro rata) of this Official Statement within seven business days following the award of the Notes.

Professionals:

Bond Counsel:	Katten Muchin Rosenman LLP Chicago, Illinois
	Hurtado, S.C. Wauwatosa, Wisconsin
Financial Advisor	Robert W. Baird & Co. Milwaukee, Wisconsin

Delivery: Delivery will be on or about September 3, 2009 (the “Expected Date of Delivery”) at the expense of the City, through the facilities of The Depository Trust Company (“DTC”), New York, New York.

Reoffering: The public reoffering price(s) and/or yield(s) of the Notes are detailed on the cover of the Final Official Statement.

Continuing Disclosure Certificate: In order to assist bidders in complying with the continuing disclosure requirements of SEC Rule 15c2-12 and as part of the City’s contractual obligation arising from its acceptance of the successful bidder’s proposal, at the time of the delivery of the Notes, the City will provide an executed copy of its Continuing Disclosure Certificate. (See “RULE 15c2-12” and Appendix C-Form of Continuing Disclosure Certificate herein.)

THE NOTES

AUTHORITY

Pursuant to Sections 65.05 and 119.46 of the Wisconsin Statutes, the MBSD, the governing board of MPS, has full responsibility for its budget expenditures, and the required tax levy. These requirements are included with the City's financial requirements, and MPS is effectively treated as a department of the City.

Pursuant to a resolution adopted on June 25, 2009, MBSD has determined that it will be necessary to finance the operating budget of MPS on an interim basis, and has requested the City to issue notes pursuant to Section 67.12(1), Wisconsin Statutes, for that purpose.

The Common Council of the City has authorized the issuance and sale of the Notes through adoption of a resolution on July 7, 2009 in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes, which reads as follows:

67.12 Temporary borrowing and borrowing on promissory notes.

(1) BORROWING IN ANTICIPATION OF REVENUES. (a) Except for school districts and vocational, technical and adult education districts, any municipality that becomes entitled to receive federal or state aids, taxes levied or other deferred payments may, in the same fiscal year it is entitled to receive the payments, issue municipal obligations in anticipation of receiving the payments. The municipal obligations issued under this paragraph shall not exceed 60% of the municipality's total actual and anticipated receipts in that fiscal year and shall be repaid no later than 18 months after the first day of that fiscal year.

(b) Any municipality may issue municipal obligations in anticipation of receiving proceeds from bonds or notes the municipality has authorized or covenanted to issue under this Chapter or from grants that are committed to the municipality. Any municipal obligation issued under this paragraph may be refunded one or more times. Such obligation and any refundings thereof shall be repaid within 5 years after the date of the original obligation.

(c) Any municipality that issues a municipal obligation under this subsection shall adopt a resolution indicating the amount and purpose of the obligation and the anticipated revenue to secure the obligation and may pledge or assign all or portions of the revenue due and not yet paid as security for repayment of the obligations. Municipal obligations issued under this subsection shall be executed as provided in s. 67.08(1), may be registered under s. 67.09, and do not constitute an indebtedness for the purpose of determining the municipality's constitutional debt limitation.

SECURITY AND PURPOSE

Pursuant to a resolution of MBSD adopted on June 25, 2009, MBSD has authorized the City to issue the Notes, and to pledge all revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned, as security for repayment of the Notes (the "Pledged Revenues").

The School Operations Fund is established by Section 119.46, Wisconsin Statutes, and is held by the City on behalf of MPS. Revenues from the local property tax, school State Aid payments and federal school aid payments are deposited into the School Operations Fund. See "REVENUES OF MILWAUKEE PUBLIC SCHOOLS" generally, and "Milwaukee Public Schools-School Operations Fund Budget Fiscal Year 2010 and 2009" herein.

"State Aid" means the general school aids paid by the State to MPS pursuant to subchapter II of Chapter 121, Wisconsin Statutes, as the same may be amended or renumbered from time to time, or any other payments made directly or indirectly by the State to MPS in partial or full replacement or substitution for the school aid payments now made under subchapter II of Chapter 121, Wisconsin Statutes.

Pursuant to Section 121.115, Wisconsin Statutes, MBSD is anticipating receipt of school State Aid payments from the State of Wisconsin to the School Operations Fund in September and December, 2009 and in March, June, and July 2010. Such payments, per Section 119.50, Wisconsin Statutes, shall be received by the City Treasurer.

The Notes are being issued to fund MPS operations pending receipt of school State Aid payments. A cash flow deficit of approximately \$228 million is anticipated to occur in January 2010 due to the receipt of the majority of State Aid and property tax revenues during December 2009 through June 2010, the last seven months of the MPS fiscal year. In contrast, MPS expenditures are relatively evenly distributed throughout the school year (See "School Operations Fund Trends" herein).

This Note issue of \$228 million is the only anticipated interim borrowing for MPS during the 2009-2010 fiscal year. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing – Future Financing" herein.)

Pursuant to a resolution of the Common Council of the City adopted on July 7, 2009 (the "City Resolution"), the Common Council of the City has pledged the Pledged Revenues for the repayment of the Notes and has established a segregated account within the School Operations Fund to capture school State Aid payments received under Section 121.15, Wisconsin Statutes, in June 2010 in the principal amount of the Notes. The City Resolution also directs the City Treasurer to segregate, for payment of the Notes, June 2010 school State Aid payments, in the principal amount of the Notes. The City Treasurer has no discretion to otherwise apply such revenues.

The City has also pledged available surplus revenues in its Debt Service Fund to the payment of interest on the Notes.

MATURITY, INTEREST RATE(S) AND REDEMPTION

The Notes are dated the Expected Date of Delivery and will mature on June 30, 2010 without option of prior redemption. Interest is payable at maturity at the rates as shown on the cover of this Official Statement and is calculated at 297 days on a 360 day basis.

STATUTORY BORROWING LIMITATIONS

Section 67.12(1)(a) of the Wisconsin Statutes limits issuance for the purpose of the Notes to sixty percent (60%) of the Estimated School Operation Fund Revenues for 2009-2010 Fiscal Year.

Total Amount of Estimated School Operations Fund Revenues For the 2009-2010 Fiscal Year	\$985,169,025
Statutory Borrowing Limit (60% of Estimated Revenues)	\$591,101,415
Borrowing-School Revenue Anticipation Notes, Series 2009 M4, dated September 3, 2009	<u>\$228,000,000</u>
Unused Amount Following this Issue	<u>\$363,101,415</u>
Percentage of Borrowing Limit Used	38.6%
Percentage of Borrowing to Estimated Revenues	23.1%

MILWAUKEE PUBLIC SCHOOLS

GENERAL

MPS was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin Statutes. MPS is effectively treated by State Statutes as a City department. MPS is governed by MBSD. MPS has budget adoption authority (the City must then levy and collect a tax to support the MBSD budget). MPS provides elementary, secondary, vocational and special education services for grades K through 12 to residents of the City, whose boundaries are coterminous with those of the MPS. All funds for MPS flow through the City Treasurer who, by statute, disburses them at the direction of the Director/Board Clerk of MBSD. The City Comptroller, City Treasurer and City Attorney perform their respective functions for MPS as well as the City.

BORROWING - GENERAL OBLIGATION DEBT

MPS does not have authority to issue debt. The City has the authority (under Chapters 67 and 119, Wisconsin Statutes) to issue municipal obligations for specific school purposes including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. The table below shows the City's outstanding general obligation debt for school purposes of \$102,585,921. The City also has authorized but unissued general obligation debt for school purposes. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing - Future Financing" herein.)

CITY OF MILWAUKEE OUTSTANDING GENERAL OBLIGATION DEBT FOR SCHOOL PURPOSES AS OF AUGUST 1, 2009

Period Ending	Principal	Interest ⁽¹⁾	Total
12/31/2009	\$6,365,783	\$2,152,943	\$8,518,726
12/31/2010	10,247,216	3,900,594	14,147,810
12/31/2011	9,857,425	3,394,887	13,252,312
12/31/2012	8,730,443	2,926,371	11,656,814
12/31/2013	8,107,139	2,494,947	10,602,086
12/31/2014	8,623,336	2,915,598	11,538,934
12/31/2015	8,065,878	3,130,979	11,196,856
12/31/2016	9,780,430	2,696,740	12,477,170
12/31/2017	7,863,391	2,962,810	10,826,201
12/31/2018	6,713,637	2,544,622	9,258,260
12/31/2019	6,372,344	3,038,897	9,411,241
12/31/2020	5,512,988	3,168,011	8,680,999
12/31/2021	1,929,814	2,841,335	4,771,149
12/31/2022	2,180,671	3,678,554	5,859,224
12/31/2023	1,965,427	3,511,589	5,477,016
12/31/2024	270,000	6,750	276,750
	<u>\$102,585,921</u>	<u>\$45,365,629</u>	<u>\$147,951,549</u>

⁽¹⁾ Compound interest is included in year paid.

Wisconsin Statutes establish a limit on the authority of the City to incur general obligation indebtedness in any form for City and school purposes of 7% of the full value of taxable property located within the City, as equalized by the Wisconsin Department of Revenue. Of the 7%, 2% is authorized for school purposes only. The City may issue bonded debt for school purposes pursuant to the provisions of Chapter 119 or Chapter 67. Bonded indebtedness issued by the City under Chapter 119 for school purposes is limited to 2% of the full value of taxable property in the City as equalized by the State Department of Revenue. Separately, bonded indebtedness issued by the City under Chapter 67 for school purposes counts against the City's debt limit of 5% of the full value of taxable property within the City. Debt issued under Chapter 67 requires adoption of a resolution by the City but does not require voter approval.

**TOTAL UNUSED DEBT MARGIN FOR THE CITY OF MILWAUKEE
AS OF AUGUST 1, 2009**

2008 Equalized Value of Taxable Property in the City	\$32,257,525,000
Legal Debt Limitation for City Borrowing	
5% of Equalized Value	\$1,612,876,250
General Obligation Debt Outstanding subject to 5% Limit as of 08/01/09	\$870,590,001
Less: Provision for current year maturities	<u>(\$35,690,001)</u>
Net General Obligation Debt Outstanding subject to the 5% Limit as of 08/01/09	\$834,900,000
Total Debt Margin for City Borrowing (in Dollars)	\$777,976,250
(As a percentage)	48.2%
(As a percentage excluding Cash Flow Notes)	55.4%
Legal Debt Limitation for School Purpose Borrowing	
2% of Equalized Value	\$645,150,500
General Obligation Debt Outstanding subject to 2% Limit as of 08/01/09	\$14,774,150
Less: Provision for current year maturities	-
Net General Obligation Debt Outstanding subject to the 2% Limit as of 08/01/09	\$14,774,150
Total Debt Margin for School Purpose Borrowing (in Dollars)	\$630,376,350
(As a percentage)	97.7%

**HISTORY OF FULL VALUATION IN
THE CITY OF MILWAUKEE
(2004-2008)**

Levy Year	Collection Year	Full Valuation	Percent Increase/Decrease
2004	2005	\$23,491,773,700	+8.10%
2005	2006	26,256,713,800	+11.77%
2006	2007	30,226,985,500	+15.12%
2007	2008	31,887,192,100	+5.49%
2008	2009	32,257,525,000	+1.16%

BORROWING-REVENUE BONDS

The following sections provide information on outstanding revenue obligations issued by the Redevelopment Authority of the City of Milwaukee (“RACM”) for school purposes.

Neighborhood Schools Initiative

In February 2002, RACM issued \$33,300,000 of its Revenue Bonds, Series 2002A (the “2002A Bonds”) and in November 2003, RACM issued \$78,740,000 of its Revenue Bonds, Series 2003A (the “2003A Bonds”) (Milwaukee Public Schools – Neighborhood Schools Initiative) (collectively, the "NSI Revenue Bonds"). RACM loaned the proceeds of the NSI Revenue Bonds to MPS to partially finance the initial cost of providing approximately 750,000 square-feet of additional classroom capacity for MPS schools, to implement the Neighborhood Schools Initiative and for related activities of MPS. MPS is obligated to make payments to RACM sufficient to pay the principal of and interest on the NSI Revenue Bonds. MPS's repayment obligation is payable solely from and secured by a pledge of all intradistrict aid received by MPS from the State.

In February 2007, RACM issued \$31,865,000 of Refunding Revenue Bonds, Series 2007A which advance refunded a portion of the 2003A Bonds.

The schedule of remaining debt service payments on the NSI Revenue Bonds is as follows:

**CITY OF MILWAUKEE
REDEVELOPMENT AUTHORITY REVENUE BONDS
ANNUAL DEBT SERVICE PAYMENTS AS OF AUGUST 1, 2009**

Year ending June 30	Debt Service Payments	Year ending June 30	Debt Service Payments	Year ending June 30	Debt Service Payments
2010	\$8,189,253	2015	\$9,144,649	2020	\$10,343,094
2011	8,266,676	2016	9,376,675	2021	10,126,549
2012	8,474,868	2017	9,606,995	2022	10,391,138
2013	8,705,504	2018	9,848,206	2023	10,650,500
2014	8,922,258	2019	10,094,129	2024	11,097,600

Lease Revenue Bonds

The lease revenue bonds do not constitute general obligations of MPS or the City and shall not constitute or give rise to a charge against the City's taxing powers. MPS does, however, have an obligation to pay rents under a lease to support the debt service on the lease revenue bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by the MPS from its School Operations Fund. MPS's obligations under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments.

In November 1990, RACM issued \$47,730,866 of revenue bonds (the "1990 Bonds") on behalf of the Wisconsin Preservation Fund, Inc. to acquire and renovate several facilities for lease and occupancy by MPS which is utilizing the facilities as middle schools, K-8 elementary schools and various common facilities related to public education. RACM subsequently issued \$39,415,000 Development Revenue Refunding Bonds, dated April 15, 1993 (the "1993 Bonds") to advance refund certain maturities of the 1990 Bonds.

In May 2003, RACM issued \$34,475,000 Development Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds") on behalf of MPS to refund the 1993 Bonds. The schedule of lease payments after taking into account the 2003 financing is as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE
DEVELOPMENT REVENUE REFUNDING BONDS
(2430 West Wisconsin Avenue Project and 1600 North Martin Luther King Drive Project)
ANNUAL LEASE PAYMENTS AS OF AUGUST 1, 2009**

Year Ending <u>June 30</u>	Lease <u>Payments</u>	Year Ending <u>June 30</u>	Lease <u>Payments</u>
2010	\$3,908,763	2013	\$3,908,475
2011	3,909,313	2014	3,910,900
2012	3,908,325		

In November 2005 the RACM issued \$12,415,000 Redevelopment Lease Revenue Bonds, Series 2005A (the "Series 2005A Bonds") on behalf of MPS to pay certain costs in connection with constructing additions and making improvements to three public Schools of the City of Milwaukee, Congress Extended Year-Round Elementary School ("Congress"), Craig Montessori School ("Craig") and La Escuela Fratney ("Fratney"). The schedule of lease payments is as follows:

Fiscal Year	Principal	Interest	Total
2010	\$495,000	\$492,923	\$987,923
2011	515,000	475,366	990,366
2012	530,000	456,420	986,420
2013	550,000	436,028	986,028
2014	575,000	413,940	988,940
2015	595,000	390,243	985,243
2016	620,000	365,180	985,180
2017	645,000	338,609	983,609
2018	675,000	310,221	985,221
2019	705,000	280,030	985,030
2020	735,000	248,166	983,166
2021	770,000	214,488	984,488
2022	805,000	178,648	983,648
2023	845,000	140,698	985,698
2024	880,000	101,683	981,683
2025	925,000	61,521	986,521
2026	920,000	20,470	940,470
	\$11,785,000	\$4,924,634	\$16,709,634

Pension Obligation Bonds

In December, 2003, RACM issued its \$146,569,122 Taxable Pension Funding Bonds, 2003 Series C and 2003 Series D (Milwaukee Public Schools) (the "Pension Bonds"). RACM loaned the proceeds of the Pension Bonds to MPS, which, together with the proceeds of a general obligation note issue issued by the City, was used to retire MPS's unfunded actuarial accrued liability owed to the Wisconsin Retirement System with respect to retirement benefits for MPS employees. MPS is obligated to make payments to RACM sufficient to pay the principal of and interest on the Pension Bonds, subject to annual appropriation. MPS's repayment obligation is payable solely from and secured by a pledge of monies in the School Operations Fund. MPS has also pledged certain State Aid payments received by MPS from the State of Wisconsin to secure the payment of debt service.

The 2003 Series D Pension Bonds were issued as variable rate securities. In 2005, the 2003 Series D Pension Bonds were converted to index linked at a fixed spread of 0.25% over 1-Month LIBOR for the life of the bonds. The City, on behalf of MPS, entered into Interest Rate Exchange Agreements to synthetically fix the interest rate payable for the entire term of the Pension Bonds. Under the Interest Rate Exchange Agreement, MPS receives a fixed spread of 0.20% over 1-Month LIBOR for the life of the bonds. Interest Rate Exchange Agreements covering \$70,850,000 of 2003 Series D Pension Bonds (the "Agreements") are with Lehman Brothers Special Financing Inc, which filed for bankruptcy in October, 2008. At the time of the bankruptcy filing, the Agreements had a negative value of approximately \$8,000,000 to MPS (MPS would have to pay Lehman to terminate the Agreements). On July 15, 2009, the Agreements had a negative value of approximately \$12,000,000. No payments have been due from Lehman since the bankruptcy filing. MPS and the City are working to replace the Agreements with a new counterparty at no net cost to the MPS or the City. The schedule of loan payments, after taking into account the Interest Rate Exchange Agreements are as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE
TAXABLE PENSION FUNDING BONDS
(Milwaukee Public Schools)
ANNUAL LOAN PAYMENTS AS OF AUGUST 1, 2009**

Year Ending June 30	Loan Payments	Year Ending June 30	Loan Payments	Year Ending June 30	Loan Payments
2010	\$7,340,685	2022	\$7,340,685	2034	\$17,890,228
2011	7,340,685	2023	7,340,685	2035	18,804,603
2012	7,340,685	2024	13,590,685	2036	19,353,978
2013	7,340,685	2025	13,315,060	2037	19,673,353
2014	7,340,685	2026	14,420,228	2038	20,530,533
2015	7,340,685	2027	14,239,603	2039	20,957,713
2016	7,340,685	2028	15,298,978	2040	21,784,893
2017	7,340,685	2029	15,743,353	2041	8,787,073
2018	7,340,685	2030	15,707,728	2042	7,239,253
2019	7,340,685	2031	16,707,103	2043	6,891,433
2020	7,340,685	2032	16,766,478	2044	6,296,806
2021	7,340,685	2033	17,725,853		

Borrowing – Qualified Zone Academy Projects

In December, 2001, MPS entered into a \$8,590,000 Lease Purchase Agreement (2001 QZAB Project) for the purpose of purchasing and installing certain equipment for use at the Lynde and Harry Bradley Technology and Trade School. In November, 2002 and in August, 2003, respectively, MPS entered into a \$4,979,000 Lease and Deferred Payment Agreement (2002 QZAB Project), and \$2,650,000 Lease and Deferred Payment Agreement (2003 QZAB Project). In December 2005, MPS entered into a \$2,021,000 Lease and Deferred Payment Agreement (2005 QZAB Project) and in December, 2006, entered into a \$1,078,100 Lease and Deferred Payment Agreement (2006 QZAB Project) for the purpose of constructing certain improvements to, and purchasing and installing certain equipment for use at, various MPS schools. MPS entered into QZAB Agreements with each Investor, under which MPS makes annual impoundment payments which are subject to annual appropriation by MPS. The schedule of total remaining impoundment payments is as follows:

<u>December 1</u>	<u>Payment Amount</u>
2009	\$902,023
2010	593,441
2011	329,625
2012	329,625
2013	103,298

BORROWING - FUTURE FINANCING

The City has \$5,950,000 of authorized, but unissued, general obligation borrowing authority for school purposes. The 2009-2010 MPS budget includes \$53,069,187 of Qualified School Construction Bonds and \$2,000,000 of traditional borrowing.

BOARD OF SCHOOL DIRECTORS

MPS is governed by a nine member Board of Directors. Eight Directors represent and are elected by Districts from within a total population of approximately 590,870. One member is elected at-large. Directors serve staggered four year terms which expire in April, and annually, at its organizational meeting, elect a president. The current members and the years in which their terms of office expire are as follows:

Michael Bonds, President	(2011)	Tim Petersons	(2011)
Peter Thomas Blewett, Vice President	(2013)	Jeff Spence	(2011)
Terrence Falk	(2011)	Annie Woodward	(2013)
Larry Miller	(2013)	David Voeltner	(2013)
Bruce Thompson, Member At-Large	(2011)		

The City Officials who serve in identical capacities for MPS, and the year in which their terms of office expire are as follows:

W. Martin Morics	Comptroller	(2012)
Grant F. Langley	Attorney	(2012)
Wayne F. Whittow	Treasurer	(2012)

PUBLIC SERVICES AND FACILITIES

In the 2008-2009 school year, MPS had approximately 85,369 full-time students and 5,897 teachers, attending 213 school programs within approximately 157 school buildings. The average age of the MPS buildings is just over 50 years, however, significant investment was made in upgrading many of these buildings in the 1970's and 1980's.

The purpose and responsibility of MPS is to provide an efficient educational system for children enrolled in the public schools, whereby each child has access to programs and services that are appropriate to his or her educational needs. In addition to the regular educational programs, MPS offers comprehensive programs in the areas of vocational education, special education, and bilingual education. Through its specialty school programs, MPS offers advanced educational programs in such areas as fine arts, computer science, health professions, business, and technical trades. In addition, MPS provides community recreation and education services through its parks and centers for the elderly.

The following schools closed effective June 2009:

- Metropolitan High School (Facility will be occupied by Alliance)
- Carleton Elementary
- Milwaukee Academy of Aviation, Science, and Technology. The aviation program will be moved to Lynde & Harry Bradley Technology and Trade School in the 2009-2010 school year.
- Truth Institute (Instrumentality charter contract terminated).
- Lee School's facility is closing and Lee is merging with Wheatley for the 2009-2010 school year.
- The MEC Campus facility is closing (227 W. Pleasant St.). The middle school program of MEC, the Milwaukee Education Center, will relocate to the Andrew Douglas Campus at 3620 N. 18th St. The Downtown Institute of Arts and Letters (DIAL High School), which was also located at that building for the school year 2008-09, will also relocate to the Andrew Douglas Campus.
- Sarah Scott School closed in June, 2008. The Milwaukee Business High School occupied the building at 1017 N. 12th St. for school year 2008-09. The instrumentality charter for Milwaukee Business High School has been terminated. The business program will be added to Vincent High School in the 2009-2010 school year. The building at 1017 N. 12th St. closed in June, 2009. Community High School and Work Institute, which were also located in that building for school year 2008-09, will be relocated to the Juneau High School campus and the Andrew Douglas Campus, respectively.

The non-instrumentality charter contacts between MPS and the following non-instrumentality charters end as of June 2009:

- Preparatory School for Global Leadership
- CITIES Project High School
- Bruce Guadalupe Community School
- Milwaukee Leadership Training Center
- V. E. Carter School of Excellence

All of MPS has been accredited by the North Central Association of Colleges and Schools.

ENROLLMENT

<u>School Year</u>	Average School Daily <u>Membership</u> ⁽¹⁾	<u>School Year</u>	Average School Daily <u>Membership</u> ⁽¹⁾
1997-1998	102,914	2003-2004	98,323
1998-1999	102,097	2004-2005	96,874
1999-2000	100,682	2005-2006	94,975
2000-2001	99,332	2006-2007	92,226
2001-2002	99,025	2007-2008	89,113
2002-2003	99,054	2008-2009	87,140

⁽¹⁾ Kindergarten 1/2 day membership converted to full day equivalents.

EMPLOYEE RELATIONS

In September 2007 the MBSD and the Milwaukee Teacher's Education Association (the "Union") reached agreement on the teacher contract for the period July 1, 2007 through June 30, 2009.

In December 2008, the MBSD and the Administrators and Supervisors Council (ASC) reached agreement on their contract for the period July 1, 2007 thru June 30, 2009.

In March 2009, the MBSD and the Milwaukee Teacher's Education Association (the "Union") reached agreement on the substitute teacher contract for the period July 1, 2007 thru June 30, 2009.

In May 2009, the MBSD and the Milwaukee Teacher's Education Association (the "Union") reached agreement on the educational assistant contract for the period January 1, 2007 thru December 31, 2008.

In September 2008, the MBSD and the Milwaukee Teacher's Education Association (the "Union") reached agreement on the school accountant/bookkeeper contract for the period January 1, 2007 thru December 31, 2008.

On June 30th, 2009, the MBSD and Local 1053 reached an agreement on the clerical contract for the period July 1, 2006 thru June 30, 2008.

All expired contracts are currently in negotiations.

FINANCIAL INFORMATION

MPS has full control of all expenditures and revenues required to operate the school district. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve the schools. The City's Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund. The audited financial statements of this and other funds under the control of MPS for the year ended June 30, 2008 are set forth in Appendix A of this Official Statement.

INSURANCE

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, and excess liability insurance. The District assumes a \$250,000 self – insured retention for any one loss or occurrence under its self-insured general liability program. The District purchases excess liability insurance for its general liability that provides per occurrence and aggregate protection. The District is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance. In addition, Section 893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officers, officials, or employees for acts done within the scope of their official capacity to \$50,000 in tort liability for non-automobile cases and \$250,000 in automobile cases.

MPS is self-insured for health, dental, and workers' compensation benefits and certain other general liability exposures. The accrued liability for estimated self-insured claims of \$39,465,203 recorded in the School Operations Fund and \$6,566,505 represents an estimate of the amount of claims incurred, but not paid or reported, as of June 30, 2008.

INVESTMENT POLICIES

The City may invest any of its funds, including MPS funds, not immediately needed in accordance with Section 66.04(2) of the Wisconsin Statutes. The City, through Common Council Resolution 930358, adopted July 6, 1993, has instructed the City Treasurer to invest City funds, including MPS funds, in: (a) Certificates of Time Deposit at approved public depositories limited to the equity capital or net worth of the financial institution with collateralization required when total deposits at any institution exceed \$500,000; (b) Repurchase Agreements with public depository institutions; (c) the State of Wisconsin Local Government Investment Pool; (d) U.S. Treasury and Agency instruments and (e) commercial paper which has a rating in the highest or second highest rating category assigned by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Services, Inc., or some other similar nationally recognized rating agency. To the extent possible, the City Treasurer attempts to match investments with anticipated cash flow requirements. No limits have been placed on how much of the portfolio can be invested in any of the above investment categories.

The State of Wisconsin Investment Board ("SWIB") provides the Local Government Investment Pool as a subset of the State Investment Fund (the "Fund"). The Local Government Investment Pool includes deposits from elective participants consisting of over 1,000 municipalities and other public entities. The Fund also consists of cash balances of participants required to keep their cash balances in the Fund. These required participants include the State General Fund, State agencies and departments and Wisconsin Retirement System reserves. The Local Government Investment Pool portion of the Fund is additionally secured as to credit risk.

SWIB invests the assets of the Fund, which includes assets of the Local Government Investment Pool. Overall policy direction for SWIB is established by an independent, eight-member Board of Trustees (the "Trustees"). The Trustees establish long-term investment policies, set guidelines for each investment portfolio and monitor investment performance.

The objectives of the Fund are to provide (in order of priority) safety of principal, liquidity, and a reasonable rate of return. The Fund includes retirement trust funds cash balances pending longer-term investment by other investment divisions. The Fund also acts as the State's cash management fund and provides the State's General Fund with liquidity for operating expenses. The Fund is strategically managed as a mutual fund with a longer average life than a money market fund. This strategic advantage is made possible by the mandatory investment of State funds for which the cash flow requirements can be determined significantly in advance. Because of the role played by the Fund, the cash balances available for investment vary daily as cash is accumulated or withdrawn from various funds.

A copy of SWIB's annual report may be obtained by submitting a written request to the State of Wisconsin Investment Board, P.O. Box 7842, Madison, WI 53707-7842.

The Local Government Investment Pool is a local option City depository. The City utilizes the Local Government Investment Pool in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of December 31, 2008, the City had approximately 21.24% (\$124,477,448) of its and MPS's investments deposited in the Local Government Investment Pool.

REVENUES OF MILWAUKEE PUBLIC SCHOOLS

SOURCES OF FUNDING

In addition to borrowing, MPS revenues are derived from three major sources - local property taxes, state school aids and federal school aids. Sources of MPS revenues are detailed in the four year summary presented under the caption "MILWAUKEE PUBLIC SCHOOLS-GENERAL FUND-FOUR YEAR SUMMARY".

LOCAL PROPERTY TAX

Property taxes levied on behalf of MPS by the City account for a significant portion of the School Operations Fund revenues available to MPS. For the fiscal year 2008-09, MPS's share of the levy produced approximately \$259.634 million of the total revenues to the School Operations Fund. MPS's 2009-10 School Operations Fund revenues are budgeted at \$985.169 million, of which City ad valorem property taxes are estimated at \$281.062 million.

MILWAUKEE PUBLIC SCHOOLS PROPERTY TAX LEVIES ALL FUNDS (2004-2008)

<u>Levy Year</u>	<u>Collection Year</u>	<u>Taxes Levied</u>
2004	2005	\$207,442,419
2005	2006	213,803,808
2006	2007	230,345,991
2007	2008	235,491,856
2008	2009	287,778,700

In addition to taxes for operations levied under Section 119.46 of the Wisconsin Statutes, the MBSD by two-third vote of members elect may direct the City to levy a tax to provide funds to purchase school sites and construct or remodel school buildings. The school construction fund taxes in any one year may not exceed 0.6 mills on each dollar of assessed valuation of taxable property in the City.

Property Subject to Taxation - The City, at the direction of the MBSD, is required to levy and collect ad valorem taxes on or against all taxable property within MPS. Both real and personal property are subject to taxation, but there are certain classes of property which are exempt from taxation. These include, but are not limited to, property of the United States of America; property of the State and its political subdivisions; public libraries; public school property; certain charitable property not used for profit; religious property; manufacturing machinery and equipment; business computers; non-profit cemeteries; household furnishings and personal effects not used to produce income; intangible personal property; and inventories of merchandise and materials and supplies which are held for consumption by a business or are held primarily for sale.

Assessment of Property - The City Tax Commissioner's staff of assessors and appraisers annually conducts appraisals in order to determine the full (fair market) value of all non-manufacturing taxable real property and full cash value of all taxable personal property within MPS as of January 1st. Real property is divided into classes for taxation purposes. In cities there are four classes of real estate: (1) Residential; (2) Commercial; (3) Manufacturing; and (4) Agricultural.

The assessed value of a property is intended to represent current full market (cash) value and, with certain exceptions, is determined from manuals and associated data published by the State Department of Revenue. The State Department of Revenue certifies the competency of local assessors and supervises the administration of all laws concerning the valuation and assessment of taxable property and the levying of property taxes. Annually, the Department analyzes sales data reported to the Register of Deeds for each county to determine the relative level of local assessments to actual market sales. This process is referred to as "equalization". The ratios developed by the Department of Revenue are reported to each assessor.

Assessed valuation represents the value upon which ad valorem property taxes are levied. Wisconsin law requires that assessed values in any taxation district be established within 10% of "full value," as determined by the Department of Revenue, at least once during each four year period ending with the current year. If a district fails to meet this criteria in any year, the district's assessors are subject to special supervision by Department of Revenue employees during the ensuing assessment year. For 2008, the City's ratio of assessed to equalized value, as reported by the Department of Revenue, was 94.34 percent. Full values of any two major classes of property must also be within 10% during such four-year period or State Revenue Department supervision is required.

For each assessment year the City assessors must complete their assessments for review by the Tax Commissioner on or before the second Monday in May.

Manufacturing property is assessed by the Wisconsin Department of Revenue which annually notifies the City of the assessed value of all such property to be placed on the City tax roll. Manufacturing machinery and equipment are exempt from local property taxes.

Property owners are notified of increases in assessed valuation of their land or improvements, or taxable personal property in accordance with certain statutory deadlines. Property owners are given the opportunity to object to the amount or valuation of their real or personal properties by filing written objections with the board of assessors, which consists of the chief assessor, chief appraiser, supervising assessors and assistant supervising assessors of the Tax Commissioner's office and a City Board of Review or, for State assessments of manufacturing property, by the State Tax Appeals Commission. The City Board of Review consists of nine residents of the City appointed by the Mayor with approval of the City Common Council for staggered five-year terms.

Adjustments for increases or decreases in assessed values resulting from appeals are made. Upon conclusion of such hearings, the tax assessors are required to complete the assessment roll of all taxable property for the City and return it to the City Tax Commissioner no later than the first Monday of November each year. The Tax Commissioner must prepare the tax roll and return it to the City Treasurer for collection no later than the third Monday in December. Assessments may be appealed to the State courts from the Board of Review or State Tax Appeals Commission within a short period of time, provided the taxes are paid timely on the challenged assessment. Refund of any excess taxes paid may be ordered by the court. If rebated or abated taxes reduce equalized values of the City, the Wisconsin Department of Revenue may prorate the rebated amounts among all taxing jurisdictions which levied a tax against the subject property or adjust equalized values.

Mill Levies Affecting MPS Property Owners - In 1996, the Governor and the State legislature approved reducing funding for schools from property taxes. On a statewide basis, Wisconsin approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

In addition to MPS's tax levy, owners of property within MPS are obligated to pay taxes to other taxing entities in which their property is located. There are five other active taxing entities which have authority to levy ad valorem property taxes on property within MPS. These include the City, Milwaukee County, State of Wisconsin, Vocational School District and Milwaukee Metropolitan Sewerage District. As a result, property owners within the School District's boundaries are subject to a variety of different mill levies.

The 2008 levies (collected in 2009) for non-MBSD purposes were as follows:

City of Milwaukee	\$237,000,000
Milwaukee County	\$122,900,000
MATC	\$57,000,000
Metropolitan Sewerage District	\$40,100,000
State Forestry Tax	\$5,500,000

The net tax rate for all taxing jurisdictions in 2008 was \$24.03 per assessed thousand of property valuation.

Property Tax Collections - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2009 will be collected in 2010. Taxes are due on January 31st in the year of collection; however, taxes on real property may be paid in 10 equal installments not later than the last day of each month from January to October without interest or penalty. Personal property taxes may be paid in 7 equal installments on the last day of each month from January to July without interest or penalty. First installments which are not timely paid within the prescribed time bear interest at the rate of 1% per month until paid, plus 0.5% of the tax with interest from January 31 and penalty. The City Treasurer collects current and delinquent property taxes, as well as any interest or penalty, and after deducting a statutory fee for such collection, remits the balance to MPS on a monthly basis from January through May and any balance of the annual levy remaining at June 30 is remitted to MPS in early July. If a tax payment is insufficient to pay all charges, City special charges, special assessments and special taxes are paid before MPS receives its share of the levy.

All taxes levied on property, together with interest thereon and penalties for default, as well as all other costs of collection, constitute a perpetual lien on and against the property taxed from January 1 of the levy year until paid. Such lien is on a parity with the tax liens of other general taxes. It is the City Treasurer's duty to enforce the collection of delinquent real property taxes by tax sale of such realty. Delinquent personal property taxes are enforceable by an action in debt and the property taxed or other property may be seized on execution to pay the judgment. Tax sales on realty are held on or before the second Monday in December of the collection year, preceded by a notice of delinquency to the taxpayer and a minimum of four weeks of public notice of the impending sale. Sales of personal property may be held at any time after October 1st of the collection year following notice of delinquency and public notice of sale. There can be no assurance, however, that the value of property sold, in the event of foreclosure and sale would be sufficient to produce the amount required with respect to taxes levied for MPS, taxes levied by overlapping taxing entities, as well as any interest or costs due thereon. Further, there can be no assurance that the property will be bid on and sold and if that should occur, the City Treasurer will remove the property from the tax rolls and delinquent taxes are payable when the property is sold or redeemed.

STATE AIDS

The Wisconsin Constitution requires the State Legislature to provide for establishment of district schools "which shall be free and without charge for tuition to all children between the ages of 4 and 20 years". MPS receives revenues in the form of general school aids from the State as well as federal sources. State Aid is divided into two general categories, referred to as general and categorical aids. As explained below, general aid consists of equalization aid (determined by formula based upon pupil membership and property valuation) and integration aid (determined by a formula based on the number of students transferring into and out of minority areas). Categorical aid is based upon specific instructional or supporting programs.

In 1996, the Governor and the State Legislature approved reducing funding for schools from property taxes. The State approved increasing its proportionate share of school aid from 40% to at least 66.7% beginning in 1996-1997.

Although the State has a multi-year tradition of providing State Aid to local school districts to reduce their reliance on local property taxes, there can be no assurance that the State will not decrease, perhaps materially, the amount of State Aid provided to MPS. Unless offsetting revenue sources are obtained, or expenses reduced, MPS would have to increase its reliance upon the property tax to fund its operations if that were to occur.

STATE AID-GENERAL AIDS

Equalization Aid

MPS receives the majority of its State Aid in the form of equalization aid. Equalization aid is paid based on a formula designed to compensate for differences in property values between Wisconsin school districts. The effect is to equalize the property tax base supporting each Wisconsin student.

The State guarantees a minimum tax base to support the education of each public school child. The ratio of MPS' equalized valuation to the State's guaranteed valuation determines the percentage of shared costs funded by local property tax versus State equalization aid.

$$\text{Equalization Aid} = \text{Shared Costs} \times \frac{\text{Net Guaranteed Valuation}}{\text{Guaranteed Valuation}}$$

where Net Guaranteed Valuation equals Guaranteed Valuation minus Equalized Valuation. Shared Costs equals the net cost of the general fund plus the net cost of the debt service fund.

While MPS' annual revenue per pupil has been above the State-wide average during the past three school years (as detailed below), these revenues have been met with above average federal and State Aid payments.

ANNUAL REVENUES PER PUPIL

	Statewide			Milwaukee		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Revenue/Pupil	\$11,493	\$12,016	\$12,010	\$12,385	\$13,034	\$13,305
Federal Share (%)	6.15	5.85	6.42	14.82	13.43	15.94
State Share (%)	50.87	49.79	50.11	61.20	60.03	59.55
Local Share (%)	42.98	44.36	43.47	23.98	26.54	24.51

Integration Aid

MPS also receives integration aid from the State under a plan where compensation is paid for each minority pupil transferring from an attendance area where minority pupils comprise 30% or more of the population to an attendance area which has less than a 30% minority population. Also, aid is paid for each non-minority pupil transferring from a non-minority attendance area to a minority attendance area.

The State provides for intradistrict transfer aid as well as interdistrict transfer aid. Intradistrict aid is calculated by multiplying the number of eligible transfer pupils by .25 and multiplying the product by the district's current equalization aid per pupil.

For interdistrict transfers, the State provides a financial incentive for both the sending and receiving districts. The receiving district is paid an amount equal to its average cost per pupil for each student it receives. The sending district is allowed to continue to count the transferred students for equalization aid purposes at 0.75 full-time equivalent (FTE), thereby removing any disincentive for transferring students. MPS must pay the transportation costs for its students sent to other districts, as well as the students it receives from other districts.

STATE AID-CATEGORICAL AIDS

MPS receives State Aid in the form of categorical aids to finance or reimburse specific categories of instructional or supporting programs.

Pupil transportation aids are paid to reimburse MPS for transportation of public and non-public school pupils. Reimbursement for transportation aids is made on the basis of the number of children/mileage transported during the prior year and miles transported during the regular school year, with an additional flat per pupil payment for summer school. MPS is not required to transport children who live two miles or less from the school attended following the shortest commonly traveled route unless the route is considered hazardous.

The State pays tuition for the following types of children attending public schools:

- a) children in children's homes;
- b) children of parents employed at and residing on the grounds of a state or federal military camp, federal veteran's hospital, or state, charitable or penal institution; and
- c) children in foster homes or group homes if the home is located outside the district in which the child's parent or guardian resides and is exempt from property tax.

School library aid paid from the common school fund under Article 10, sections 4 and 5 of the Wisconsin Constitution and Section 43.70 of the Wisconsin Statutes, is distributed on the basis of the number of children between age 4 and 20 residing in the district as of June 30 of the year before payments are made. School library aid payments to MPS for 2008-2009 were \$4,318,503 or \$28.37 per child.

The State pays special aids to the district to finance approved programs for handicapped children or children with exceptional educational needs, including those with visual or hearing disabilities, speech or language disabilities, learning disabilities and requiring homebound instruction. This aid has been decreasing as a percent of costs for the last two decades.

Other categorical aids include grants for demonstration projects to assist minors in avoiding or overcoming problems resulting from the abuse of alcohol or drugs; State matching payments for school lunch programs required under 42 U.S.C. 1751, et. seq.; elderly food service aid; grants to provide pre-school structured educational experience focusing on the needs of low-income pupils and encouraging early skill development; bilingual/bicultural aids for programs designed to improve comprehension, speaking, reading and writing ability of limited English speaking pupils in the English language; youth initiatives for education and training programs for youths 14 through 21; and Wisconsin morning milk program for children enrolled in kindergarten through grade 5. MPS also receives funding under Sections 119.71, 119.72 and 119.74 of the Wisconsin Statutes for five-year old kindergarten and early childhood education.

These categorical aids are in addition to equalization aid and integration aid.

PARENTAL CHOICE PROGRAM

Beginning in the 1990-91 school year, low-income children constituting up to 1.5% of the pupils in grades kindergarten to 12 residing in the City and enrolled in MPS may attend at no charge any private non-sectarian school located in the City which meets all public school health and safety laws and codes, complies with federal nondiscrimination laws and meets a standard of advancement, attendance, academic progress, or parental involvement. Beginning in the 1996-97 school year, no more than 15% of the school district's membership may attend private school under Wisconsin Statute 119.23. In March 2006, Governor Doyle signed Act 125 which increases the limit of participants to 22,500 students. Upon proof of a pupil's enrollment in the private school the State Superintendent provides a proportionate share of basic and supplemental State school aids. Since 2002 annual general school aids for MPS are reduced by an amount equal to 45% of the total cost of the Choice Program.

For the 2008-09 school year, approximately 19,538 low-income children enrolled in the Milwaukee Parental Choice Program.

FEDERAL SCHOOL AIDS

In addition to State Aid, MPS receives federal aids for specific school programs.

The federal government provides basic school lunch aid to school districts. This program is administered by the State Department of Public Instruction. For the 2008-09 school year, MPS received \$21,102,128 in basic lunch aid under the federal program administered by the United States Department of Agriculture through the Wisconsin Department of Public Instruction.

MPS has applied for and received federal aid for numerous other programs. In general, these federal aids are known as categorical aids and require MPS to make the expenditure first, with federal reimbursement following. The federal programs administered by the Wisconsin Department of Public Instruction from which MPS received program reimbursement include the following: Public Law 89-313 providing funds for handicapped children; Title I - Disadvantaged and Low Income Children; Special Education – Grants to States; Carl Perkins Act; Emergency Immigrant Educational Assistance; Title II; Public Law 99-457. MPS received aid directly from the Federal Government in the case of several federal programs including the Drug Free Schools program and Headstart.

For the year 2008-09, total federal aids to MPS for food services and other categorical aids are estimated to be approximately \$196,594,256.

American Recovery and Reinvestment Act Funding

Over the next two years the Milwaukee Public Schools will receive approximately \$64.5 million of additional Title I-A funding and \$31.2 million of additional Individuals with Disabilities Education Improvement Act (IDEA) funding. The Secretary of the Department of Education has communicated four priorities for use of the Title I-A funding:

- Improving teacher effectiveness;
- Establishing rigorous standards and assessments to improve teaching and learning;
- Improving achievement of low-performing schools, and
- Enhancing data use to improve student learning.

The following guidelines were given by the Education Secretary through the Wisconsin Department of Public Instruction for the use of the IDEA funding:

- Funds should only be used to pay the excess costs of providing special education and related services and must comply with all IDEA requirements;
- Funds should improve student achievement through school improvement and reform;
- Funds are one-time funds and should be invested thoughtfully to minimize the “funding cliff”.

The Milwaukee Board of School Directors has affirmed these priorities and guidelines with its adoption of the Fiscal Year 2010 (FY10) Budget for use of the stimulus funds provided through the American Recovery and Reinvestment Act (ARRA). The FY10 MPS Budget for ARRA has \$32.1 million of Title I-A funding and \$15.6 million of IDEA funding. The remaining ARRA stimulus funding will be included in the MPS FY11 ARRA Budget.

GENERAL FUND TRENDS

Equalization aid revenues in the 2007-08 school year decreased by approximately \$15,771,015. Property tax revenues increased by approximately \$30,977,526.

Total expenditures increased approximately \$48,633,562 in 2007-08 versus the previous year. Expenditures for instructional services were 62.24% of total expenditures, versus approximately 62.47% over the prior year. The District remains under a revenue cap limitation first imposed in 1993-1994. Despite this restriction, MPS expects to provide all necessary instructional and operating services without major disruptions.

**MILWAUKEE PUBLIC SCHOOLS
GENERAL FUND ⁽¹⁾
FOUR YEAR SUMMARY**

	2008 <u>Year End</u> ⁽²⁾	2007 <u>Year End</u> ⁽³⁾	2006 <u>Year End</u> ⁽⁴⁾	2005 <u>Year End</u> ⁽⁵⁾
Revenues				
Property tax levy	\$234,101,757	\$203,124,231	\$191,722,666	\$188,706,559
Other local sources	15,465,538	12,501,939	14,427,256	10,192,204
State aid:				
Equalization aid	570,812,646	586,583,661	586,498,521	574,203,739
Special classes	42,288,233	39,265,952	39,188,603	39,419,557
Integration	41,864,808	45,208,452	43,660,426	38,661,528
Other state aid	53,695,405	49,850,506	52,184,246	50,958,075
Federal aid:				
Education Consolidation				
Improvement Act	81,727,901	70,566,992	72,246,390	69,124,917
Erate Refunds	3,638,805	976,664	—	3,296,638
Other federal aid	54,167,075	43,114,005	52,825,041	54,584,105
Miscellaneous	816,009	—	—	—
Interest and investment earnings	1,187,660	1,979,041	2,311,332	784,655
Total Revenues	<u>1,099,765,837</u>	<u>1,053,171,443</u>	<u>1,055,064,481</u>	<u>1,029,931,977</u>
Expenditures				
Current operating:				
Instructional services:				
Undifferentiated curriculum	420,350,045	420,196,158	430,564,038	418,322,709
Regular and other curriculum	139,085,524	113,231,381	105,796,528	99,908,858
Special curriculum	124,508,207	122,663,028	108,748,090	108,491,974
Total instructional services	<u>683,943,776</u>	<u>656,090,567</u>	<u>645,108,656</u>	<u>626,723,541</u>
Community services	19,337,638	20,022,461	23,127,716	20,591,303
Pupil and staff services	109,023,100	98,509,411	93,314,147	89,185,984
General and school building				
administration	112,066,634	109,867,741	111,227,914	108,422,951
Business services	169,019,755	160,817,367	151,129,644	153,790,477
Debt Service:				
Principal	3,537,425	3,327,450	12,002,475	3,657,500
Interest	1,446,457	1,568,747	9,104,965	8,106,051
Bond Issuance Cost	471,133	8,612	—	—
Other	—	—	799,375	1,162,108
Total Expenditures	<u>1,098,845,918</u>	<u>1,050,212,356</u>	<u>1,045,814,892</u>	<u>1,011,639,915</u>
Excess of revenues over (under) expenditures	919,919	2,959,087	9,249,589	18,292,062
Other Financing Sources (Uses)	—	—	—	—
Transfers in (out)	(13,285,576)	(1,678,776)	—	—
Total Other Financing Sources(uses)	<u>(13,285,576)</u>	<u>(1,678,776)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(12,365,657)	1,280,311	9,249,589	18,292,062
Fund balance - beginning of year		109,349,897	100,100,308	81,808,246
Fund balance - beginning of year, as restated	110,630,208	—	—	—
Fund balance - end of year	\$98,264,551	\$110,630,208	\$109,349,897	\$100,100,308

- (1) Reflects the GASB 34 reporting format begun in 2002
(2) Source: Comprehensive Annual Financial Report for June 30, 2008, p. 19
(3) Source: Comprehensive Annual Financial Report for June 30, 2007, p. 19
(4) Source: Comprehensive Annual Financial Report for June 30, 2006, p. 18
(5) Source: Comprehensive Annual Financial Report for June 30, 2005, p. 18

**Milwaukee Public Schools
School Operations Budget
Fiscal year 2009 and 2010**

	<u>2009-10</u> <u>Budget</u> ⁽¹⁾	<u>2008-09</u> <u>Budget</u> ⁽²⁾
REVENUES		
Locally Generated:		
Property Tax Levy	\$281,062,328 ⁽⁴⁾	\$259,634,156
Other Local Sources	<u>12,518,481</u>	<u>12,262,674</u>
Subtotal	<u>293,580,809</u>	<u>271,896,830</u>
State Aid:		
Equalization Aid	542,630,131	545,753,488
Special Education	44,945,000	44,550,000
Integration	40,936,440	41,276,129
Other	<u>25,963,787</u>	<u>25,899,855</u>
Subtotal	<u>654,475,358</u>	<u>657,479,472</u>
Federal Aid:		
School Nutrition Commodities & Federal Indirect	33,068,445	32,006,792
Other	<u>1,100,000</u>	<u>1,650,000</u>
Subtotal	<u>34,168,445</u>	<u>33,656,792</u>
TOTAL REVENUES	982,224,612	963,033,094
Plus Use of Surplus	<u>2,944,413</u>	<u>5,719,530</u>
TOTAL SOURCES OF FUNDS	<u><u>\$985,169,025</u></u>	<u><u>\$968,752,624</u></u>
EXPENDITURES ⁽³⁾		
Instructional Services	\$616,248,243	\$608,040,629
Support Services	<u>368,920,782</u>	<u>360,711,995</u>
TOTAL EXPENDITURES	<u><u>\$985,169,025</u></u>	<u><u>\$968,752,624</u></u>
SUMMARY		
Total Revenues and Use of Surplus	\$985,169,025	\$968,752,624
Total Expenditures	<u>985,169,025</u>	<u>968,752,624</u>
Difference	<u><u>\$0</u></u>	<u><u>\$0</u></u>

(1) Initial Fiscal Year 2010 School Operations Fund Budget approved June, 2009, reduced by \$2.9M for 7/1/09 DPI Equal Aid est.

(2) Final Fiscal Year 2009 School Operations Fund Budget approved October, 2008.

(3) Expenditure categories include allocations based on estimates and may differ from actual experience.

(4) See "REVENUES OF MILWAUKEE PUBLIC SCHOOLS-LOCAL PROPERTY TAX", page 16 herein.

The management of MPS has prepared the projected financial information set forth below to present the cash flow needs of MPS for the fiscal year 2009-2010. It is the belief of MPS management that these projections are reasonable and reflect the best current estimates and judgments regarding future cash flows. MPS's independent auditors have not compiled, examined, or performed any procedures with respect to the prospective financial information set forth below, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, this prospective financial information.

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND MONTHLY CASH FLOW SUMMARY
2008-2009 ACTUAL RESULTS (UNAUDITED)
2009-2010 PROJECTED
(Millions of Dollars)

ACTUAL

		<u>Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending</u>
July,	2008	29.329	17.163	63.572	(17.080)
Aug		(17.080)	10.196	55.167	(62.051)
Sept		(62.051)	323.632 ⁽¹⁾	84.456	177.125
Oct		177.125	31.156	131.801	76.480
Nov		76.480	36.202	93.301	19.381
Dec		19.381	174.837	106.110	88.108
Jan,	2009	88.108	25.585	92.249	21.444
Feb		21.444	175.436	111.460	85.420
Mar		85.420	228.448	98.448	215.420
Apr		215.420	22.723	96.428	141.715
May		141.715	22.408	126.401	37.722
Jun		37.722	364.632	370.665	31.689

⁽¹⁾ Includes \$210,000,000 2008 M10 Notes

PROJECTED

		<u>Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending</u>
July,	2009	31.689	33.438	58.719	6.408
Aug		6.408	17.421	67.916	(44.086)
Sept		(44.086)	332.354 ⁽²⁾	90.047	198.221
Oct		198.221	17.956	144.275	71.902
Nov		71.902	41.026	106.860	6.068
Dec		6.068	173.402	110.127	69.344
Jan,	2010	69.344	35.413	104.143	0.613
Feb		0.613	191.215	119.929	71.900
Mar		71.900	235.134	115.740	191.294
Apr		191.294	27.210	145.021	73.482
May		73.482	59.273	102.808	29.947
Jun		29.947	381.640	383.997	27.591

⁽²⁾ Includes \$228,000,000 2009 M4 Notes

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND - CASH FLOW ACTUALS
JULY 1, 2008 - JUNE 30, 2009
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	29.329	(17.080)	(62.051)	177.125	76.480	19.381	88.108	21.444	85.420	215.420	141.715	37.722	
RECEIPTS													
Property Taxes	-	-	-	-	-	-	-	132.905	51.491	-	-	-	259.634
Integration Aid	-	-	-	-	-	-	-	-	-	-	-	-	41.276
Computer Aid	-	3.452	-	-	-	-	-	-	-	-	-	-	3.452
State Aid													
Equalization Aid	9.344	-	83.000	-	-	131.745	-	-	134.215	-	-	-	546.205
Other	-	-	-	0.011	7.088	7.088	9.842	7.088	19.251	4.319	2.156	-	71.416
Categorical Aid	0.601	3.351	29.219	9.617	22.667	29.032	9.703	30.192	19.405	13.295	14.720	35.339	217.141
Nutrition	4.891	0.008	0.018	1.321	0.389	3.591	4.384	3.206	2.360	2.670	3.384	3.486	29.708
Local Revenues	0.756	0.004	0.154	0.003	0.010	0.008	0.035	0.013	0.004	0.001	0.001	3.924	4.913
Other Local Receipts	1.571	3.381	1.241	1.888	1.370	3.173	1.396	2.032	1.422	2.061	1.754	2.479	23.768
Non Operating Receipts	-	-	-	18.316	4.678	0.200	0.225	-	0.300	0.377	0.393	0.416	24.905
Note Proceeds	-	-	210.000	-	-	-	-	-	-	-	-	-	210.000
Total Receipts	17.163	10.196	323.632	31.156	36.202	174.837	25.585	175.436	228.448	22.723	22.408	364.632	1,432.418
DISBURSEMENTS													
Salaries and Benefits	25.783	22.147	62.444	115.250	77.169	80.803	75.182	78.260	80.123	78.853	118.094	78.555	892.663
Services & Supplies	35.480	29.639	20.431	(3.653)	9.182	20.960	14.037	28.177	16.603	15.137	6.160	71.219	263.372
Other Local Expenses	1.571	3.381	1.241	1.888	1.370	3.173	1.396	2.032	1.422	2.061	1.754	2.298	23.587
Non Operating Expenses	-	-	-	18.316	4.678	0.200	0.225	-	0.300	0.377	0.393	0.416	24.905
Note Principal to Trustee	-	-	-	-	-	-	-	-	-	-	-	-	210.000
Debt Service	0.738	-	0.340	-	0.902	0.974	1.409	2.991	-	-	-	8.177	15.531
GASB 45	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	63.572	55.167	84.456	131.801	93.301	106.110	92.249	111.460	98.448	96.428	126.401	370.665	1,430.058
Balance	(17.080)	(62.051)	177.125	76.480	19.381	88.108	21.444	85.420	215.420	141.715	37.722	31.689	

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND - CASH FLOW PROJECTION
JULY 1, 2009 - JUNE 30, 2010
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	31,689	6,408	(44,086)	198,221	71,902	6,068	69,344	0,613	71,900	191,294	73,482	29,947	
RECEIPTS													
Property Taxes ⁽¹⁾	-	-	-	-	-	-	-	142,845	55,342	-	-	82,875	281,062
Integration Aid	-	-	-	-	-	-	-	-	-	-	-	40,657	40,657
Computer Aid	4,581	-	-	-	-	-	-	-	-	-	-	-	4,581
State Aid													
Equalization Aid	8,893	-	80,537	-	-	132,686	-	-	133,264	-	-	186,455	541,835
Other	-	-	-	-	6,742	7,592	9,472	6,742	19,013	4,013	1,650	11,760	66,984
Categorical Aid	6,723	9,271	15,623	8,566	23,878	22,767	12,842	30,976	17,034	12,741	45,107	40,070	245,600
Nutrition	4,439	0,032	0,012	1,235	1,631	2,155	5,013	2,517	2,341	1,235	4,044	3,214	27,868
Local Revenues	0,802	0,118	0,150	0,125	0,743	0,172	0,054	0,105	0,108	1,191	0,440	8,510	12,518
Other Local Receipts	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Non Operating Receipts	6,000	6,000	6,032	6,030	6,032	6,030	6,032	6,030	6,032	6,030	6,032	6,099	72,379
Note Proceeds	-	-	228,000	-	-	-	-	-	-	-	-	-	228,000
Total Receipts	33,438	17,421	332,354	17,956	41,026	173,402	35,413	191,215	235,134	27,210	59,273	381,640	1,545,484
DISBURSEMENTS													
Salaries and Benefits	27,118	22,811	64,317	118,708	79,484	83,227	77,437	80,608	82,527	120,800	82,054	80,912	920,003
Services & Supplies	23,601	30,273	17,400	13,835	19,346	15,868	18,676	28,789	21,183	12,589	12,724	69,016	283,300
Other Local Expenses	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
Non Operating Expenses	6,000	6,032	6,030	6,032	6,030	6,032	6,030	6,032	6,030	6,032	6,030	4,069	70,379
Note Principal to Trustee	-	-	-	-	-	-	-	-	-	-	-	228,000	228,000
Debt Service	-	6,800	0,300	3,700	-	3,000	-	2,500	4,000	3,600	-	-	23,900
GASB 45	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Disbursements	58,719	67,916	90,047	144,275	106,860	110,127	104,143	119,929	115,740	145,021	102,808	383,997	1,549,582
Balance	6,408	(44,086)	198,221	71,902	6,068	69,344	0,613	71,900	191,294	73,482	29,947	27,591	

⁽¹⁾ See "REVENUES OF MILWAUKEE PUBLIC SCHOOLS-LOCAL PROPERTY TAX", page 16 herein.

THE CITY OF MILWAUKEE

GENERAL

The City of Milwaukee, Wisconsin (the “City”), is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. The City is Wisconsin’s largest city with a population of approximately 590,870 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Standard Consolidated Metropolitan Statistical Area (SCMSA) consisting of Milwaukee, Waukesha, Washington, Ozaukee, and Racine Counties, has a population of nearly 1.6 million. This SCMSA is the 24th largest metropolitan area in the United States of America.

The Port of Milwaukee provides access to the sea lanes of the world. General Mitchell International Airport is served by domestic and international airlines. Five rail lines serve the City and provide transportation links throughout the United States. The City is also connected with the interstate highway system.

The City was incorporated as a city on January 31, 1846, pursuant to the laws of the territory of Wisconsin. Wisconsin gained statehood in 1848. The City, operating under a Home Rule Charter since 1874, has a council-mayor form of government.

CITY OF MILWAUKEE SELECTED ECONOMIC DATA

<u>Year</u>	<u>Population</u>	<u>Adjusted Gross Income Per Return</u>
2008	590,870	N/A
2007	590,190	\$33,225
2006	590,370	32,370
2005	592,765	30,988
2004	593,920	29,922
2003	595,245	29,402

Sources: Wisconsin Department of Administration, Demographic Service Center and the Wisconsin Department of Revenue, Division of Research and Analysis.

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BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 2004 through December 2008.

General Total

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2004	\$294,811,125	2,784
2005	529,251,733	2,599
2006	424,763,947	2,655
2007	336,748,300	2,405
2008	249,992,533	2,067

Residential Building

<u>Year</u>	<u>Single Family</u>		<u>Multi-Family</u>		<u>Total</u>		<u>Permits Issued</u>
	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	
2004	\$29,896,986	194	\$48,346,002	553	\$78,242,988	747	244
2005	33,751,976	193	113,713,239	500	147,465,215	693	231
2006	25,146,380	162	95,804,142	519	120,950,522	681	189
2007	24,940,117	160	123,505,408	677	148,445,525	837	187
2008	15,632,811	90	63,975,007	509	79,607,818	599	104

Commercial Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2004	\$63,485,441	89
2005	166,425,515	106
2006	134,084,138	113
2007	82,501,318	105
2008	59,502,236	74

Public Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2004	\$34,176,914	95
2005	51,889,921	49
2006	38,009,733	243
2007	19,791,921	140
2008	9,107,611	85

Alterations and Additions

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2004	\$118,905,782	2,356
2005	163,471,082	2,213
2006	131,719,554	2,110
2007	86,009,536	1,973
2008	101,774,868	1,804

Sources: Development Center, Department of City Development. Data accumulated from monthly reports submitted to U.S. Department of Commerce, Bureau of the Census, Construction Statistics Division, Washington D.C.

**LEADING BUSINESS AND INDUSTRIAL FIRMS
LOCATED WITHIN MILWAUKEE COUNTY**

The listing of large employers in the Milwaukee County area which follows, reveals the diversity of Milwaukee County's economic base. The largest of these are shown in the following list which includes only employers with the majority or all of their employment in Milwaukee County.

Employer	2008 Employment Estimates	Type of Business or Service
Aurora Health Care	25,937	Health Care
U.S. Government (Includes Zablocki V.A. Medical Center)	11,100	Government
Milwaukee Public Schools	10,690	Education
Wheaton Franciscan Healthcare	9,020	Health Care
Roundy's Supermarket	8,480	Retail grocer
City of Milwaukee	7,307	Government
Quad Graphics	7,000	Commercial printing
Kohl's Corporation	6,900	Speciality department stores
GE Healthcare Technologies	6,462	Medical imaging, healthcare services
Wal-Mart Stores	6,229	Discount retail stores and warehouse clubs
Milwaukee County	5,708	Government
Northwestern Mutual Life	5,100	Insurance
Pro Healthcare, Inc.	4,936	Health care provider
Medical College of Wisconsin	4,700	Medical school/academic/health care
WE Energies	4,700	Electric/natural gas utility
Froedtert Memorial Lutheran Hospital and Community Health	4,365	Health Care
Columbia-St. Mary's	4,339	Health care provider
M&I Marshall & Ilsley	4,314	Holding company banking/finance and data services
University of Wisconsin-Milwaukee	4,307	Education
AT & T Wisconsin	4,300	Communications
Harley-Davidson Motor Company	3,742	Manufacturer, motorcycles
US Bank (formerly Firststar Corporation)	3,350	Finance, banking
Target Corporation	3,318	Discount department store chain
Rockwell Automation (formerly Allen-Bradley)	3,258	Manufacturer, electrical/electronic products
Walgreens Co.	3,240	Retail drugstore chain

Source: The 2009 Business Journal Book of Lists. Employer contacts July 2009.

EMPLOYMENT AND INDUSTRY

During 2008, the City's unemployment rate averaged approximately 7.2%. Presented below are unemployment rates for the City, as compared to the State of Wisconsin and the United States for the period 2004 through December 2008. The information below reflects revisions, corrections, and new inputs from the 2000 census, including the application of the changes to the prior years shown. For further information on the changes, please contact the U.S. Bureau of Labor Statistics, or visit their website at <http://www.bls.gov>.

ANNUAL UNEMPLOYMENT RATES (Not Seasonally Adjusted)

<u>Year</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
2008	6.6%	4.8%	4.7%	5.8%
2007	7.2	5.1	4.9	4.6
2006	7.0	4.9	4.7	4.6
2005	7.2	5.0	4.8	5.1
2004	7.8	5.4	5.0	5.5

Source: U.S. Department of Labor, Bureau of Labor Statistics.

RECENT MONTHLY UNEMPLOYMENT RATES (Not Seasonally Adjusted)

<u>Month</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
May 2009	11.4% ⁽¹⁾	9.0% ⁽¹⁾	8.7% ⁽¹⁾	9.1%

⁽¹⁾ Preliminary.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

The City's economic structure reveals a diversified economy with strong service and manufacturing sectors. The service sector (service, finance, insurance, real estate and retail trade) employs over 69% of the workforce. Manufacturing firms employ 17% of the workforce. The area is not dominated by any large employers. Less than two percent of the manufacturers have employment levels greater than 500. Less than one percent of the employers in finance, insurance and services have more than 500 employees.

TEN LARGEST TAXPAYERS WITH 2008 ASSESSED VALUATIONS

US Bank Corporation	\$256,738,190
Northwestern Mutual Life Ins.	\$203,882,060
Marcus Corp/Milw City Center/Pfister	\$125,713,250
Metropolitan Associates	\$101,764,920
NNN 411 East Wisconsin LLC	\$94,840,000
Crichton-Hauck/Shoreline/Juneau Village	\$92,662,300
Towne Realty	\$85,806,400
M & I Marshall & Ilsley Bank	\$84,574,980
100 E. Wisconsin Ave Joint Venture	\$73,121,560
Geneva Exchange Fund	\$69,755,000

Source: City of Milwaukee, Assessor's Office January 2009.

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BOOK-ENTRY-ONLY SYSTEM

The information contained in the following paragraphs of this subsection “Book-Entry-Only System” has been extracted from a document prepared by The Depository Trust Company (“DTC”) entitled “SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY ONLY ISSUANCE.” The City makes no representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Notes. The Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Note certificate will be issued for each issue of the Notes, each in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each actual purchaser of each Note (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Notes held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of City or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to City or Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that City believes to be reliable, but City takes no responsibility for the accuracy thereof.

NEITHER THE CITY, THE PAYING AGENT NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE NOTES; (3) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO HOLDERS OF THE NOTES; (4) ANY CONSENT GIVEN BY DTC OR OTHER ACTION TAKEN BY DTC AS THE HOLDER OF THE NOTES; OR (5) THE SELECTION BY DTC, ANY DTC PARTICIPANT OR ANY INDIRECT PARTICIPANT OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF NOTES.

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LEGAL MATTERS

LITIGATION

MPS and its directors, officers and employees have been defendants in numerous lawsuits over the years. Experience has shown that a relatively small number of suits commenced are reduced to judgment. MPS does carry Commercial General Liability Insurance, Umbrella General Liability Insurance and School Teachers Error and Omissions Insurance. Section 893.80 of the Wisconsin Statutes limits the amount recoverable against a political corporation, its officer, officials or employees for acts performed in their official capacity to \$50,000 in tort liability of non-automobile cases and \$250,000 in automobile cases.

The City Attorney's Office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation. Those which individually represent the maximum potential loss exposure in excess of \$1 million which existed as of the date August 4, 2009 are summarized below.

Jamie S., et al. v. Milwaukee Bd. of Sch. Directors, Case No. 01-C-0298 (E.D. Wis.) (formerly known as Lamont A., et al. v. Milwaukee Bd. of Sch. Directors). This is a federal suit, pending in the U.S. District Court for the Eastern District of Wisconsin. It was filed by Disability Rights Wisconsin (DRW) on behalf of a class of District special education students, alleging violations of the Individuals with Disabilities Education Act (IDEA), the Rehabilitation Act of 1973 (Section 504) and Section 1983 of the Civil Rights Act of 1871 (42 U.S.C. §1983). The Plaintiffs allege that MPS violated the statutory and constitutional rights of the class members as a result of the District's delay in providing and/or failure to provide special education and related services to students protected under the referenced statutes. The Plaintiffs also brought claims against the State of Wisconsin, Department of Public Instruction, (DPI) alleging that the State of Wisconsin failed to properly monitor the District and enforce federal and state laws.

In May, 2003, the Court significantly narrowed the class of plaintiffs, dismissing some named plaintiffs and the unnamed class plaintiffs that had failed to exhaust administrative remedies for "post-determination claims" prior to commencing the federal court action. That decision was appealed to the Seventh Circuit Court of Appeals, which denied the appeal. The Court certified the class which consists of those students eligible for special services who are, have been, or will be denied or delayed entry into the special education process which results in a properly constituted initial IEP meeting between the IEP team and the parents or guardians of the student.

On July 19, 2005, the Court determined that a trial was necessary to resolve the outstanding issues of fact and that only expert testimony would be heard at this trial. The Phase I trial was held and on November 28, 2005, the Court determined that it was necessary to proceed to Phase II, which would consist of the factual presentation upon which the experts formed their respective opinions. The Phase II trial was held and on September 11, 2007, the Court entered its Decision and Order, which found liability on behalf of both the District and DPI. Specifically, the Court concluded that the District committed systemic violations of the Child Find provisions of the IDEA, including failure to refer children with a suspected disability in a timely manner for an initial evaluation; improperly extending the 90 day time requirement; imposing suspensions in a manner that improperly impeded the ability to refer children with suspected disabilities for an initial evaluation; and failure to insure that the child's parents or guardians attend the initial evaluation. The Court concluded also that DPI violated the IDEA and related state statutes by failing to adequately discharge its oversight and supervisory obligations in regard to the compliance by MPS with the IDEA and related state statutes, as that compliance relates to the systemic violations found by the Court.

On October 12, 2007, the Plaintiffs filed a motion for attorneys' fees and costs. The Defendants filed a joint response brief arguing, among other things, that the Plaintiffs had not achieved prevailing party status under the IDEA and, thus, were unable to recover any fees or costs at this time.

On February 27, 2008, the Plaintiffs and DPI agreed to a settlement that would require DPI to enforce outcome standards for MPS regarding parental participation in initial IEP team meetings, timely completion of initial special education evaluations, and referral of regular education students with suspension histories or who have been retained to a system of early intervening services. DPI also agreed to hire an Independent Expert to oversee MPS' compliance with these standards and a parent/staff trainer to assist parents/guardians and District staff in understanding their rights and obligations under the IDEA. Finally, DPI agreed to pay DRW \$475,000 for attorneys' fees and costs.

On May 1, 2008, MPS filed a motion objecting to the Plaintiffs' and DPI's proposed settlement agreement because, among other reasons, it infringed MPS' legal rights. On June 6, 2008, the Court granted preliminary approval of the proposed settlement agreement, finding that the District did not have standing to object to the settlement agreement. On July 28, 2008, the Court approved the settlement agreement after receiving no objections from class members.

Phase III of trial was conducted in November 2008. In response to MPS' proposed remedy, which states that the Department of Public Instruction will share the costs of any compensatory education ordered by the Court, DPI submitted a motion for a declaratory ruling that it is not legally responsible for the cost of any Court-ordered remedy.

On June 9, 2009, U.S. Magistrate Judge Aaron E. Goodstein issued his Decision and Order Following Phase III ("Phase III Order"). His decision ordered and outlined the components of a remedial system. The following is a summary of the Phase III Order as well as the status of the litigation.

The Phase III Order concluded that the appropriate remedy for the four areas of liability found in its September 11, 2007 Decision and Order requires MPS to conduct an individualized evaluation of current and former students to determine whether compensatory education services are appropriate for those potential class members who may or may not have been denied a free and appropriate education ("FAPE"). The Court outlined a procedural framework to accomplish its goals which are briefly addressed below.

Independent Monitor: The Court determined that an independent monitor with broad authority to determine class membership, promote parent participation in the process, and determine the nature of compensatory education was necessary to move the litigation to completion. No specific person is appointed, rather the parties are instructed to attempt to agree on a person prior to July 24, 2009 or, in the alternative, submit up to 2 suggestions for the Court to consider. MPS is responsible for any costs associated with the independent monitor.

Hybrid IEP Team: The Court concluded that the eligibility determinations for compensatory education should be made by a "Hybrid IEP team" made up exclusively of MPS employees. When circumstances require it, "rotating members" may be added to make decisions for a particular student. The permanent members must have diverse educational backgrounds and at least one member must be qualified to provide, or supervise specially designed instruction to meet the unique needs of children with disabilities.

Eligibility: Any person who responds to the class notification and meets the class definition may be eligible for compensatory education.

Notice: The parties are instructed to meet and agree on the contents of an individualized notice to be sent to readily identifiable class members and a general notice to be posted on MPS' website and in District buildings. The parties must also agree on a timeline for responding to the notice.

Status of Litigation: The MBSD has filed an appeal to the District Court, and a motion with Judge Goodstein's Court to stay his Phase III Order pending its appeal to the District court. MPS filed a response to DPI's motion for a declaratory ruling, and the court has not yet ruled on that motion.

LEGAL OPINION

The legal opinions of Katten Muchin Rosenman LLP, Chicago, Illinois, and Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, will be delivered to the purchasers of the Notes. A draft of the legal opinions for the Notes are included herein as Appendix B.

TAX STATUS

Summary of Bond Counsel Opinion

Bond Counsel are of the opinion that under existing law, interest on the Notes is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), Bond Counsel are of the opinion that interest on the Notes will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel are further of the opinion that interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax. Interest on the Notes is not exempt from Wisconsin income taxes.

The Code contains certain requirements that must be satisfied from and after the date of issuance of the Notes in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Notes. These requirements relate to the use and investment of the proceeds of the Notes, the payment of certain amounts to the United States, the security and source of payment of the Notes and the use of the property financed with the proceeds of the Notes.

Notes Purchased at a Premium or at a Discount

The difference (if any) between the initial price at which a substantial amount of the Notes is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Notes is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Note, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Note, the difference between the two is known as "original issue discount."

Bond premium and original issue discount are amortized over the term of a Note on the basis of the owner's yield from the date of purchase to the date of maturity, compounded at the end of each accrual period of one year or less with straight line interpolation between compounding dates, as provided more specifically in the Income Tax Regulations. The amount of bond premium accruing during each period is treated as a reduction in the amount of tax-exempt interest earned during such period. The amount of original issue discount accruing during each period is treated as interest that is excludable from the gross income of the owner of such Note for federal income tax purposes, to the same extent and with the same limitations as current interest.

Owners who purchase Notes at a price other than the Offering Price, after the termination of the initial public offering or at a market discount should consult their tax advisors with respect to the tax consequences of their ownership of the Notes. In addition, owners of Notes should consult their tax advisors with respect to the state and local tax consequences of owning the Notes; under the applicable provisions of state or local income tax law, bond premium and original issue discount may give rise to taxable income at different times and in different amounts than they do for federal income tax purposes.

Exclusion from Gross Income: Requirements

The Code sets forth certain requirements that must be satisfied on a continuing basis in order to preserve the exclusion from gross income for federal income tax purposes of interest on the Notes. Among these requirements are the following:

Limitations on Private Use. The Code includes limitations on the amount of Note proceeds that may be used in the trade or business of, or used to make or finance loans to, persons other than governmental units.

Investment Restrictions. Except during certain "temporary periods," proceeds of the Notes and investment earnings thereon (other than amounts held in a reasonably required reserve or replacement fund, if any, or as part of a "minor portion") may generally not be invested in investments having a yield that is "materially higher" (1/8 of one percent) than the yield on the Notes.

Rebate of Arbitrage Profit. Unless the City qualifies for an exemption, earnings from the investment of the “gross proceeds” of the Notes in excess of the earnings that would have been realized if such investments had been made at a yield equal to the yield on the Notes are required to be paid to the United States at periodic intervals. For this purpose, the term “gross proceeds” includes the original proceeds of the Notes, amounts received as a result of investing such proceeds and amounts to be used to pay debt service on the Notes.

Covenants to Comply

The City has covenanted to comply with the requirements of the Code relating to the exclusion from gross income for federal income tax purposes of interest on the Notes.

Risks of Non-Compliance

In the event that the City fails to comply with the requirements of the Code, interest on the Notes may become includable in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issue. In such event, the City’s agreements with the owners of the Notes require neither acceleration of payment of principal of, or interest on, the Notes nor payment of any additional interest or penalties to the owners of the Notes.

Federal Income Tax Consequences

Pursuant to Section 103 of the Code, interest on the Notes is not includable in the gross income of the owners thereof for federal income tax purposes. However, the Code contains a number of other provisions relating to the treatment of interest on the Notes that may affect the taxation of certain types of owners, depending on their particular tax situations. Some of the potentially applicable federal income tax provisions are described in general terms below. PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE PARTICULAR FEDERAL INCOME TAX CONSEQUENCES OF THEIR OWNERSHIP OF THE NOTES.

Cost of Carry. Owners of the Notes will generally be denied a deduction for otherwise deductible interest on any debt which is treated for federal income tax purposes as incurred or continued to purchase or carry the Notes. As discussed below, special allocation rules apply to financial institutions.

Corporate Owners. Interest on the Notes is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Notes is taken into account in computing the branch profits tax imposed on certain foreign corporations, the passive investment income tax imposed on certain S corporations, and the accumulated earnings tax. Interest on the Notes is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Individual Owners. Receipt of interest on the Notes may increase the amount of social security and railroad retirement benefits included in the gross income of the recipients thereof for federal income tax purposes.

Certain Blue Cross or Blue Shield Organizations. Receipt of interest on the Notes may reduce a special deduction otherwise available to certain Blue Cross or Blue Shield organizations.

Property or Casualty Insurance Companies. Receipt of interest on the Notes may reduce otherwise deductible underwriting losses of a property or casualty insurance company.

Financial Institutions. Financial institutions may be denied a deduction for their otherwise allowable interest expense in an amount determined by reference, in part, to their adjusted basis in the Notes.

Foreign Personal Holding Company Income. A United States shareholder of a foreign personal holding company may realize taxable income to the extent that interest on the Notes held by such a company is properly allocable to the shareholder.

The opinions of Bond Counsel and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Notes are issued. There can be no assurance that such law or the interpretation thereof will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Notes are outstanding in a manner that would adversely affect the value or the tax treatment of ownership of the Notes.

STATE TAX MATTERS

Interest on the Notes is not exempt from State of Wisconsin income or franchise tax.

NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS

The City will not designate the Notes as “qualified tax-exempt obligations” for purposes of Section 265 (b)(3) of the Code relating to the ability of certain financial institutions (within the meaning of Section 265(b)(5) of the Code) to deduct from income for federal income tax purposes, 80% of the interest expense that is allocable to carrying and acquiring tax-exempt obligations.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (the "Rule"), the City shall covenant pursuant to a Resolution adopted by the Governing Body to enter into an undertaking (the "Undertaking") for the benefit of holders including beneficial holders of the Notes to provide certain financial information and operating data relating to the City annually to the Municipal Securities Rulemaking Board (the "MSRB"), and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Undertaking, as well as the information to be contained in the annual report or the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Notes are delivered. Such Certificate will be in substantially the form attached hereto as Appendix C. The City has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of material events. A failure by the City to comply with the Undertaking will not constitute an event of default on the Notes (although holders will have the right to obtain specific performance of the obligations under the Undertaking). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Notes in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Notes and their market price.

On December 8, 2008, the Securities and Exchange Commission (the "Commission") approved an amendment to the Rule designating the MSRB as the central repository for continuing disclosure by state and local government debt issuers, including the City. Under a separate MSRB rule change, the MSRB designated its Electronic Municipal Market Access ("EMMA") system as the system to be used for continuing disclosures to investors. The Commission and MSRB rule changes took effect on July 1, 2009. As a result, the City is required to file its continuing disclosure information using the EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

RATINGS

The City has requested ratings on the Notes from Fitch Ratings, Moody's Investors Service, Inc. and from Standard & Poor's Ratings Group. Fitch Ratings has assigned a rating of "F1+" on the Notes. Moody's Investors Service, Inc. has assigned a rating of "MIG 1" on the Notes. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. has assigned a rating of "SP-1+" on the Notes.

The ratings, when issued, reflect only the views of the respective ratings agencies, and an explanation of the significance of such rating may be obtained therefrom. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised, either upward or downward, or withdrawn entirely, by the respective agencies, if, in their judgment, circumstances so warrant. A revision or withdrawal of the credit rating could have an effect on the market price of the Notes.

FINANCIAL ADVISOR

Robert W. Baird & Co. has been retained as Financial Advisor to the City in connection with the issuance of the Notes. The Financial Advisor has requested and the City has consented to the Financial Advisor submitting bids for the Notes.

UNDERWRITING

The Notes have been purchased at competitive bidding conducted on August 18, 2009.

Awards of \$100,000,000 of the Notes was made to J.P. Morgan Securities Inc., New York, NY, \$50,000,000 of the Notes was made to Goldman, Sachs & Co., New York, NY, \$40,000,000 of the Notes was made to Citigroup Global Markets, New York, NY, \$28,000,000 of the Notes was made to Wachovia Bank, N.A., Charlotte, NC, and \$10,000,000 of the Notes was made to Piper Jaffray & Co., Minneapolis, MN.

The public reoffering yields on the Notes are detailed on the cover of the Final Official Statement.

LEGISLATION

The City is not aware of any pending legislation that would cause significant adverse consequences to either the Notes, the financial condition of the City or the financial condition of MPS.

CLOSING DOCUMENTS AND CERTIFICATES

Simultaneously with the delivery of and payment for the Notes by the original purchasers thereof, the City will furnish to the original purchasers the following closing documents, in form satisfactory to Bond Counsel:

- (1) a signature and no litigation certificate;
- (2) a tax certificate;
- (3) a certificate of delivery and payment;
- (4) the opinions as to the legality of the Offered Obligations under Wisconsin law and as to the tax-exempt status of the interest thereon for federal income tax purposes rendered by Katten Muchin Rosenman LLP, Chicago, Illinois, and by Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, in substantially the forms as set forth in Appendix B;
- (5) copies of this Official Statement issued in conjunction with the Notes within seven business days after the award of the Notes in accordance with SEC Rule 15c2-12(b)(3);
- (6) a Continuing Disclosure Certificate; and

- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

REPRESENTATIONS OF THE CITY

To the best of our knowledge, the information in this Official Statement does not include any untrue statement of a material fact, nor does the information omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Additional information may be obtained from the undersigned City Comptroller upon request.

W. MARTIN MORICS
City Comptroller and Secretary
City of Milwaukee
Public Debt Commission
City Hall - Room 404
200 East Wells Street
Milwaukee, Wisconsin 53202
(414) 286-3321

/s/ W. Martin Morics
Comptroller
City of Milwaukee, Wisconsin

August 18, 2009

APPENDIX A

**Audited Annual Financial Report of
the Milwaukee Public Schools
for the Year Ended June 30, 2008**

Selected Sections of the Comprehensive Annual Financial Report

The complete Comprehensive Annual Financial Report
can be downloaded at the Milwaukee Public School's web page at:

www.milwaukee.k12.wi.us

The independent auditor has not been engaged to perform, and has not performed since the date of its report (a portion of which is included herein), any procedures on the financial statements addressed in the report nor on this Official Statement.

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Table of Contents

II. Financial Section

Form of Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet—Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Basic Financial Statements	23
Required Supplementary Information:	
Budgetary Comparison Schedule for the General Fund	70
Budgetary Comparison Schedule for the Nutrition Fund	72
Schedules of Funding Progress	73
Notes to Required Supplementary Information	75
Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet—Nonmajor Governmental Funds	77
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Nonmajor Governmental Funds	78
Combining and Individual Fund Statements and Schedules, Continued:	
Schedules of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual:	
TEACH Wisconsin Programs Fund	79
Categorically Aided Programs Fund	80
Debt Service Fund	81
Combining Statement of Net Assets—Pension Trust Funds	83
Combining Statement of Changes in Net Assets—Pension Trust Funds	84
Schedule of Changes in Assets and Liabilities—Agency Fund	85

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The June 30, 2008 financial statements of Milwaukee Public Schools have been audited by Virchow, Krause & Company, LLP and they have issued an unqualified opinion dated December 12, 2008. Milwaukee Public Schools' complete financial statements and the related auditor's report are available from the Schools' office located at 5225 W. Vliet Street, Milwaukee, Wisconsin.

The complete financial statements and the related auditor's report are also available at the Milwaukee Public Schools website <http://mpsportal.milwaukee.k12.wi.us/> , searching on keyword CAFR 2008.

<Form of the Independent Auditor's Report>

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public School ("District") as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1(q), the District adopted the provisions of Government Accounting Standards Board Statement No 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2007

In accordance with *Government Auditing Standards*, we have also issued a report dated <date>, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information and schedules of funding progress on pages 3 through 14 and pages 70 through 75 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial and statistical information listed in the accompanying table of contents under "Introductory Section and Statistical Section" is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

INTRODUCTION

This discussion and analysis of the financial performance of Milwaukee Public Schools (MPS or the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. The intent of the management discussion and analysis is to look at the financial performance of MPS as a whole. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The District's government-wide financial statements reflect the following:

- Total net assets of MPS decreased to \$250.3 million at June 30, 2008, from \$387.5 million at June 30, 2007, a decline of approximately \$137.2 million, or 35.4%. Of this decrease, \$131.0 million is attributable to the District's Other Post Employment Benefits (OPEB) liability at year-end. Fiscal year 2008 is the first year MPS is reporting its OPEB obligation.
- Total revenues increased to \$1.192 billion in fiscal year 2008, up from \$1.146 billion in fiscal year 2007, an increase of approximately 4.0%.
- Total expenses increased to \$1.329 billion, up from \$1.147 billion for the year ended June 30, 2007, an increase of 15.9 %. The increase is largely attributable to the cost of the District's OPEB obligation.

The District's governmental fund financial statements reflect the following:

- Total fund balances of the District's governmental funds decreased \$14.9 million in fiscal year 2008. This decrease included a \$12.4 million decline in the General Fund, a \$1.1 million decrease in the Construction Fund, a \$0.4 million decrease in the School Nutrition Fund, and a \$1.0 million decrease in the Nonmajor Governmental Funds.
- The decrease in the General fund balance is primarily the result of a decrease in the equalization aid of \$15.8 million. The decrease in the Construction fund balance is attributable to timing differences between when revenues are received and expenditures are made. In fiscal year 2008 the District received debt proceeds of \$6.0 million from the City of Milwaukee for construction projects begun in fiscal year 2007, and received \$3.0 million in insurance proceeds as reimbursement for costs associated with a fiscal year 2007 fire at Franklin School.
- The decrease in the School Nutrition fund balance is attributable to larger than expected participation levels in the breakfast and lunch programs as well as increases in food costs. Management expects School Nutrition surpluses in future years to eliminate the fund balance deficit. The decrease in the Nonmajor Governmental fund balance is attributable to a \$1.0 million principal payment on an outstanding TEACH loan from the State of Wisconsin.
- Total fund balances for all governmental funds at June 30, 2008 were \$106.0 million. Of this amount, \$25.6 million was reserved for encumbrances, \$0.7 million was reserved for inventories, \$22.5 million was reserved for self-insurance and prepaid expenditures, \$6.8 million was reserved for the School Nutrition deficit, \$27.1 million was reserved for debt service, and \$23.3 million remains unreserved.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

Below is an outline of the remaining sections of this annual report in the order in which they are presented. Following the outline is a brief description of each section.

1. Management's Discussion and Analysis (this section)

2. Basic Financial Statements

- Government-wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
- Fund Financial Statements
- Notes to Basic Financial Statements

3. Required Supplementary Information (RSI)

- Budget-to-Actual Comparison
- Employee Pension Plan Liabilities, Current and Past Service
- OPEB Schedule of Funding Programs

The **Management's Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2008. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

The **Basic Financial Statements** section includes both *Government-wide* and *Fund Financial Statements*. *Government-wide financial statements* report information about MPS as a whole, using accounting methods similar to those used by private sector companies. Two government-wide statements are presented. The **statement of net assets** includes all of the District's assets and liabilities of the governmental funds. The District does not have any proprietary funds and the fiduciary funds are not included in the statement of net assets. The **statement of activities** includes all revenues and expenses of the District, irrespective of when cash is actually received or paid out. The intent of these government-wide statements is to present a snapshot of the District's *net assets*, and to provide an explanation of material changes that occurred since the prior year. Net assets—the difference between assets and liabilities—is one way to measure the District's financial strength.

The *fund financial statements* provide detailed information about the District's significant *funds*, rather than MPS as a whole. A *fund* is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, revenues, and expenditures. Funds are created to carry on specific activities or attain certain objectives in accordance with special regulations or limitations. There are three types of funds: governmental, proprietary, and fiduciary. MPS does not have any proprietary funds. Table 1 summarizes various features of each of these funds.

MILWAUKEE PUBLIC SCHOOLS

Management’s Discussion and Analysis

June 30, 2008

(Unaudited)

Table 1
Major Features of MPS' Government-wide and Fund Financial Statements

	Government-Wide	Fund Statements	
	<u>Statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire MPS entity (not including fiduciary funds)	Activities that are not proprietary or fiduciary; e.g. school operations, capital projects, and debt service	Activities where MPS acts as trustee or agent for another; e.g. employee retirement plans
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

Governmental Funds — Most of the District’s basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow and (2) the balances remaining at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or less financial resources to finance MPS programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship between them.

Fiduciary Funds — MPS is the trustee, or fiduciary, for its employees’ pension plans. The District is also responsible for other assets that — because of a trust arrangement — can be used only for the trust beneficiaries. MPS is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the government-wide statements because MPS cannot use these assets to finance its operations.

Required supplementary information (RSI) includes a budget-to-actual comparison that provides readers with information about the accuracy with which management was able to project the District’s revenue and expenditure categories. In addition, RSI includes information concerning MPS’ employee pension

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

plan costs and OPEB. Two pension-related schedules are included. One schedule shows the District's progress toward funding its *past* service liability. The other is a schedule of employer contributions that focuses on payment of *current* pension fund costs.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets

Total net assets decreased from the prior year by \$137.2 million. This decrease is largely the result of the District's Other Post-Employment Benefit (OPEB) liability. The Government Accounting Standards Board Statement 45 requires MPS to report its OPEB liability beginning with the 2008 fiscal year. The District's OPEB obligation at June 30, 2008 was \$131.0 million. This amount reflects the unfunded portion of the fiscal year 2008 cost of healthcare benefits owed to current and future MPS retirees. The District's total OPEB liability as actuarially determined at July 1, 2007 is \$2.223 billion.

MPS ended its fiscal year with net assets of \$250.3 million, of which \$483.9 million was invested in capital assets (net of related debt), \$16.0 million was restricted for debt service, and (\$249.6) million was an unrestricted deficit. The unrestricted deficit is the result of the OPEB liability note above as well as the District's pension liability. In November 2003, the MPS Board of School Directors took action to refinance the pension liability which at that time was owed to the Wisconsin Retirement System. The District issued pension bonds in the amount of \$168.1 million to fully fund future employee pension benefits granted through collective bargaining. At June 30, 2008 the balance of the outstanding pension debt grew to \$171.1 million due to the fact the pension financing included capital appreciation securities which accrete over time.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Table 2

Condensed Statement of Net Assets

(in thousands)

	Government-wide Activities		
	2008	2007 (restated)	Difference
Capital assets, net	\$ 643,539	\$ 641,008	\$ 2,531
Noncapital assets	195,294	199,143	(3,849)
Total assets	<u>838,833</u>	<u>840,151</u>	<u>(1,318)</u>
Current liabilities	104,713	88,425	16,288
Noncurrent liabilities	483,776	364,184	119,592
Total liabilities	<u>588,489</u>	<u>452,609</u>	<u>135,880</u>
Net assets:			
Invested in capital assets, net of related debt	483,878	473,613	10,265
Restricted	16,045	14,473	1,572
Unrestricted (deficit)	<u>(249,579)</u>	<u>(100,544)</u>	<u>(149,035)</u>
Total net assets	<u>\$ 250,344</u>	<u>\$ 387,542</u>	<u>\$ (137,198)</u>

Capital Assets increased by \$2.5 million. Increases occurred in all categories including buildings, software, furniture, and equipment. Notable changes in Noncapital Assets occurred in the areas of Cash and Investments, Prepaid Expenses, and Restricted Cash and Investments. Cash and Investments were up \$12.4 million, which is attributable to a decrease in Prepaid Expenses of \$10.5 million. The District prepays expenses in the current year to maximize state equalization aid in the following year. Fewer prepayments were made in fiscal year 2008. Restricted Cash and Investments declined \$8.1 million due to cost reimbursements for debt-funded projects.

Current liabilities rose \$16.3 million in the current year due to increases in operating cost and changes in timing of payments. Recording of the OPEB liability materially affected the noncurrent liabilities which rose \$119.6 million.

Statement of Activities

Table 3 shows that on a government-wide basis, the District ended fiscal year 2008 with a decrease in net assets of \$137.2 million, compared to a decrease of \$266,000 in fiscal year 2007.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

	Government-wide Activities		
	2008	2007	Difference
Program revenues:			
Charges for services	\$ 16,989	\$ 15,447	\$ 1,542
Operating grants and contributions	268,075	230,623	37,452
Capital grants and contributions	10,907	5,371	5,536
Total program revenues	295,971	251,441	44,530
General revenues:			
Property taxes	251,077	230,346	20,731
Other taxes	134	2,370	(2,236)
Federal and state aid	641,414	657,837	(16,423)
Interest and investment earnings	2,496	3,536	(1,040)
Miscellaneous	818	916	(98)
Total general revenues	895,939	895,005	934
Total revenues	1,191,910	1,146,446	45,464
Expenses:			
Instruction	826,043	676,036	150,007
Community services	19,658	20,110	(452)
Pupil and staff services	132,463	122,203	10,260
General administration	117,405	111,430	5,975
Business services	176,007	162,219	13,788
School nutrition	40,654	36,516	4,138
Interest on long-term debt	16,771	18,131	(1,360)
Other	108	67	41
Total expenses	1,329,109	1,146,712	182,397
Increase (decrease) in net assets before restatement	(137,199)	(266)	(136,933)
Restatement	-	1,568	(1,568)
Increase (decrease) in net assets after restatement	\$ (137,199)	1,302	(138,501)

- Total revenues increased \$45.0 million, or 4.0% over the prior year. The largest increase, \$37.5 million, came in the area of operating grants and contributions including increases in Title I and Title II revenues of \$16.1 million and \$15.3 million respectively, and a \$2.7 million rise in revenues from the SAGE program. The rise in property taxes of \$20.7 million offset a reduction in state equalization aid of \$15.8 million. State equalization aid and local property tax levy are the two principal elements of the state-imposed revenue limit. As one decreases, the other must increase in order to maximize revenues. Although the property tax levy increased in fiscal year 2008, the tax levy was \$15.1 million below the maximum allowed under the revenue limit.
- Capital grants and contributions increased \$5.5 million, a 103% increase over the prior year. This increase is attributable to \$6.0 million in proceeds from City of Milwaukee debt issued on behalf of MPS, and \$3.0 million insurance proceeds received as a result of a fire at Franklin School in fiscal year 2007.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

- Total expenses grew by \$182.4 million, or 15.9%. This growth in expenses is primarily attributable to a \$150.0 million increase in instruction costs, a \$10.3 million rise in pupil and staff services, and an increase of \$13.8 million in business services. The large rise in instruction costs is attributable to a \$124.0 million allocation of the District's Other Post-Employment Benefits (OPEB) obligation and a \$17.8 million increase in the fiscal year 2008 budget for instruction costs. The increase in pupil and staff services is the result of a budget increase primarily in the areas of salaries, wages, and benefits. The increase in business services was distributed across the board including a \$3.0 million increase in transportation expense, a \$2.1 million increase in compensated absences, and a \$1.1 million increase in workers' compensation.

Capital Assets

Table 4 shows that at June 30, 2008, MPS had \$1.068 billion invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$23.7 million from the previous year. Net increases occurred in the areas of buildings and software. The \$26.2 million rise in the value of the buildings account matched the decrease in the construction in progress account. Construction work in progress included various construction and cyclical maintenance projects. No new buildings or building additions were constructed.

Software increases totaled \$3.3 million while software decreases were only \$0.2 million. The increases reflect upgrades to existing software systems. With respect to the furniture and equipment account, increases were only \$0.9 million while decreases were \$1.4 million. The District's declining enrollment led to fewer furniture and equipment purchases. More detailed information can be found in Table 4 and in Note 5 to the District's financial statements.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Table 4**Change in Capital Assets
(in thousands)**

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets:				
Land	\$ 31,498	\$ —	\$ —	\$ 31,498
Construction in progress	14,190	21,065	26,158	9,097
Buildings	918,169	26,158	—	944,327
Leasehold improvements	6,083	7	—	6,090
Furniture and equipment	48,193	919	1,402	47,710
Software	26,390	3,267	166	29,491
Total capital assets	<u>1,044,523</u>	<u>51,416</u>	<u>27,726</u>	<u>1,068,213</u>
Accumulated depreciation	<u>(403,514)</u>	<u>(22,642)</u>	<u>(1,482)</u>	<u>(424,674)</u>
Totals	<u>\$ 641,009</u>	<u>\$ 28,774</u>	<u>\$ 26,244</u>	<u>\$ 643,539</u>

Long-term Debt

Long-term debt at June 30, 2008 was \$333.5 million. Debt retirements totaled \$8.6 million, and no new debt was issued during fiscal year 2008.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Table 5

Change in Long-term Debt and Capital Lease Obligations (in thousands)

	<u>July 1, 2007</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2008</u>
Governmental activities:				
Americans with Disabilities				
Act loans	\$ 9,600	\$ —	\$ 861	\$ 8,739
TEACH loan	6,511	—	1,991	4,520
Neighborhood School				
Initiative bonds	108,181	—	1,733	106,448
Qualified Zone Academy bonds	9,898	—	1,528	8,370
Financial and Student				
Tracking note	2,396	—	1,331	1,065
Pension refinancing debt	168,703	—	(2,397)	171,100
Capital leases	36,470	—	3,300	33,170
Other intergovernmental debt	290	—	237	53
Total debt	<u>\$ 342,049</u>	<u>\$ —</u>	<u>\$ 8,584</u>	<u>\$ 333,465</u>

The proceeds from Americans with Disabilities Act loans are used to make modifications to MPS facilities to accommodate people with disabilities. These activities are ongoing and additional loans are anticipated.

The District reduced TEACH loans outstanding in the 2008 fiscal year by \$2.0 million. The TEACH wiring loan program is sponsored by the state of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is immediately forgiven by the state. MPS has entered into two TEACH loan agreements with the state totaling \$15,144,033.

The NSI debt is part of a state of Wisconsin-sponsored program intended to increase the capacity and improve the quality of Milwaukee's neighborhood schools. The outstanding debt is in the form of revenue bonds issued by the Redevelopment Authority of the City of Milwaukee on behalf of MPS, and is secured through bond insurance and a moral obligation pledge by the state of Wisconsin. A total of \$112,040,000 of NSI debt was issued, with the first tranche issued in February 2002 (Series 2002A) in the amount of \$33,300,000, and the second tranche sold on November 5, 2003 (Series 2003A) in the amount of \$78,740,000. On February 1, 2007 MPS completed an advance refunding of \$29,260,000 of the second tranche (Series 2003A) and also retired \$5.1 million of bonds from that same tranche. Approximately \$1.7 million of NSI debt was retired in fiscal year 2008.

The Qualified Zone Academy Bond (QZAB) debt is in the form of lease-purchase agreements collateralized by the assets purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

in partnership with the business community. QZAB debt has been used to support the purchase of furniture and equipment, and to make building improvements at several MPS schools. Interest on the debt is paid by the IRS via tax credits to the lender. QZAB debt decreased by \$1.5 million in fiscal year 2008.

The financial and student-tracking debt is being used to fund the purchase and implementation of two software applications acquired in fiscal year 2003, a financial management system, and a student tracking system for special education. This debt will be paid off in fiscal year 2009.

In December 2003, the city of Milwaukee, in connection with an intergovernmental cooperation agreement, issued \$168,051,136 in bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293. In June 2006, MPS spent \$5.9 million to retire \$8.5 million of face value pension-related capital appreciation notes. The fiscal year 2008 ending balance is greater than the beginning balance given a portion of the District's pension debt is in the form of capital appreciation securities which appreciate each year.

MPS has entered into capital leases for the purpose of making major modifications to five school facilities. The five include the Milwaukee Education Center (MEC), Grand Avenue School, Congress School, Craig Montessori School, and Fratney Street School. The financing vehicle for all capital leases is lease revenue bonds. The MEC and Grand Avenue debt will be retired in 2014, while the Congress, Craig, and Fratney debt will be retired in 2026.

Additional information is provided in Table 5 on previous page, and in note 7 to the District's financial statements.

FUND FINANCIAL STATEMENTS

Milwaukee Public Schools has three major funds reported on the governmental fund statements. The major funds are the General Fund, School Nutrition Services Fund, and the Construction Fund.

- The year-end General fund balance decreased \$12.4 million over the prior year-end. The decrease is primarily the result of a decrease in the amount of equalization aid the District received by \$15.8 million.
- The Construction fund balance decreased \$1.1 million due to timing differences between when revenues are received and expenditures are made. In fiscal year 2008 the District received debt proceeds of \$6.0 million from the City of Milwaukee for construction projects begun in fiscal year 2007, and received \$3.0 million in insurance proceeds as reimbursement for costs associated with a fiscal year 2007 fire at Franklin School.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

NOTES TO BASIC FINANCIAL STATEMENTS

The notes to the basic financial statements supplement the basic financial statements by providing detailed descriptions of the District's significant accounting policies and presenting data that identifies changes that occurred throughout the year.

BUDGETARY HIGHLIGHTS

Annual budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America for the general, construction, and other non-major governmental funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2007, the MPS Board of School Directors (the Board) adopted the District's fiscal 2008 budget (July 1, 2007 – June 30, 2008). The adopted budget by necessity used a *projection* of the fiscal 2008 student enrollment. In October 2007, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2007, as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state general aids and property taxes, are predicated on actual MPS enrollment.

The October amendment process also incorporates all other changes in revenue and expenditure projections that result from having current information. The adopted budget, as amended, becomes the District's final budget.

In October 2007 the Board approved a revised fiscal year 2008 (FY08) General Fund expenditure budget in the amount of \$1,176,443,354. This amount included prior year encumbrances and carryover authority.

Actual General Fund expenditures came within 2.2% of the FY08 adopted budget.

Current Economic Facts and Next Year's Budget

The District adopted a long-range strategic plan in July 2007. The FY09 budget reflects the themes of the plan. The budget also relates performance measures, district objectives and the dollars that support them.

District enrollment declined 1.8% in fiscal year 2009 due to demographics and competition from both private and public schools. Student participation in the Milwaukee Parental Choice Program (school vouchers) is a major factor in declining enrollments. As a result of the enrollment decline and excess building capacity, the MPS Board of School Directors closed two schools in fiscal year 2009. In the previous year MPS closed four schools.

In October 2008 the MPS Board approved a revised FY09 General Fund budget of \$1,213,336,666 including prior year encumbrances and carryover authority. This represents a 5.4% increase over the revised 2008 general fund budget.

The state-imposed revenue limit for FY09 increased to \$877,606,667, a 0.7% rise over FY08. State general aids decreased 2.6% to \$596,889,478 as factors included in the state's equalization aid formula negatively affected MPS. In October 2008, the Board of School Directors voted to increase the District's

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

property tax levy by the full amount allowed under the revenue limit. The Board adopted a FY09 all funds property tax levy of \$287,778,700, a 14.6% increase over the FY08 levy.

The fiscal year 2009 budget process started earlier than it did in past years which allowed the District to assess and address its staffing needs earlier. Milwaukee Public Schools is now able to compete better with other school districts for the best professionals available.

The FY09 budget added 24 registered nurses funded through a \$1.5 million state grant. Since 2001, the District has been able to improve its nurse-to-student ratio from 1 to 8,500 to a projected 1 to 1,280 in FY09. Data shows that 87% of students requiring health services are able to return to class after nursing intervention.

MPS is committed to supporting the arts and arts education. For FY09, \$1.9 million will provide students access to art, music and physical education services that would otherwise be unavailable because of school funding issues. In addition, the highly successful "Partnership for the Arts" is funded at \$1.2 million in the FY09 budget. The program is designed to expand arts opportunities in the community while increasing resources and arts education. The money requires a dollar for dollar match from outside sources.

The District's efforts to improve reading and math skills continues in FY09. The proposed budget fully implements a \$2.3 million comprehensive literacy curriculum designed specifically for students in grades 3 to 12 who are two or more grades behind in reading or scoring at or below the 40th percentile on standardized tests. MPS in FY09 will review how it spends its resources on reading to identify the best ways to provide a more systematic and predictable approach to teaching vital reading skills. The District is also continuing its math initiative in FY09. The state is providing \$10 million to maintain 112 math teacher leader positions and MPS is contributing \$2.1 million for related professional development.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, taxpayers, parents, students, investors, and creditors with a general overview of MPS' finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, you can contact:

**Milwaukee Public Schools
Department of Finance
5225 West Vliet Street
Milwaukee, WI 53208**

Or visit our website at: www.milwaukee.k12.wi.us

**BASIC FINANCIAL
STATEMENTS**

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MILWAUKEE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2008

		<u>Governmental activities</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$	69,116,882
Accounts receivable, net (note 3)		7,410,745
Due from other governments (note 3)		59,860,282
Inventory (note 1(g))		739,425
Prepaid expenses (note 1(g))		18,807,391
Total current assets		<u>155,934,725</u>
Noncurrent assets:		
Restricted cash and investments (note 1(d))		33,088,526
Deposits for self-insurance (note 1(l))		3,665,896
Deferred charges—bond issuance costs (note 1(m))		2,605,215
Capital assets not being depreciated (note 5)		40,594,955
Capital assets being depreciated, net (note 5)		602,943,857
Total noncurrent assets		<u>682,898,449</u>
Total assets		<u>838,833,174</u>
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities		75,665,163
Accrued interest payable on long-term liabilities		4,273,262
Unearned revenue (note 1(i))		2,637,552
Current portion of long-term obligations (note 7)		22,137,748
Total current liabilities		<u>104,713,725</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations (note 7)		483,775,624
Total liabilities		<u>588,489,349</u>
Net Assets		
Invested in capital assets, net of related debt		483,877,761
Restricted for debt service		16,045,169
Unrestricted		(249,579,105)
Total net assets	\$	<u><u>250,343,825</u></u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Activities

Year ended June 30, 2008

Functions/programs	Expenses	Program revenues		Net (expenses) revenues and changes in net assets	
		Charges for services	Operating grants and contributions		Capital grants and contributions
Governmental activities:					
Instruction	\$ 826,043,487	9,168,741	211,544,865	10,906,976	(594,422,905)
Support services:					
Community services	19,658,453	2,333,636	6,389,186	—	(10,935,631)
Pupil and staff services	132,463,255	—	10,811,749	—	(121,651,506)
General, administration, and central services	117,404,599	—	—	—	(117,404,599)
Business services	176,006,641	1,571,882	6,867,633	—	(167,567,126)
School nutrition services	40,654,079	3,915,031	32,462,000	—	(4,277,048)
Interest on long-term debt	16,771,008	—	—	—	(16,771,008)
Other	107,547	—	—	—	(107,547)
Total support services	503,065,582	7,820,549	56,530,568	—	(438,714,465)
Total school district	\$ 1,329,109,069	16,989,290	268,075,433	10,906,976	(1,033,137,370)
General revenues:					
Taxes:					
Property taxes levied for general purposes					223,761,147
Property taxes levied for construction					16,975,373
Property taxes levied for community services					10,340,610
Other Taxes					133,509
Federal and state aid not restricted to a specific purpose:					
General (equalization aid)					570,812,646
Other					70,601,690
Miscellaneous					817,921
Interest and investment earnings					2,496,060
Total general revenues					895,938,956
Change in net assets					(137,198,414)
Net assets—Beginning of Year (restated)					387,542,239
Net assets—Ending of Year					\$ 250,343,825

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2008

Assets	General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Deposits with the City of Milwaukee and other cash (note 2)	\$ 43,664,386	25,452,496	—	—	69,116,882
Receivables, net:					
Accounts (note 3)	7,410,745	—	—	—	7,410,745
Due from other governmental units (note 3)	49,466,774	—	4,900,797	5,492,711	59,860,282
Due from other funds (note 4)	37,593,343	—	—	1,182,960	38,776,303
Total receivables	94,470,862	—	4,900,797	6,675,671	106,047,330
Restricted cash and investments (note 1(d))	20,393,319	12,695,207	—	—	33,088,526
Inventories (note 1(g))	739,425	—	—	—	739,425
Prepaid expenditures (notes 1(g))	18,807,391	—	—	—	18,807,391
Deposits for self-insurance (note 1(l))	3,665,896	—	—	—	3,665,896
Total assets	\$ 181,741,279	38,147,703	4,900,797	6,675,671	231,465,450
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 16,835,537	486,013	1,009,088	1,120	18,331,758
Contracts payable	93,635	1,393,310	—	—	1,486,945
Accrued salaries and wages	12,757,099	—	—	—	12,757,099
Deferred revenue (note 1(j))	10,701,096	—	—	334,065	11,035,161
Accrued claims for self-insurance (note 9)	39,465,203	—	—	—	39,465,203
Accrued pension payable (note 10)	3,613,989	—	—	—	3,613,989
Other accrued expenditures	10,169	—	—	—	10,169
Due to other funds (note 4)	—	22,915,635	10,703,142	5,157,526	38,776,303
Total liabilities	83,476,728	24,794,958	11,712,230	5,492,711	125,476,627
Fund balances:					
Reserved for:					
Encumbrances	19,783,832	5,796,829	—	—	25,580,661
Inventories	739,425	—	—	—	739,425
Self-insurance deposits and prepaid expenditures	22,473,287	—	—	—	22,473,287
School Nutrition	6,811,433	—	—	—	6,811,433
Debt service	20,393,319	6,697,794	—	—	27,091,113
Unreserved:					
Designated by board for subsequent year's expenditures (note 8)	28,063,255	—	—	—	28,063,255
Undesignated, reported in:					
Capital projects fund	—	858,122	—	—	858,122
Special revenues funds	—	—	(6,811,433)	1,182,960	(5,628,473)
Total fund balances	98,264,551	13,352,745	(6,811,433)	1,182,960	105,988,823
Total liabilities and fund balances	\$ 181,741,279	38,147,703	4,900,797	6,675,671	231,465,450

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets
 June 30, 2008

Total fund balances—governmental funds		\$	105,988,823
Amounts reported for governmental activities in the statement of net assets are different because:			
Bond costs of issuance are capitalized at the government-wide level and amortized over the life of the related bonds			2,605,215
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:			
Cost of capital assets	\$	1,068,212,131	
Accumulated depreciation		(424,673,319)	
Net capital assets		643,538,812	
Grant receivables that are not collected within 90 days after year-end are not considered to be available to pay for the current period's expenditures and, therefore, are deferred in the funds			8,397,610
Long-term liabilities (including bonds payable) are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
Bonds and notes payable		(409,252,000)	
Bonds premium and discounts		1,307,130	
Discount on capital appreciation bonds		107,649,991	
Capital leases payable		(33,170,000)	
Accrued bond interest payable		(4,273,262)	
Compensated absences payable (vacation and sick leave)		(32,613,810)	
OPEB liability		(131,035,465)	
Workers' compensation claims payable		(5,412,730)	
Self-insurance claims payable		(1,153,775)	
Life insurance benefits and other long-term liabilities		(2,232,714)	
Total long-term debt liabilities		(510,186,635)	
Total net assets—government activities		\$	250,343,825

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund
Balances—Governmental Funds
Year ended June 30, 2008

	General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Revenues:					
Property tax levy	\$ 234,101,757	16,975,373	—	—	251,077,130
Other taxes	88,839	—	—	—	88,839
Lunchroom sales	—	—	3,774,957	—	3,774,957
Other local sources	15,376,699	1,448,693	142,175	169	16,967,736
State aid:					
Equalization aid	570,812,646	—	—	—	570,812,646
Special classes	42,288,233	—	—	—	42,288,233
Integration	41,864,808	—	—	—	41,864,808
Other state aid	53,695,405	8,817	1,020,258	995,535	55,720,015
Federal aid:					
Education Consolidation Improvement Act	81,727,901	—	—	—	81,727,901
School nutrition services	—	—	31,387,925	—	31,387,925
Erate refunds	3,638,805	—	—	—	3,638,805
Other federal aid	54,167,075	—	53,816	25,241,622	79,462,513
Intergovernmental aid from the City of Milwaukee	—	6,000,000	—	—	6,000,000
Miscellaneous	816,009	—	—	—	816,009
Interest and investment earnings	1,187,660	1,308,400	—	—	2,496,060
Total revenues	<u>1,099,765,837</u>	<u>25,741,283</u>	<u>36,379,131</u>	<u>26,237,326</u>	<u>1,188,123,577</u>
Expenditures:					
Instructional services:					
Undifferentiated curriculum	420,350,045	—	—	—	420,350,045
Regular and other curriculum	139,085,524	—	—	—	139,085,524
Special curriculum	124,508,207	—	—	4,250,317	128,758,524
Total instructional services	683,943,776	—	—	4,250,317	688,194,093
Community services	19,337,638	—	—	—	19,337,638
Pupil and staff services	109,023,100	—	—	20,991,474	130,014,574
General and school building administration	112,066,634	—	—	—	112,066,634
Business services	169,019,755	23,671,448	—	—	192,691,203
School nutrition services	—	—	38,476,566	—	38,476,566
Debt service:					
Principal	3,537,425	1,790,000	—	5,710,493	11,037,918
Interest	1,446,457	4,373,834	—	7,877,949	13,698,240
Bond administrative fees	471,133	—	—	9,428	480,561
Total expenditures	<u>1,098,845,918</u>	<u>29,835,282</u>	<u>38,476,566</u>	<u>38,839,661</u>	<u>1,205,997,427</u>
Excess of revenues over (under) expenditures	919,919	(4,093,999)	(2,097,435)	(12,602,335)	(17,873,850)
Other financing sources (uses):					
Transfers In (Out)	(13,285,576)	—	1,678,776	11,606,800	—
Insurance Proceeds from Fire	—	2,997,170	—	—	2,997,170
Total other financing sources (uses), net	(13,285,576)	2,997,170	1,678,776	11,606,800	2,997,170
Net change in fund balances	(12,365,657)	(1,096,829)	(418,659)	(995,535)	(14,876,680)
Fund balances (deficit):					
Beginning of year (restated)	110,630,208	14,449,574	(6,392,774)	2,178,495	120,865,503
End of year	\$ <u>98,264,551</u>	<u>13,352,745</u>	<u>(6,811,433)</u>	<u>1,182,960</u>	<u>105,988,823</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities

Year ended June 30, 2008

Net change in fund balances—total governmental funds		\$ (14,876,680)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense		
Capital outlay reported in governmental fund statements	\$ 25,257,915	
Depreciation expense reported in the statement of activities	<u>(22,642,089)</u>	
Amount by which capital outlays are greater than depreciation in the current period		2,615,826
The net effect of miscellaneous transactions involving capital assets donated to the District that increases net assets		(39,592)
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets		(45,886)
Because some grants will not be collected for several months after the District's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds		823,499
Bond, note, and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Repayments:		
Bonds and notes		11,037,919
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Net decrease in accrued interest payable	34,220	
Accretion of interest on capital appreciation bonds	(2,397,256)	
Amortization of bond premium and discount	(57,039)	
Amortization of bond issuance costs	(172,132)	
Net increase in compensated absences payable (vacation and sick pay)	(2,136,428)	
Net increase in workers' compensation claims payable	(1,083,932)	
Net increase in OPEB liability	(131,035,465)	
Net increase in general insurance claims payable	(17,370)	
Net decrease in life insurance benefits payable	<u>151,902</u>	
Net adjustment		<u>(136,713,500)</u>
Change in net assets of governmental activities		<u>\$ (137,198,414)</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

June 30, 2008

Assets	Pension trusts	Private purpose trust	Agency
	<u> </u>	<u> </u>	<u> </u>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	849,208	5,599,250
Investments (note 2)		1,568,624	—
Money market accounts	6,143,266	—	—
Treasury and agency securities	2,741,394	—	—
Mortgage-backed securities	258,688	—	—
Nongovernment obligations	2,421,993	—	—
Investment in the State of Wisconsin	139,401,956	—	—
Receivables-interest and contributions	60,887	—	—
Total assets	<u>151,028,184</u>	<u>2,417,832</u>	<u>5,599,250</u>
Liabilities			
Accounts payable and accrued interest	1,384,201	—	—
Due to student organizations	—	—	5,599,250
Total liabilities	<u>1,384,201</u>	<u>—</u>	<u>5,599,250</u>
Net Assets			
Held in trust for:			
Supplemental pension benefits	149,643,982	—	—
Endowments	—	2,417,832	—
Total net assets	<u>\$ 149,643,982</u>	<u>2,417,832</u>	<u>—</u>

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
Statement of Changes in Fiduciary Net Assets
Year ended June 30, 2008

	Pension trusts	Private purpose trust
Additions:		
Employer contributions	\$ 17,675,417	—
Private donations	—	654,096
Interest income	—	101,059
Investment loss, net of expenses	(7,386,813)	—
Total additions	10,288,604	755,155
Deductions:		
Benefits paid to participant's or beneficiaries	16,247,375	—
Distribution of participant contribution accounts	343,440	—
Administrative expenses	191,804	—
Scholarships and awards	—	602,358
Total deductions	16,782,619	602,358
Changes in net assets	(6,494,015)	152,797
Net assets—beginning of year	156,137,997	2,265,035
Net assets—end of year	\$ 149,643,982	2,417,832

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The financial statements of the Milwaukee Public Schools (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies used by the District are described below.

(a) Reporting Entity

The District was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin State Statutes. The District is the largest school district in Wisconsin. The District, governed by a nine-member elected school board, provides elementary, secondary, vocational, and special education services through grade 12 to residents of the City of Milwaukee, Wisconsin (the City).

The District receives funding from local, state, and federal government sources and must comply with the concomitant requirements of these funding source entities.

The reporting entity for the District is based upon criteria set forth by GASB Statement No. 14, *The Financial Reporting Entity*. Under this pronouncement, the financial reporting entity consists of (a) the primary government, which is controlled by a separately elected governing body that is legally separate and is fiscally independent, and (b) organizations for which the primary government is financially accountable. All of the accounts of the District comprise the primary government.

The financial statements of the District are excluded from the City's financial statements because the District operates with a separate governing board that is not under the control of the City. The City, however, performs the following services for the District, as prescribed under Wisconsin State Statutes:

- Administers the property tax levy adopted by the school board and collects and remits the property taxes to the District
- Acts as the treasurer for the major portion of the District's cash
- Issues debt for the benefit of the District for the purchase of sites and buildings

This report includes all of the funds of the District. The reporting entity for the District consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; (2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization and; (3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. This report does not contain any component units.

(b) Basis of Presentation

Government-wide Statements—The statement of net assets and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Interfund services provided and used are not eliminated.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements—The fund financial statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds; each is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The District reports the following major governmental funds:

General Fund: The general fund is the general operating fund of the District. It is comprised of two taxing entities that were established by Wisconsin State Statutes and are used to account for all financial revenues and expenditures of the District except those required to be accounted for in other funds or taxing entities.

Construction Fund: The construction fund is used to account for financial resources to be used for the acquisition or construction of capital facilities and the additions to and remodeling of existing buildings. The District has only one activity unit within the construction fund for which property taxes are levied to finance various capital expenditures.

School Nutrition Services Fund: This fund is used to account for the breakfast and lunch programs operated by the District for students. Revenues are provided through federal and state aids, as well as sales at schools.

The District reports the following nonmajor governmental funds:

Special Revenue Funds: used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

TEACH Wisconsin Programs

Categorically Aided Programs

Debt Service Fund: used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the District reports the following fund types:

Pension Trust Funds: The pension trust funds account for the accumulation of resources for pension benefit payments under two early retirement plans maintained by the District for qualified teachers and administrators.

Private-Purpose Trust Fund: The private-purpose trust funds are:

- 1) Donations that are received pursuant to a trust agreement that restricts the use of the donations to the extent of the interest or other earnings of the fund. These trusts are maintained by the District for the purpose of scholarships for students.
- 2) Donations that are received pursuant to a trust agreement that restricts the use of the donation to a specified purpose but allows for the principal and interest to be expended. These trusts are maintained by the District to include scholarships, donations toward specified activities within schools, and trusts to support extracurricular programs.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Agency Fund: The agency fund accounts for the accumulation and expenditure of individual school activity funds. The sources of these funds include sales of supplies to students, residuals from fund-raising activities, and funds raised by the schools to support field trips or school-related activities. The principal at each school is responsible for accounting for all school activity funds and individual schools are required to maintain uniform accounting records.

(c) *Measurement Focus and Basis of Accounting*

The government-wide and fiduciary fund statements (excluding agency funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. For the pension trust funds, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plans are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year except for property taxes, which must be collected within 60 days after year-end. Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received. Expenditures are recorded when the fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences that are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District may fund certain programs by a combination of specific cost-reimbursement grants, categorical funds, and general revenues. Therefore, when program expenses are incurred, both restricted and unrestricted net assets may be available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(d) *Restricted Cash and Investments*

Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements and other external parties. Current liabilities payable from these restricted assets are so classified. The excess of restricted assets over current liabilities payable from restricted assets will be used to finance project costs or the retirement of related long-term debt. The remainder, if generated from earnings, is shown as restricted net assets.

(e) *Receivables*

General accounts receivable have been adjusted for all known uncollectible accounts. An allowance for uncollectible accounts is reported at year-end.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as “due to and from other funds.” Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

(f) *Investments*

The District has adopted an investment policy. Provisions of the policy are discussed in Note (2).

Investments, including investments of the pension trust funds, are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Investments principally consist of U.S. Government securities, mortgage-backed securities, money market mutual funds, and investments in the State of Wisconsin Fixed Retirement Investment Trust Fund (Trust Fund). The fair value of investments in the Trust Fund is the same as the value of the pooled shares. Although not subject to direct regulators’ oversight, the Trust Fund is administered in accordance with the provisions of Section 25.50 of the Wisconsin State Statutes. Purchases and sales of securities are recorded on a trade-date basis. Net investment income in the Trust Fund consists of realized and unrealized gains and losses and investment income.

(g) *Inventories and Prepaid Items*

Inventories are valued at average cost. Inventories in the governmental fund types are recorded as expenditures when consumed rather than when purchased. Donated United States Department of Agriculture (USDA) commodities are recorded as revenues and assets in school nutrition services at the fair value when originally donated by the USDA. When used by the schools, the commodities are expensed and the related assets are reduced.

The reserve for inventories on the balance sheet of the governmental funds is equal to the amount of inventories to indicate that a portion of the fund balance is not available for future expenditure.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

(h) Capital Assets

Capital assets are reported at actual cost or estimated costs. Donated assets are reported at the estimated fair market value at the time received. Capital assets are depreciated using the straight-line method over their estimated lives. Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization threshold</u>	<u>Estimated useful life</u>
Buildings	\$ 5,000	50 years
Furniture and equipment	5,000	5 – 20 years
Vehicles	5,000	5 – 15 years
Computers and related equipment	5,000	5 years
Major computer/software projects	50,000	7 years

(i) Property Taxes

The aggregate amount of property taxes to be levied for school purposes is determined according to provisions of Chapter 120 of the Wisconsin State Statutes. Property taxes for the District are adopted by the Board by early November and are certified to the City for levy and collection.

The District’s property taxes are levied annually prior to December 31, are administered by the City for the District based on the assessed (taxable) values as of January 1 of that calendar year, and are recognized as District revenue in the fiscal year they are levied. The levy becomes a lien against property on January 1. The taxes are due January 31, but may be paid in 10 monthly installments to the City from January through October. All unpaid taxes as of June 30 are purchased by the City.

(j) Deferred Revenue

Governmental funds deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Deferred revenues include amounts received from grants that have not yet been earned.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(k) *Compensated Absences*

District employees are granted vacation, compensatory time, and sick leave benefits in varying amounts in accordance with the provisions of union contracts and District policies. In the event of retirement, death, or resignation of an employee, the District is obligated to pay for all unused vacation days. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are available for subsequent use and, in certain situations, a portion vests upon retirement. A liability for sick pay has been calculated using the vesting method in which leave amounts for both employees who currently are eligible to receive termination payments upon retirement and other employees who are expected to become eligible in the future to receive such payments are included.

(l) *Insurance Deposits*

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$3,665,896 at June 30, 2008 to provide for payment of future claims.

(m) *Bond Premiums, Discounts, and Issuance Costs*

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Discounts for capital appreciation bonds and notes (i.e., zero coupon debt) are netted against the face amount of the debt. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(n) *Net Assets*

In the government-wide financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, plus unspent proceeds.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Restricted—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted—This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(o) *Fund Balance Reservations and Designations*

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved and unreserved, with unreserved further split between designated and undesignated.

In the fund financial statements, the District classifies its fund balance as follows:

- *Reserved*—The portion of the fund balance that has been legally segregated for specific purposes.
- *Unreserved-Designated*—The portion of the fund balance for which the District has made tentative plans.
- *Unreserved-Undesignated*—The portion of the fund balance that is available for use in future periods.

(p) *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 revenues and expenses/expenditures for the reporting period. Actual results could differ from those estimates.

(q) *New Accounting Pronouncements*

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The District currently provides post-retirement life and healthcare benefits in accordance with union contracts that are accounted for on the pay-as-you-go basis. During fiscal year 2008, the District implemented Statement No. 45.

In July 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting requirements for intangible assets including easements, waters rights, timber rights, patents, trademarks, and computer software. The District will implement Statement No. 51 during the year ended June 30, 2010.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(2) Deposits and Investments

District's Deposits and Investments, Exclusive of Pension Trusts

	Carrying Value	Bank Balance
Cash at the City	\$ 64,662,799	\$ 64,662,799
Demand deposits	8,742,145	7,145,636
Repurchase Agreement	3,000,000	25,545,346
Money market funds	28,321,533	20,933,693
U.S. Treasury Notes	871,001	871,001
U.S. Treasury Strips	3,907,389	3,907,389
Mortgage-backed securities	697,623	697,623
Certificate of Deposit	20,000	20,000
Total Cash and Investments	\$ 110,222,490	\$ 123,783,487
Reconciliation to financial statements		
Per statement of net assets		
Unrestricted cash and investments	\$ 69,116,882	
Restricted cash and investments	33,088,526	
Per statement of net assets – Fiduciary Funds		
Private purpose trust	2,417,832	
Agency	5,599,250	
Total Cash and Investments	\$ 110,222,490	

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit credit risk, MPS restricts the commitment of funds to only those investments authorized by Wisconsin State Statute 66.0603 including the following:

- Time deposits with maturities of not more than 3 years.
- Bonds or securities issued or guaranteed as to principal and interest by the federal government or by a commission, board or other instrumentality of the federal government.
- The state of Wisconsin local government pooled investment fund.
- Bonds or securities of any county, city, drainage district, vocational or technical college, village, town, school district in Wisconsin, local exposition district, local professional baseball park district, or the University of Wisconsin Hospitals and Clinics Authority.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

- Fully collateralized repurchase agreements.
- Any security that matures within 7 years and has a credit rating which is the highest or second highest rating assigned by Standard & Poor's corporation, Moody's investor service, or other similar nationally recognized rating agencies.
- No-load securities of open-end, registered, management investment companies or investment trusts.

The District has funds invested in overnight repurchase agreements, money market funds, U.S. Treasury notes, U.S. Treasury strips, mortgage-backed securities, and certificates of deposit. The overnight repurchase agreements have underlying securities of U.S. agency instruments with an implied triple-A credit rating. Of the \$20,933,693 invested in money market funds, \$13,745,464 is invested in U.S. Treasury securities with an implied triple-A credit rating, while the remaining \$7,188,229 is invested in U.S. government securities also with a triple-A credit rating. The District's \$871,001 investment in Treasury notes is rated triple-A. The District's \$3,907,389 investment in U.S. Treasury strips is rated triple-A. The \$697,623 invested in mortgage-backed securities is rated triple-A.

Interest rate risk is defined as the probability that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses weighted average maturity as a method for monitoring interest rate risk. The District does not have a formal investment policy limiting investment maturities as a means of managing its exposure to fair value losses resulting from rising interest rates.

As of June 30, 2008 the District had the following investments, shown with their maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Repurchase Agreement	\$25,545,346	\$ 25,545,346	-	-
Money market funds	20,933,693	20,933,693	-	-
U.S. Treasuries	871,001	117,848	753,153	-
U.S. Treasury strips	3,907,389	117,738	3,789,651	-
Mortgage-backed securities	697,623	123,400	574,223	-
	<u>\$51,955,052</u>	<u>46,838,025</u>	<u>5,117,027</u>	<u>-</u>

Custodial credit risk for *deposits* is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover its deposits, or will not be able to recover collateral securities that are in the possession of an outside party. The District does have a collateralization policy concerning this risk, and the policy requires collateralization of all uninsured deposits.

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was \$32,690,982, of which \$25,545,346 was invested in overnight repurchase agreements. Of the \$32,690,982 bank balance, \$6,955,567 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Guarantee Fund, \$25,045,346 was uninsured and collateralized at 125% by the bank, and \$690,060 was uninsured and uncollateralized and outside of the District's collateralization policy.

Funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund. Per Common Council the City Treasurer shall require collateralization of certificates of time deposit (excluding interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of \$500,000. Milwaukee Public Schools' deposits with the City Treasurer for investments are all insured or collateralized on June 30, 2008.

Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

The Trustees of the Plan have adopted a Statement of Investment Policy (the "Policy"). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds ("SWIB funds"), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp. ("M&I"), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the employee contribution account and payments from the 1989 bond dedication program, plus six months administrative expense and (3) assets relating to employee contributions. On July 1, 2007, the 1989 bond dedication fund was unwound and the assets transferred to the non-dedicated fund. After the asset transfer, all benefits except payments from the employee contribution account were paid from the non-dedicated fund at M&I. The portfolio is rebalanced toward the Policy targets quarterly. For 2008, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the "Fund") has two investment managers: the State of Wisconsin Investment Board ("SWIB") and M&I. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Plan portfolios in accordance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

A. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses both duration and weighted average maturity as methods of monitoring interest rate risk. SWIB data is expressed in terms of modified duration and option adjusted duration. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present value of all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in securities.

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2008.

<u>Investment</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	28% of the combined SWIB funds are invested in the fixed income by investment type with durations ranging from 0.0 to 8.0 years. Additional detail on the SWIB fixed income investments is included below.	\$ 40,416,590
Money market accounts	0.1	\$ 1,846,840
U.S. Treasuries, Agencies, and Government Bonds	5.1	\$ 1,035,207
Mortgage-backed securities	3.8	\$ 223,578
Non-government obligations	3.2	\$ 1,498,002

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

<u>SWIB Investments</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	5.2	\$ 145 Million
Certificate of Deposit	0.2	\$ 2 Million
Commerical Paper	0.1	\$ 156 Million
Commerical Paper	N/A	\$ 7 Million
Corporate Bonds	5.2	\$ 3,125 Million
Corporate Bonds	N/A	\$ 4 Million
Government Agency	3.9	\$ 906 Million
Commercial Mortgages	3.6	\$ 158 Million
Municipal Bonds	8.0	\$ 3 Million
Pooled Investments	0.0 to 6.8	\$17,198 Million
Private Placements	5.7	\$ 444 Million
Private Placements	N/A	\$ 1 Million
Repurchase Agreements	0.0	\$ 141 Million
Sovereign Debt	6.3	\$ 3,545 Million
Sovereign Debt	N/A	\$ 14 Million
United States Treasuries	8.0	\$ 3,473 Million

On June 30, 2008, SWIB's Core Fund and Variable Fund had \$74.0 Billion and \$5.9 Billion in assets, respectively. As of June 30, 2008, the Plan's assets were invested 77% in the SWIB Core Fund, 13% in the SWIB Variable Fund, and 10% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I Investment Management Corp on June 30, 2008. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

<u>Ratings*</u>	<u>SWIB</u>	<u>M&I</u>
P-1	3%	N/A
AAA	26%	68%
AA	10%	6%
A	9%	13%
BBB	3%	11%
BB	2%	0%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Commingled or Pooled Funds	41%	N/A
Not-Rated	5%	2%

*As defined by Moody's Bond Ratings or
Standard and Poor's

For SWIB's Core Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities shall not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of companies in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolios market value. Non-Investment Grade securities may not exceed 5% of the portfolio's market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

C. Custodial Credit Risk

The Plan does not have a deposit or investment policy specifically related to custodial credit risk. The Plan's assets are restricted to investments in the SWIB Core and Variable Funds and in portfolios at M&I.

Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2008, SWIB had uninsured and uncollateralized deposits totaling \$194.7 million that were held in foreign currencies or margin accounts in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$140.0 million, all of which were uncollateralized and uninsured. In total, these deposits represented 0.4% of the combined assets of the SWIB Core and Variable Funds.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2008, SWIB's Retirement Funds held 16 tri-party repurchase agreements totaling \$1 Billion. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of the repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent. These agreements represented 1.3% of the combined assets of the SWIB Core and Variable Funds.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups (excluding U.S. Government and Agency Securities) that generally restrict concentrations in any one company to 5% (investment grade) and 3% (non-investment grade) of the market value of each portfolio. Securities sold to SWIB under Rule 144A may not exceed 20% of a portfolio's market value. For the other separately managed portfolios, the policy guidelines specify that individual securities (excluding U.S. Government and Agency securities) in a separate portfolio should not exceed 7% of the value of that portfolio. None of the securities in these portfolios represented more than 5% of the market value of the Fund.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2008, \$14.7 billion of the SWIB Core and Variable Funds' \$81.0 billion in currency exposure was denominated in foreign currency. For the M&I managed portfolios, there was no foreign currency exposure.

The risk definitions noted above are from the Governmental Accounting Standards Board. The data, risk descriptions, and guidelines for the SWIB Funds were provided by SWIB and the data and risk information for the other investment types was provided by M&I Investment Management Corp.

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

The Trustees of the Plan have adopted a Statement of Investment Policy (the "Policy"). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds ("SWIB funds"), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp. (“M&I”), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the 1989 bond dedication program, plus six months administrative expense. On July 1, 2007, the 1989 bond dedication fund was unwound and the assets transferred to the non-dedicated fund. After the asset transfer, all benefits were paid from the non-dedicated fund at M&I. The portfolio is rebalanced toward the Policy targets quarterly. For 2008, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan’s investment portfolio (the “Fund”) has two investment managers: the State of Wisconsin Investment Board (“SWIB”) and M&I. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Plan portfolios in accordance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

A. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Milwaukee Public Schools uses both duration and weighted average maturity as methods of monitoring interest rate risk. SWIB data is expressed in terms of modified duration and option adjusted duration. Modified duration, which is stated in years, is the measure of price sensitivity of a fixed income security to an interest rate change of 100 basis points. The calculation is based on the weighted average of the present value of all cash flows. Some pooled investments are analyzed using an option adjusted duration calculation which is similar to the modified duration method. Option adjusted duration incorporates the duration shortening effect of any embedded call provisions in securities.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2008.

<u>Investment</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	28% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 8.0 years. Additional detail on the SWIB fixed income investments is included below.	\$ 98,985,366
Money market accounts	0.1	\$ 4,296,426
U.S. Treasury notes, and agency securities	5.2	\$ 1,706,187
Mortgage-backed securities	2.6	\$ 35,110
Non-government obligations	2.7	\$ 923,991

<u>SWIB Investments</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	5.2	\$ 145 Million
Certificate of Deposit	0.2	\$ 2 Million
Commerical Paper	0.1	\$ 156 Million
Commerical Paper	N/A	\$ 7 Million
Corporate Bonds	5.2	\$ 3,125 Million
Corporate Bonds	N/A	\$ 4 Million
Government Agency	3.9	\$ 906 Million
Commerical Mortgages	3.6	\$ 158 Million
Municipal Bonds	8.0	\$ 3 Million
Pooled Investments	0.0 to 6.8	\$17,198 Million
Private Placements	5.7	\$ 444 Million
Private Placements	N/A	\$ 1 Million
Repurchase Agreements	0.0	\$ 141 Million
Sovereign Debt	6.3	\$ 3,545 Million
Sovereign Debt	N/A	\$ 14 Million
United States Treasuries	8.0	\$ 3,473 Million

On June 30, 2008, SWIB's Core Fund and Variable Fund had \$74.0 Billion and \$5.9 Billion in assets, respectively. As of June 30, 2008, the Plan's assets were invested 86% in the SWIB Core Fund, 8% in the SWIB Variable Fund, and 6% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I Investment Management Corp on June 30, 2008. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.

<u>Ratings*</u>	<u>SWIB</u>	<u>M&I</u>
P-1	3%	N/A
AAA	26%	88%
AA	10%	5%
A	9%	5%
BBB	3%	2%
BB	2%	0%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Commingled or Pooled Funds	41%	N/A
Not-Rated	5%	0%

*As defined by Moody's Bond Ratings or Standard and Poor's

For SWIB's Core Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities shall not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of companies in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolios market value. Non-investment grade securities may not exceed 5% of the portfolio's market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

C. Custodial Credit Risk

The Plan does not have a deposit or investment policy specifically related to custodial credit risk. The Plan's assets are restricted to investments in the SWIB Core and Variable Funds and in portfolios at M&I.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2008, SWIB had uninsured and uncollateralized deposits totaling \$194.7 million that were held in foreign currencies or margin accounts in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$140.0 million, all of which were uncollateralized and uninsured. In total, these deposits represented 0.4% of the combined assets of the SWIB Core and Variable Funds.

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2008, SWIB's Retirement Funds held 16 tri-party repurchase agreements totaling \$1 Billion. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of the repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent. These agreements represented 1.3% of the combined assets of the SWIB Core and Variable Funds.

D. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios (excluding U. S. Government and Agency Securities) that generally restrict issuer concentrations in any one company to 5% (investment grade) and 3% (non-investment grade) to the market value of each portfolio. Securities sold to SWIB under Rule 144A may not exceed 20% of a portfolio's market value. For the other separately managed portfolios, the policy guidelines specify that individual securities (excluding U.S. Government and Agency securities) in a separate portfolio should not exceed 7% of the value of that portfolio. None of the securities in these portfolios represented more than 5% of the market value of the Fund.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2008, \$14.7 billion of the SWIB Core and Variable Funds' \$81 billion in currency exposure was denominated in foreign currency. For the M&I managed portfolios, there was no foreign currency exposure.

The risk definitions noted above are from the Governmental Accounting Standards Board. The data, risk descriptions, and guidelines for the SWIB Funds were provided by SWIB and the data and risk information for the other investment types was provided by M&I Investment Management Corp.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(3) Receivables

Receivables as of June 30, 2008 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	School Nutrition Services Fund	Nonmajor Fund	Total
Receivables:				
Accounts	\$ 7,683,805	—	—	7,683,805
Intergovernmental-federal	33,537,624	4,900,797	5,492,711	43,931,132
Intergovernmental-state	15,929,150	—	—	15,929,150
Gross receivables	<u>57,150,579</u>	<u>4,900,797</u>	<u>5,492,711</u>	<u>67,544,087</u>
Less allowance for uncollectibles	<u>(273,060)</u>	<u>—</u>	<u>—</u>	<u>(273,060)</u>
Total receivables, net	\$ <u>56,877,519</u>	<u>4,900,797</u>	<u>5,492,711</u>	<u>67,271,027</u>

(4) Interfund Transactions

Interfund borrowings are reflected as “due from/to other funds” on the accompanying financial statements.

The following balances as of June 30, 2008 represent due to/from balances among all funds:

	Due from other funds			Due In More Than One Year
	General Fund	Nonmajor Fund	Total	
Due to other funds:				
Construction fund	\$ 22,915,635	—	22,915,635	—
Nutrition fund	9,520,182	1,182,960	10,703,142	6,811,433
Nonmajor funds	<u>5,157,526</u>	<u>—</u>	<u>5,157,526</u>	<u>—</u>
Total	\$ <u>37,593,343</u>	<u>1,182,960</u>	<u>38,776,303</u>	<u>6,811,433</u>

Balances resulted from the timing difference between the dates that interfund goods and services are provided or reimbursable expenditures occur.

The following balances as of June 30, 2008 represent transfer in/out balances among all funds:

Fund Transferred To	Fund Transferred From	Amount	Reason
Debt Service Fund	General Fund	\$11,606,800	To fund current year debt service
School Nutrition Services Fund	General Fund	1,678,776	To reduce fund deficit

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(5) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 31,497,852	—	—	31,497,852
Construction in progress	<u>14,189,914</u>	<u>21,065,172</u>	<u>26,157,983</u>	<u>9,097,103</u>
Total capital assets, not being depreciated	<u>\$ 45,687,766</u>	<u>21,065,172</u>	<u>26,157,983</u>	<u>40,594,955</u>
Capital assets, being depreciated:				
Buildings	\$ 918,168,982	26,157,983	—	944,326,965
Leasehold improvements	6,082,852	7,480	—	6,090,332
Furniture and equipment	48,193,011	918,725	1,401,754	47,709,982
Software	<u>26,390,076</u>	<u>3,266,538</u>	<u>166,717</u>	<u>29,489,897</u>
Total capital assets, being depreciated	<u>\$ 998,834,921</u>	<u>30,350,726</u>	<u>1,568,471</u>	<u>1,027,617,176</u>
Less accumulated depreciation for:				
Buildings	\$ (338,261,305)	(18,886,539)	—	(357,147,844)
Leasehold improvements	(982,986)	(263,005)	—	(1,245,991)
Furniture and equipment	(42,999,328)	(1,291,014)	(1,316,277)	(42,974,065)
Software	<u>(21,270,605)</u>	<u>(2,201,531)</u>	<u>(166,717)</u>	<u>(23,305,419)</u>
Total accumulated depreciation	<u>(403,514,224)</u>	<u>(22,642,089)</u>	<u>(1,482,994)</u>	<u>(424,673,319)</u>
Total capital assets, being depreciated	<u>595,320,697</u>	<u>7,708,637</u>	<u>85,477</u>	<u>602,943,857</u>
Capital assets, net	<u>\$ 641,008,463</u>	<u>28,773,809</u>	<u>26,243,460</u>	<u>643,538,812</u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Depreciation expense for governmental activities for the year ended June 30, 2008 was charged to functions/programs as follows:

Governmental activities:	
Instruction	\$ 13,485,411
Community services	374,114
Pupil and staff services	2,533,172
General, administration and central services	2,016,983
Business services	3,437,601
School nutrition	723,147
Other	71,661
Total depreciation	<u>\$ 22,642,089</u>

(6) Short-term Borrowings

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$188,000,000 in September, 2007. These notes were issued with interest rates of 4.5%, priced to yield 3.64%. The notes matured September 2008. The debt was repaid in June 2008 from the District's equalization aid allocations received from the state government.

(7) Long-term Obligations

The City school bonds, notes and capital lease obligations outstanding at June 30, 2008 totaled \$418,343,863. Of this total, \$84,878,985 represents school bonds and notes that will be repaid by the City using the City's property tax levy. As the District does not have an obligation to repay these bonds and notes from its own property tax levy, the debt is not reflected in the District's long-term obligations. The remaining balance of \$333,464,878 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2008</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual install- ments to December 2007	\$ 2,000,000	240,000	—	240,000	—	—
3.5% – 4.25%, due in annual install- ments to December 2008	605,000	142,175	—	69,575	72,600	72,600
4.75% – 5.375%, due in annual install- ments to June 2009	300,000	140,000	—	20,000	120,000	20,000
4.74% – 5.625%, due in annual install- ments to September 2015	2,000,000	1,199,728	—	133,304	1,066,424	133,304
3.59%, due in annual installments to September 2016	3,095,000	1,650,032	—	206,254	1,443,778	206,254
3.74%, due in annual installments to March 2017	1,205,000	401,745	—	80,446	321,299	80,466
4.0 – 5.0%, due in annual installments to September 2017	660,000	439,880	—	44,042	395,838	44,042
4.0 – 5.0%, due in annual installments to February 2019	350,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	469,000	—	67,000	402,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	4,582,676	—	—	4,582,676	—
TEACH loan, 5.0%, due in annual install- ments to March 2012	15,144,033	6,511,466	—	1,991,071	4,520,395	2,090,624
Neighborhood Schools Initiative Bonds (NSI), 3.5%– 4.875%, due in annual installments to August 2023	143,905,000	109,545,000	—	1,790,000	107,755,000	2,980,000
Plus: Premium on issuance	1,357,121	524,318	—	70,151	454,167	—
Less: Discount on 2007A issuance	(338,503)	(317,143)	—	(21,360)	(295,783)	—
Less: Deferred amount of refunding	(1,677,174)	(1,571,344)	—	(105,830)	(1,465,514)	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	19,318,100	9,897,583	—	1,527,994	8,369,589	1,327,400
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to September 2008	8,000,000	2,395,808	—	1,330,808	1,065,000	1,065,000
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	37,375,000	—	—	37,375,000	—
Less: Discount	(25,232,986)	(19,114,524)	—	(1,132,648)	(17,981,876)	—
Capital appreciation bonds, due in annual installments beginning April 1, 2026 through April 1, 2041	110,525,000	110,525,000	—	—	110,525,000	—
Less: Discount	(94,805,878)	(90,932,723)	—	(1,264,608)	(89,668,115)	—
Pension bonds, variable interest rate “index-linked”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Other intergovernmental notes	4,437,000	289,825	—	237,425	52,400	52,400
Capital lease—MEC/Grand Avenue & CCF	46,890,000	36,470,000	—	3,300,000	33,170,000	3,710,000
Total intergovernmental cooperation agreement debt		\$ 342,048,502	—	8,583,624	333,464,878	11,849,090

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2008</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 342,048,502	—	8,583,624	333,464,878	11,849,090
Accrued compensated absences	30,477,382	9,814,552	7,678,124	32,613,810	7,600,000
Accrued OPEB Obligation	—	175,418,900	44,383,435	131,035,465	—
Workers' compensation claims	4,328,798	2,819,034	1,735,102	5,412,730	2,299,481
General insurance claims	1,136,405	805,509	788,139	1,153,775	51,408
Life insurance benefits	2,099,565	—	151,902	1,947,663	337,769
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	\$ 380,375,703	188,857,995	63,320,326	505,913,372	22,137,748

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

The District has recognized workers' compensation claims liability in the governmental funds of approximately \$2.3 million as of June 30, 2008. Accordingly, the total liability for workers' compensation claims was approximately \$7.7 million.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2008 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2009	\$ 8,139,090	12,214,865	20,353,955
2010	6,680,655	12,008,863	18,689,518
2011	6,663,148	11,828,007	18,491,155
2012	6,834,661	11,626,944	18,461,605
2013	6,307,932	11,403,421	17,711,353
2014 – 2018	51,813,598	53,091,453	104,905,051
2019 – 2023	70,557,913	43,931,099	114,489,012
2024 – 2028	48,560,000	33,109,264	81,669,264
2029 – 2033	58,240,001	24,118,325	82,358,326
2034 – 2038	80,605,001	15,356,440	95,961,441
2039 – 2043	58,725,000	6,645,513	65,370,513
2044	6,125,000	114,538	6,239,538
Total	\$ 409,251,999	235,448,732	644,700,731

The above schedule of future payments reflects the variable rate pension debt adjusted for the interest rate swap agreement. Interest on the \$130,850,000 variable rate pension debt (index-linked bonds) is based upon the one-month LIBOR rate (the London Interbank Offered Rate) plus 25 basis points (.25%) and is adjusted monthly. The interest rate was 2.46% as of June 30, 2008.

The District leases land and buildings with a historical cost and accumulated amortization of \$48,472,061 and \$5,397,445 respectively, under capital lease arrangements.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Future minimum lease payments under these capital leases at June 30, 2008 are as follows:

Fiscal year ended June 30:	
2009	\$ 4,900,111
2010	4,896,685
2011	4,899,676
2012	4,894,744
2013	4,894,503
2014 – 2018	8,839,092
2019 – 2023	4,922,029
2024 – 2026	2,908,672
	<hr/>
Total minimum lease payments	41,155,512
Less amount representing interest	<u>(7,985,512)</u>
Present value of minimum lease payments	<u>\$ 33,170,000</u>

The maximum allowable amount of City debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City (Wisconsin State Statute Chapter 67.03). Wisconsin State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City for calendar year 2008 was \$32,238,573,100 and the 5% debt limit was \$1,611,928,655. No referendum-approved debt is outstanding at June 30, 2008.

Prior-Year Defeasance of Debt

In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$29.3 million of bonds outstanding are considered defeased. The bonds are callable on August 1, 2013.

Interest Rate Swap Agreement

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in December 2003, the District entered into interest rate swap agreements in connection with the \$130,850,000 Taxable Pension Funding Bonds, 2003 Series D (originally variable-rate auction rate securities, converted to index-linked bonds on July 7, 2005). The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 5.56%. The conversion to index-linked bonds maintains the swap agreements, but with a resultant synthetic fixed rate cost to MPS of 5.61%.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Terms. The bonds and the related swap agreements mature on October 1, 2043 and the swap's aggregate notional amount of \$130,850,000 matches the \$130,850,000 par amount of the variable-rate bonds. The swaps were entered into at the same time the bonds were issued in December 2003, and continue to remain in effect after the conversion to index-linked bonds on July 7, 2005. Starting in fiscal year 2024, the notional value of the swap and the principal amount of the bonds decline until the debt is completely retired. Under the swap agreements, the District pays the counterparty a fixed payment of 5.56% and receives a variable payment computed as the London Interbank Offered Rate (LIBOR) plus 20 basis points (.20%). Conversely, the District pays the bond's index-linked coupon rate of LIBOR plus 25 basis points (.25%).

	<u>Terms</u>	<u>Rates</u>
Interest rate swap (as of 6/30/2008):		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	<u>(2.66)%</u>
Net interest rate swap payments		2.90%
Index-linked bond coupon payments	LIBOR + 25 bps	<u>2.71%</u>
Synthetic interest rate on bonds		<u>5.61%</u>

Fair value. As of June 30, 2008, the swaps had an aggregate negative fair value of \$8,699,537 because interest rates have decreased since execution of the swaps. The swap's negative fair value may be countered by decreases in total interest payments required on the index-linked bonds. Because the coupons on the index-linked bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. As of June 30, 2008, the District's exposure to credit risk is as follows: The swap counterparties were rated Aa3/A+/AA- and A1/A+/A+ by Moody's Investor Service, Standard & Poor's, and Fitch Ratings, respectively. To mitigate the potential for credit risk, if the Aa3/A+/AA-counterparty's credit quality falls below Aa3 by Moody's Investor Service, AA- by Standard & Poor's, and AA- by Fitch Ratings, the fair value of the swap above \$100,000 will be fully collateralized by the counterparty. The obligation of the A1/A+/A+

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

Basis Risk. As a result of the conversion to index-linked bonds from auction rate securities, the basis risk exposure from the swaps was eliminated. Previously, the auction rate securities exposed the District to basis risk should the relationship between LIBOR and the auction rate diverge.

Termination Risk. The District or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. A swap may be terminated by the District if the counterparty’s credit quality rating falls below “BBB-“ as issued by Standard & Poor’s or “Baa3” as issued by Moody’s Investors Service. If a swap is terminated, the variable-rate bonds will no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap’s fair value.

Swap payments and associated debt. Using rates as of June 30, 2008, debt service requirements of the variable-rate index-linked bonds and net swap payments, assuming current interest rates remain the same for their term, were as follows (as rates vary, variable-rate interest payments and net swap payments will vary):

	Variable-rate bonds		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ended June 30:				
2009	\$ —	3,545,224	3,795,461	7,340,685
2010	—	3,545,224	3,795,461	7,340,685
2011	—	3,545,224	3,795,461	7,340,685
2012	—	3,545,224	3,795,461	7,340,685
2013	—	3,545,224	3,795,461	7,340,685
2014 – 2018	—	17,726,119	18,977,306	36,703,425
2019 – 2023	—	17,726,119	18,977,306	36,703,425
2024 – 2028	31,325,000	15,885,208	17,006,456	64,216,664
2029 – 2033	31,250,000	11,648,076	12,470,249	55,368,325
2034 – 2038	31,150,000	7,416,476	7,939,964	46,506,440
2039 – 2043	31,000,000	3,209,486	3,436,026	37,645,512
2044	6,125,000	55,317	59,221	6,239,538
Totals	\$ 130,850,000	91,392,921	97,843,833	320,086,754

(8) Fund Balance

Designated for Subsequent Year's Expenditures—The unreserved fund balance of the general fund is \$28,063,255 at June 30, 2008. This unreserved balance is designated to partially fund school operating expenditures during the period July 1 through December 31, 2008.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Based on recent operating experience, management anticipates that approximately \$462,458,000 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2008. In addition to the fund balance designated for subsequent year's expenditures, revenue anticipation notes and approximately \$293,513,000 of state aids will be used to fund operating expenditures through December 31, 2008.

The Board has established a formula to identify the amount of unreserved fund balance required to fund the six months of the subsequent year's school operations property tax levy. The purpose of this designation of fund balance is to provide working capital until state aids and other payments from federal agencies are received.

The formula established by this action, and the application thereof as of June 30, 2008, is as follows:

General fund unreserved fund balance	\$ 28,063,255
Amount required to fund six months of the school operation's property tax levy:	
Subsequent year's school operations school levy (\$259,634,156)	
multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (74) to total calendar school year days (180)	<u>106,738,486</u>
General fund undesignated fund balance deficiency	\$ <u><u>(78,675,231)</u></u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(9) Restatement of Fund Balance/Net Assets

The District has restated its fund balance to properly report investment securities at market value.

Below are the related restatements as of June 30, 2007:

<u>Fund Statements</u>	Construction Fund
Fund balance - June 20, 2007 (as reported)	\$ 12,881,415
Market value adjustment	1,568,159
Fund balance - June 30, 2007 (restated)	<u>\$ 14,449,574</u>

<u>Government-wide Statements</u>	Governmental Activities
Net assets - June 20, 2007 (as reported)	\$ 385,974,080
Market value adjustment	1,568,159
Net assets - June 30, 2007 (restated)	<u>\$ 387,542,239</u>

(10) Risk Management

The District is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences. Also included are risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The District provides health insurance benefits to employees and retirees through a self-insured PPO/Indemnity plan and or self insured exclusive provider organization (EPO) plan. The District purchases stop-loss insurance for its self-insured exclusive provider organization (EPO) plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

The District provides dental insurance benefits through a fully insured dental maintenance organization and through a self-insured indemnity plan. The District does not purchase stop-loss insurance for its self-insured dental indemnity plan. The District is fully self-insured for workers' compensation benefits and does not purchase stop-loss insurance.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, and excess liability insurance. The District assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured general liability program. The District purchases excess liability insurance for its general liability that provides per-occurrence and aggregate protection. The District is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

There were no significant changes in the insurance coverage from coverage provided in the prior year for any of the above-described risks. Settled claims from insured losses have not exceeded commercial insurance coverage for each of the past three years.

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The claim liabilities also include estimated costs for claim administration fees and outside legal and medical assistance costs. The liability for claims and judgments is reported in the general fund.

Changes in the balance of claim liabilities during the past two years are as follows:

	Year ended June 30	
	2008	2007
Beginning of year liability	\$ 42,706,747	41,365,214
Current year claims and changes in estimate	207,764,022	197,821,001
Claim payments	(207,016,075)	(196,479,468)
End of year liability	\$ 43,454,694	42,706,747

The District has recognized the liability for health and dental benefits, which totaled \$32,355,994 and \$34,132,849 as of June 30, 2008 and 2007, respectively, in the general fund. The District has also recognized a liability of \$2,299,481 and \$724,079 as of June 30, 2008 and 2007, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. Accrued claims also include \$4.8 million of other insurance related liabilities. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements.

(11) Retirement Plans

Retirement Plans—The District has two supplemental defined benefit retirement plans covering substantially all certificated employees (mainly teachers, principals, and assistant principals) and administrative classified employees. These plans were established to supplement the pension benefits of the District employees participating in the Wisconsin Retirement System and the Employees' Retirement System of the City of Milwaukee. The District currently contributes to both plans to provide for payment of current service costs and to fund prior service costs.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

Wisconsin Retirement System—All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 6.0% of their salaries to the plan for calendar year 2007. The District pays all employer and principally all employee (with the exception of some substitute teachers up to June 30, 2007) required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2007 was approximately \$401,833,000; the District's total payroll was \$533,197,000. The total required contribution for the year ended December 31, 2007 was approximately \$42,594,000, which consisted of \$18,484,000, or 4.6% of payroll, from the District and \$24,110,000, or 6.0% of payroll, from the District on behalf of the employees. The District issued bonds in the amount of \$168.051 million through the Redevelopment Authority of the City and the City to fund the pension-related debt to the WRS for the unfunded accrued liability for pension service, which reduced the WRS contribution rate effective January 1, 2004 by 2%. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2006 and 2005 were \$40,978,000 and \$39,467,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 are entitled to receive retirement benefits. Employees may retire at age 55 and receive actuarially reduced benefits. For employees actively enrolled in WRS as of January 1, 2000 or after, retirement benefits are calculated as 1.765% of final average earnings for each year of creditable service prior to January 1, 2000 and 1.6% for creditable service after December 31, 1999. Final average earnings are the average of the employee's three highest years of earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. The WRS also provides death and disability benefits for employees. Eligibility for, and the amount of all benefits, is determined under Chapter 40 of the Wisconsin State Statutes.

The WRS issues a publicly available annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

The WRS uses the "frozen initial liability actuarial valuation method" in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (pension-related debt) is affected only by the monthly amortization payments, compounded interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains and losses arising from the difference between actual and assumed experience

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

are reflected in the determination of the normal cost. Employer's pension-related debt for prior service cost was being amortized over a 40-year period beginning January 1, 1990. As per WRS's annual financial report—GASB Statement No. 27 note disclosure for the year ended December 31, 2003, the District's pension-related debt to the WRS for the unfunded accrued actuarial liability for prior service has been paid in full. The payoff resulted from issuance of \$168.051 million pension bonds by the District through the Redevelopment Authority of the City and the City.

Employees' Retirement System of the City of Milwaukee—All eligible District employees (classified employees, principally non-teachers) participate in the Employees' Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City charter. Due to the global pension settlement, employees eligible for enrollment on or after January 1, 2000 may consent to the global pension settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the global pension settlement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District's employees covered by the System for the year ended December 31, 2007 was \$108,373,000; the District's total payroll was \$533,197,000. The total required contribution including retroactive adjustments for the year ended December 31, 2007 was \$6,390,000, or 5.9% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2006 and 2005 were \$6,531,000 and \$6,089,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 60, or who retire at age 55 and have completed 30 years of creditable service, are entitled to receive a retirement benefit. The System provides a service retirement benefit equal to 2% of the member's final average salary times the total number of years of all creditable service, limited to 70% of final average salary. Benefits are fully vested upon completion of four years of service. All active employees as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement or death to employee's beneficiary. Active employees enrolled between January 1, 2000 and June 27, 2000 and who consent to the global pension settlement or enrolled on or after June 28, 2000 shall make a biweekly employee contribution of 1.6% of their pensionable earnings to pay for their cost of living adjustment (COLA) improvement upon completion of the first eight years of employment. The COLA shall be 1.5% annually beginning after the 2nd, 3rd, and 4th anniversary after retirement and 2% after the 6th

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

year of the employee's retirement or death. Upon completion of eight years of service, employees terminating covered employment may withdraw their funds and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 36 of the City charter.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 1000 North Water Street, Suite 1550, Milwaukee, WI 53202.

Supplemental Retirement Plans

(a) Plan Descriptions and Funding Policies

Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

The plan, a single-employer pension trust fund, is a contributory, defined benefit pension plan established to provide benefits after early retirement that will supplement the pension benefits provided by the WRS and the System. The plan was originally established, effective January 1, 1978, pursuant to a collective bargaining agreement between the District and the Administrators and Supervisors Council, Inc. (ASC). Eligibility for, and the amount of all benefits, is determined under the provisions of the plan document. The plan is administered by an administrative committee under the direction of the Milwaukee Board of School Directors (MBSD).

In order to participate in the plan, an employee must be an administrative, supervisory, or professional staff employee of the District who is in the collective bargaining unit represented by the ASC, an exempt employee excluded by the ASC bargaining contract, an employee of the District who is appointed pursuant to Wisconsin State Statute Sec.119.32 (3), or any other employee who is identified as a covered participant by the District through an employment contract between such employee and the MBSD. Such employees become participants in the plan on the later of the effective date of the plan or the date they become a participant in the WRS. Certain classified members represented by ASC, any exempt employee excluded by the ASC bargaining contract and covered by the System, and certain psychologists who elected to remain in the plan after June 30, 1980 are also eligible for participation.

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. For Plan years, effectively July 1, 2003, vesting under the Plan is modified to be three years of service as a covered employee and eight or more years of vesting service. The plan provides for unreduced benefits at age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

a maximum benefit for this plan and either the System or WRS of 70% of average monthly compensation. The benefit paid under this plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the plan by decreasing the benefits paid and increasing the funded status of the plan.

In consideration of the reduced benefits to be paid by the ASC plan as a result of Wisconsin Act 11, the District signed an agreement with the ASC to amend the ASC plan effective July 1, 2003 as follows:

- Transfer the benefit formula under the teachers plan to the ASC plan for those individuals who have prior MPS teaching service after July 1, 1982 and are eligible to receive a benefit from the teachers plan. Such individuals will have the option of electing either the teacher or ASC benefit formula.
- Eliminate employee contributions to the ASC plan.
- Close the ASC plan to anyone who is not a covered employee as of June 30, 2003 and previous employees that are rehired after June 30, 2003.
- Eliminate the suspension of benefits provision in the ASC plan and replace it with a new provision that suspends benefits paid from the ASC plan if the retired annuitant is rehired as a covered employee and elects to participate as an active employee under the WRS.

The District received more than the required 95% of signed waivers and the board approved the agreement on June 24, 2004.

The amendments to the ASC plan were included in the July 1, 2003 actuarial valuation. These amendments resulted in an increase to the actuarial accrued liability of \$4,973,000 per year as of July 1, 2003.

In fiscal year 2005, the definition of “Year of Benefit Service” of the Plan was amended to provide for the addition of the following at the end of such definition:

For a covered employee who was an active participant in the Plan on or after July 1, 2004 and who:

- Became a covered employee on or after July 1, 1982; and
- Was covered under the MTEA-teacher collective bargaining unit and under the WRS on or after July 1, 1982; and
- Is vested under the Teachers Plan; and
- Has consented in writing to the amendment of the Plan as provided in a Negotiating Note between the Board and the ASC dated June 24, 2003.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

A covered employee shall continue to be credited with the Years of Benefit Service without giving effect to Years of Benefit Service provisions of the Teachers Plan, for the periods beginning on and after July 1, 2004, except for the purpose of computing the Alternate Benefit for certain Teachers Plan participants as a result of Wisconsin Act 11 discussed above.

During fiscal year 2005, the Plan has retroactively paid retirees that were eligible for Teacher's Plan benefit formula and had retired on or after January 1, 2000 under the ASC plan for benefits that, if chosen by the retiree, would have been under the Teachers Plan benefit formula.

The plan also provided for disability benefits to vested participants if employment is terminated between ages 55 and 65 by reason of total and permanent disability, as approved by the WRS. Upon the death of an active participant who is not eligible for any other form of benefit under the plan, a lump-sum death benefit of the balance of the participant's employee contribution account, including interest, is provided to the participant's beneficiary.

The District maintains a separate "member contribution account" for each participant. Annually, as of June 30, the portion of investment income of the fund attributable to the participants' contribution is credited to the respective member contribution accounts. If a participant leaves covered employment or dies, accumulated employee contributions, plus related investment earnings, are refunded to the employee or designated beneficiary based on their election. Classified employees are not required to make member contributions under the plan.

Effective July 1, 2003, participants are no longer required to make contributions to the Plan and the employer shall pay 100% of required plan contributions.

Accrued plan liabilities are reduced by the amount attributed to employer contributions for employees who are not vested for benefits and who terminate participation in the Plan for reasons that include termination of employment. These employer contributions are applied to reduce the cost of the Plan and not to increase benefits otherwise payable to eligible participants.

Two separate portfolios of U.S. Government obligations were purchased at an average yield rate of 13% and 9.25% to be used to closely match and fund the expected vested benefit payments to certain retired participants receiving benefits as of July 1, 1984 and July 1, 1989, respectively. The 1984 and 1989 Dedicated funds were unwound on July 1, 2003 and July 1, 2007, respectively. All assets were transferred to the non-dedicated fund. All benefits payable under the 1984 and 1989 Dedicated funds shall be paid from the non-dedicated fund. As of June 30, 2008, all the 1984 and 1989 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

The plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report can be obtained by writing

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

the Milwaukee Public Schools, Department of Human Resources—Benefits and Insurance Services Division, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

The plan, a single-employer pension trust fund, is a defined benefit pension plan established to provide benefits after early retirement that will supplement the pension benefits provided by the WRS. The plan was originally established, effective July 1, 1982, pursuant to a collective bargaining agreement between the District and the Milwaukee Teachers' Education Association (MTEA). Eligibility for, and the amount of all benefits, is determined under the provisions of the plan document. The plan is administered by the MBSD.

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the plan on the later of the effective date of the plan or the date they become a participant in the WRS. Employees who first became participants before July 1, 1997, are vested upon participation. Employees who first became participants on or after July 1, 1997, are vested after being employed by the District for at least 15 years after July 1, 1997, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55th birthday.

The plan is classified as a "governmental plan" and is, therefore, exempt from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Accrued plan liabilities are reduced by the amount attributed to employer contributions for employees who are not vested for benefits and who terminate participation in the Plan for reasons that include termination of employment. These employer contributions are applied to reduce the cost of the Plan and not to increase benefits otherwise payable to eligible participants.

Two separate portfolios of U.S. Government obligations were purchased at an average yield of 13% and 9.25% to be used to closely match and fund the expected vested benefit payments to certain retired participants receiving benefits as of July 1, 1984 and July 1, 1989, respectively. The liability for the actuarial present value of the future plan benefits for the July 1, 1984 and July 1, 1989 group of participants reflects the 13% and 9.25% interest rate, respectively, and is matched to the assets dedicated to pay these future plan benefits.

The 1984 and 1989 Dedicated funds were unwound on July 1, 2003 and July 1, 2007 respectively. All assets were transferred to the non-dedicated fund. All benefits payable under the 1984 and 1989 Dedicated funds shall be paid from the non-dedicated fund. As of June 30, 2008, all 1984 and 1989 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The plan issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. That report can be obtained by writing the Milwaukee Public Schools, Department of Human Resources-Benefits and Insurance Services Division, 5225 West Vliet Street, Milwaukee, WI 53208-2698.

(b) Annual Pension Costs and Actuarial Assumptions Used

The District's annual pension costs for the year ended June 30, 2008 and related actuarial assumptions used for the current year and related information for each plan is as follows:

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
Contribution rates as a percentage of payroll:			
District	7.820%	4.515%	
Plan participants	—	—	
Annual required contribution	\$ 2,576,104	15,408,267	17,984,371
Interest on net pension obligation	2,212	—	2,212
Adjustment to annual required contribution	<u>6,185</u>	<u>(4,445)</u>	<u>1,740</u>
Annual pension cost	2,584,501	15,403,822	17,988,323
Contributions made	<u>2,370,916</u>	<u>15,304,501</u>	<u>17,675,417</u>
Increase (decrease) in net pension obligation	<u>213,585</u>	<u>99,321</u>	<u>312,906</u>
Net pension prepayment, beginning of year	<u>(2,532,824)</u>	<u>(15,375,539)</u>	<u>(17,908,363)</u>
Net pension prepayment, end of year	<u><u>\$ (2,319,239)</u></u>	<u><u>(15,276,218)</u></u>	<u><u>(17,595,457)</u></u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The net pension obligation prepayment is included in prepaid expenses on the Statement of Net Assets.

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	July 1, 2007	July 1, 2007
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	7- year closed, level dollar	The loss at July 1, 2006, due to the valuation of deferred vested temporary benefits is amortized over a 15-year closed period commencing July 1, 2006, on a level dollar basis. Unfunded liabilities not attributable to the loss due to valuation of deferred vested temporary benefits are amortized using a 25- year closed period, level-dollar amortization commencing July 1, 2007. The resulting amortization period is 24.17 and is in accordance with GASB 25 and 27 requirements.
Actuarial Valuation Method	5-year smoothed market	5-year smoothed market
Investment rate of return	8.0%	8.0%

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Projected salary increases:		
Certificated participants	Wage inflation of 3.0% per year with additional service-based increases of up to 3.5% per year.	Wage inflation of 3.0% per year plus additional service-based increases of up to 4.80%
Classified participants	4.0% per year	N/A
Cost of Living Increases	0.0% per year	0.0% per year

(c) Three-Year Trend Information

The following tables of information are provided to assist users in assessing each plan's progress in accumulating sufficient assets to pay benefits when due.

Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan

	Annual required contribution	% of annual pension cost contributed	Net pension prepayment
Fiscal year beginning July 1:			
2007	\$ 2,576,104	100%	\$ (2,319,239)
2006	3,094,247	100%	(2,532,824)
2005	2,814,526	126%	(2,904,366)

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

	Annual required contribution	% of annual pension cost contributed	Net pension prepayment
Fiscal year beginning July 1:			
2007	\$ 15,408,267	100%	\$ (15,276,218)
2006	14,113,631	135%	(15,375,539)
2005	13,440,927	124%	(13,489,538)

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(12) Post-Employment Life and Healthcare Insurance Benefits

The District administers a single-employer defined benefit healthcare plan and life insurance plan (“the Retiree Plan”). The plan provides health insurance contributions for eligible retirees and their eligible dependents through the District’s group health insurance plan, which covers both active and retired members. The plan also provides for life insurance contributions for eligible retirees through the District’s group life insurance plan, which covers both active and retired members. Benefit provisions are established through collective bargaining agreements and Board policy and state that eligible retirees and their spouses receive lifetime healthcare benefits and eligible retirees receive lifetime life insurance benefits either on a self-paid basis or a District-paid basis at established contribution rates. The Retiree Plan does not issue a publicly available financial report.

Employee and retiree contribution requirements are established through collective bargaining agreements and Board policy. Contributions may be amended only through negotiations between the District and the union in the case of represented employees and by Board policy, as may be amended by action of the governing body, in the case of non-represented employees.

An employee with 70 percent or more of the maximum accumulated sick leave at the time of retirement, in accordance with collective bargaining agreements and Board policy, will receive a monthly Board subsidy at the Board’s share of the PPO/Indemnity active single plan or family plan premium rate in effect as of the employee’s date of retirement. (Certain bargaining units and certain non-represented employees who submit a retirement notice by either March 1 or April 1 will receive the greater of the June 30th or July 1st premium rate as their monthly Board subsidy in accordance with their collective bargaining agreement and Board policy.) Generally, the Board subsidy for health insurance remains fixed for the lifetime of the retiree while the retiree continues enrollment in an MPS health plan. MPS will reimburse the retiree for the retiree’s Medicare Part B premium in an amount not to exceed the Board subsidy. Employees who meet all other eligibility requirements, but do not meet the 70 percent maximum accumulated eligibility requirement for the Board subsidy, may continue coverage in an MPS health plan as a retiree on a self-paid basis at the group premium rate. There are also disability retirement provisions that provide for lifetime health coverage for the disabled retiree and eligible dependents. The surviving spouse coverage provisions for death of an employee in active service or after retirement for certain collective bargaining units and non-represented employees provide lifetime health coverage for the surviving spouse and limited coverage for eligible dependents at the established Board subsidy rate.

Currently there is no employee premium contribution for most active employees. Certain non-represented employees pay 5 percent of their health plan premium and Board members pay any premium difference between the health plan they selected and the lowest cost health plan. There is a conditional employee premium contribution of 2.5 percent for those enrolled in the PPO/Indemnity Health Plan if the premium for this plan increases greater than 17 percent and, to date, this conditional premium share has not been triggered. If the conditional premium share is triggered, future retired members that receive a Board-paid subsidy would receive a subsidy amount equal to the PPO/Indemnity Plan premium rate at the time of retirement less the 2.5 percent conditional employee premium share.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The District provides an explicit subsidy for healthcare benefits that is not indexed for healthcare inflation once the member retires. However, because premiums for pre-Medicare retiree and active coverage are rated in one pool, the District is also providing an implicit subsidy after retirement that is indexed for inflation. Consequently, healthcare inflation impacts the implicit subsidy and the explicit subsidy of future retirees.

In general and in accordance with collective bargaining agreements and Board policy, retirees who meet the age and service requirements for retiree life insurance pay the premium contribution at the group rate until age 65 after which the District pays the premium. Certain collective bargaining units and non-represented employees who meet the age requirement and have 30 or more years of service receive life insurance benefits fully paid by the District. Certain other bargaining units have retiree life insurance benefits that are fully paid by the retiree at the group premium rate. Once retirees attain age 65, the life insurance coverage is reduced by 25 percent of the original coverage for each year following their 65th birthday. Coverage is not reduced below 25 percent of the original coverage in effect at time of retirement.

For fiscal year ending June 30, 2008, the District contributed \$41,150,614 to the Retiree Plan. For fiscal year ending June 30, 2007, total member contributions to the Retiree Plan were \$13,302,936.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to plan, and changes in the district's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$175,418,900
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
	<hr/>
Annual OPEB cost	175,418,900
Medicare Part D contributions	(3,232,821)
MPS Contributions made	(41,150,614)
	<hr/>
Net OPEB obligation, beginning of year	—
	<hr/>
Net OPEB obligation, end of year	<u><u>\$131,035,465</u></u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2008 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/08	\$175,418,900	25.3%	\$131,035,465

The funded status of the plan as of July 1, 2007, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$2,222,673,800
Actuarial value of plan assets	—
	<hr/>
Unfunded Actuarial Accrued Liability (UAAL)	\$2,222,673,800
	<hr/> <hr/>
Funded ratio (actuarial value of plan assets/AAL)	0 %
Covered payroll (active plan members)	\$ 501,134,000
UAAL as a percentage of covered payroll	443.5 %

Actuarial valuations of an ongoing plan involve estimates for the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions include a 4.5 percent investment rate of return that reflects the District's pay-as-you-go funding policy and an annual healthcare cost trend rate of 10 percent initially, reduced by

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

decrements to an ultimate rate of 4.5 percent after 10 years. Both rates include a 3 percent inflation assumption. The Retiree Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. In accordance with the GASB No. 45 standard, the unfunded actuarial liability is amortized over a 30 year period. The remaining amortization period at June 30, 2008 was 29 years.

(13) Limitation on District Revenues

Wisconsin State Statutes limit the amount of revenues that school districts may derive from general school aids and property taxes unless a higher amount is approved by referendum. This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the school board or by a referendum prior to August 12, 1993.
- A referendum on or after August 12, 1993.

For the fiscal year ended June 30, 2008, the District was under its revenue limitation by approximately \$15,052,000.

(14) School Nutrition Deficit

The School Nutrition Services Fund had a deficit of \$6,811,433. The deficit is anticipated to be funded through future operations or operating transfers from the General Fund which has been reserved for the full amount of the deficit.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(15) Excess Expenditures Over Appropriations

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2008:

Fund	Excess Expenditures
General Fund:	
Middle Schools	\$ 1,103,894
MATC Alternative Programs	217,656
Contracted Kindergarten	7,343
Peer Evaluation & Mentor Teachers	26,364
Special Education Buyback Services	56,950
Dept. of Parent & Student Services	33,233
Transportation	4,259,378
Employee Benefits (undistributed)	1,585,044
Debt Service	5,455,015
Utilities	148,364
Division of Recreation and Community	
Services Employee Benefits	1,819,804
CAMP	3,303,427
School Nutrition Services Fund	6,211,703
TEACH Wisconsin Program Fund	995,535

The General Fund's total expenditures were less than total budget appropriations.

(16) Commitments and Contingencies

(a) Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2008 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

(b) Operating Leases

The District leases certain computer equipment with a carrying value of approximately \$2,263,129. For fiscal year 2008, total operating lease expense of the District was \$2,107,320. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2008 and thereafter for the computers and property are as follows:

Fiscal years:		
2009	\$	1,500,577
2010		492,532
2011		270,020
		<hr/>
Total	\$	<u>2,263,129</u>

(c) Contractual Commitments

The District has \$25.6 million of contractual commitments outstanding as of June 30, 2008.

(d) Litigation

The board is the defendant in litigation involving discrimination, personal injury, employee grievances, and a variety of other matters, each of which are being contested by the board. The board and management of the District believe that resolution of these contingencies will not have a material effect on the District's financial position.

(e) Microsoft Corporation Lawsuit

MPS is a participant in the settlement of a class action lawsuit with Microsoft Corporation. The District cannot provide an estimate of the amount of revenue it stands to gain from the Microsoft Class Action lawsuit because of the degree of uncertainty due to unknown and unknowable information. There are three potential ways MPS can benefit from the Class Action: (1) MPS' Direct Claim; (2) the First Cy Pres Distribution; and (3) the Second Cy Pres Distribution.

1. MPS' Direct Claim

MPS cannot state with any certainty the amount of its claim or when any benefits will be received. MPS has submitted a claim with an estimated value of \$1,634,768. (MPS would not receive cash under the settlement, but rather redeemable consumer vouchers). The Claims Administrator will send two reports to MPS: One report containing eligible purchases made through volume licenses and another report containing eligible purchases listed on MPS' claim. MPS will have 90 days to review the reports, after which the vouchers will be issued. MPS received its first report on October 20, 2008, with an estimated value of \$238,430. MPS has yet to receive its second report. There is no guaranty of the ultimate amount or timing of issuance of the vouchers.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

2. First Cy Distribution

The face value of the Settlement is \$223,896,000. Fifty percent of the difference between that amount and the value of the Consumer Vouchers issued will be distributed in the form of General Purpose Vouchers and Software Vouchers to public schools that have a free or reduced National School Lunch Program (“NSLP”) count of 50% during 2005 on a pro rata share based upon the number of students attending.

MPS has no information as to when the distribution will be made or how much it will entail.

3. Second Cy Pres Distribution

The balance of the money will be distributed to schools which have a NSLP as determined in the sole discretion of the Wisconsin Department of Public Instruction. It is not known when this distribution will be made, the amount of the distribution, or to which schools distribution will be made.

(f) Special Education Lawsuit

Special Education Lawsuit has no measurable estimate for the liability. Currently, a decision has not been made as to the amount of liability to the District and the District is undecided as to whether to appeal the decision.

(17) Subsequent Events

- On September 5, 2008 the City issued \$210,000,000 of School Revenue Anticipation Notes, Series 2008 M10 for the purpose of financing MPS’s general operating expenses pending receipt of state school aid payments. The maturity of this issue is September 3, 2009. Interest of 3% is payable at maturity.
- Regarding the pension obligation bond indebtedness of Milwaukee Public Schools.

In December 2003, Milwaukee Public Schools (MPS), in cooperation with the City of Milwaukee (City) and the Redevelopment Authority of the City of Milwaukee (RACM), issued \$168,051,135.20 of debt instruments to fully fund its previously unfunded actuarial accrued liability for employee pensions owed to the Wisconsin Retirement System. Of this amount, \$130,850,000 was issued in the form of variable rate debt. To fix the interest rate relative to this variable rate debt, the City, acting as agent for MPS, entered into agreements with the firms of Lehman Brothers Special Financing, Inc. and Morgan Stanley in the amounts of \$70,850,000 and \$60,000,000 respectively. Each of the agreements expires 10/1/2043, when the last of the variable rate debt is retired.

On September 15, 2008, Lehman Brothers Holdings Inc., parent company of Lehman Brother Special Financing, declared bankruptcy. On the weekend of October 5, 2008, Lehman Brothers Special Financing declared bankruptcy. The declaration of bankruptcy by these organizations necessitates the replacement of the agreements between the City / MPS and Lehman Brothers Special Financing with similar agreements with another firm. Currently MPS and the City are working to resolve the matter. The goal is to maintain the

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2008

benefits of the existing agreements and, if possible, lower the overall costs associated with the pension obligation bonds.

- As of June 30, 2008, a dispute was pending in arbitration pursuant to a collective bargaining agreement between the MBSD and the Milwaukee Teachers Education Association as to the calculation of Compensation when determining benefits under the Early Retirement Plan for Teachers (Plan). The ruling from the arbitrator dated September 15, 2008 determines that MBSD failed to utilize WRS “considered compensation” and “average annual compensation” in calculating the supplemental pension benefits of the claimant. Hence, the claimants are successful in obtaining a ruling from the arbitrator that Compensation under the Plan shall include compensation from other employers under the Wisconsin Retirement System, this would result in a loss to the Plan as well as other possible negative consequences. As the other employer payroll information is not readily available, the amount of such a loss cannot be reasonably quantified until each individual retiree file is reviewed and benefits are recalculated, if necessary. However, management does not believe this to be a material amount.
- Subsequent to the date of the statement of fiduciary net assets available for benefits, the investments have seen a significant decline in value. It is highly likely that the values of the investments in the plan have decreased by material amounts during 2008. Additionally, the plan has investments that are issued by Lehman Brothers, which has experienced financial difficulty during 2008. The specific impact on the fair value of those Lehman Brothers investments has not been factored into the values in the financial statements, but management does not believe it to have a material impact on the values of the investments held by either the Supplemental Early Retirement for Teachers Plan or the Early Retirement Supplement and Benefit Improvement Plan.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2008

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
REVENUES:			
Property Tax Levy	\$ 218,467,619	\$ 234,101,757	\$ 234,190,596
Equalization & Integration Aids	648,114,544	605,239,961	612,677,454
Other State Aids	52,710,189	65,659,318	58,034,145
Federal Aids	9,000,000	9,000,000	5,882,267
Other Local Revenues	7,455,028	7,920,440	12,851,907
Applied Surplus/ Reserve for Textbooks	7,660,000	1,360,000	-
SCHOOL OPERATIONS & EXTENSION	943,407,380	923,281,476	923,636,369
CAMP	-	-	3,849,001
GRANTS	161,446,349	210,830,042	172,280,467
Total Revenues	1,104,853,729	1,134,111,518	1,099,765,837
EXPENDITURES:			
PROGRAM ACCOUNTS			
High Schools	176,104,157	179,325,414	176,505,710
Middle Schools	70,614,336	68,306,412	69,410,306
K-8 Schools	237,268,017	245,390,438	239,074,386
Elementary Schools	188,775,776	207,337,019	198,452,605
Charter Schools	108,045,627	111,239,394	109,174,845
School to Work Transition	3,373,538	3,442,502	3,399,210
School Age Parents	1,999,279	2,002,379	1,886,477
Alternative Schools	2,227,743	2,246,272	2,151,353
Agency Programs	28,640,017	26,384,671	25,177,471
Home & Hospital Instruction	815,016	815,051	767,386
MATC Alternative Programs	607,929	607,929	825,585
Milwaukee County Collaborative	1,380,776	1,382,073	1,289,734
Contracted Kindergarten	2,054,318	2,140,651	2,147,994
Summer School	4,400,000	5,456,284	3,073,711
School Special Funds	37,488,004	36,751,957	30,473,575
S.E. Asian/Native American Program	287,150	290,573	264,472
Interscholastic Athletics/Academics	4,268,086	4,957,575	4,748,312
Driver Education	244,155	345,960	216,204
School Safety Operations	4,300,200	4,300,305	4,272,004
Instrumental Music	1,548,029	1,559,265	1,533,815
Schools Program Funds	205,000	387,295	342,223
Science Material/In-service Center	-	-	-
MTEC/Compton	233,755	233,021	116,666
Peer Evaluation & Mentor Teachers	525,260	526,228	552,592
Social Work Services	263,978	264,515	258,525
Special Education Support Services	5,497,237	5,575,937	5,522,158
Special Education Buyback Services	576,106	578,577	635,527
Non-MPS Special Education Costs	3,344,742	3,348,409	3,089,479
TABS Program	733,428	742,723	706,606
TOTAL - PROGRAM ACCOUNTS	\$ 885,821,659	915,938,829	886,068,931

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2008

	<u>Budgeted amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
INDIRECT & SUPPORT SERVICES			
Board of School Directors	\$ 434,383	\$ 647,333	\$ 414,204
Office of Board Governance	2,471,720	3,326,350	2,255,487
Office of Superintendent	3,225,862	3,524,395	3,396,694
Dept. of Instruction & Leadership Support	4,873,961	5,128,275	4,621,905
Dept. of School & Community Support	953,900	2,056,161	1,955,733
Dept. of Parent & Student Services	3,588,035	3,201,031	3,234,264
Dept. of Special Services	4,799,117	4,503,750	4,087,959
Dept. of Finance & Operations	49,073,638	54,755,915	53,094,937
Dept. of Human Resources	5,451,063	6,084,476	5,195,826
TOTAL - INDIRECT & SUPPORT	<u>74,871,679</u>	<u>83,227,686</u>	<u>78,257,009</u>
OTHER ACCOUNTS			
Textbook Adoptions	6,575,873	7,113,212	6,733,333
Neighborhood Schools Debt	-	2,363,098	194,276
Crisis Response Initiative	2,000,000	3,300,792	896,887
Project Loan Acq Network	-	6,470,945	-
Music Festival	180,000	180,608	178,006
Transportation	56,614,322	56,927,004	61,186,382
Employee Benefits (undistributed)	18,641,277	8,250,741	9,835,785
School District Insurances	8,405,734	7,806,574	7,111,955
Debt Service (includes NSI)	-	-	5,455,015
Utilities	24,136,838	23,080,234	23,228,598
Special & Contingent Funds	24,964,633	23,780,239	21,727,408
TOTAL - OTHER ACCOUNTS	<u>141,518,677</u>	<u>139,273,447</u>	<u>136,547,645</u>
DIVISION OF RECREATION AND COMMUNITY SERVICES			
Playgrounds & Recreation Centers	10,975,721	9,086,604	6,311,093
WYMS Radio Station	-	2,865	-
Summer School Wrap-around	3,133,077	3,137,279	708,848
Instrumental Music Weekend Program	60,000	-	-
District Insurances	317,663	317,663	218,337
Employee Benefits	20,000	18,515	1,838,319
Special & Contingent Fund	1,110,000	2,130,170	1,131,159
TOTAL DIVISION OF RECREATION AND COMMUNITY SERVICES	<u>15,616,461</u>	<u>14,693,096</u>	<u>10,207,756</u>
OFFSET FOR CHARGES TO SCHOOLS AND OTHER ADJUSTMENTS TOTAL - CHARGES			
	<u>(190,440,551)</u>	<u>(187,519,746)</u>	<u>(187,819,317)</u>
SCHOOL OPERATIONS & EXT. FUND	<u>927,387,925</u>	<u>965,613,312</u>	<u>923,262,024</u>
CAMP	<u>-</u>	<u>-</u>	<u>3,303,427</u>
GRANTS	<u>161,446,349</u>	<u>210,830,042</u>	<u>172,280,467</u>
Total Expenditures	<u>1,088,834,274</u>	<u>1,176,443,354</u>	<u>1,098,845,918</u>
Excess of revenues over (under) expenditures	16,019,455	(42,331,836)	919,919
Transfer In (Out)	<u>(16,019,455)</u>	<u>(16,159,455)</u>	<u>(13,285,576)</u>
Excess of revenues over (under) expenditures	\$ <u>-</u>	\$ <u>(58,491,291)</u>	<u>(12,365,657)</u>
Fund balance-beginning of year			<u>110,630,208</u>
Fund balance-end of year			<u>\$ 98,264,551</u>

See Independent Auditors Report and accompanying Notes to Required Supplementary Information.

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Budgetary Comparison Schedule for the School Nutrition Services Fund

Year ended June 30, 2008

	<u>Budgeted amounts</u>		<u>Actual (GAAP basis)</u>
	<u>Adopted</u>	<u>Revised</u>	
Revenues:			
Lunchroom sales	\$ 5,770,427	5,770,427	3,774,957
Other local sources			142,175
State aid:			
School nutrition aid	827,519	827,519	1,020,258
Federal aid:			
School nutrition aid	25,612,637	25,612,637	31,387,925
Other federal aid	54,280	54,280	53,816
Total revenues	<u>32,264,863</u>	<u>32,264,863</u>	<u>36,379,131</u>
Expenditures:			
Current operating:			
School Nutrition Services	32,264,863	32,264,863	38,476,566
Total expenditures	<u>32,264,863</u>	<u>32,264,863</u>	<u>38,476,566</u>
Excess of revenues over(under)			
expenditures	—	—	(2,097,435)
Total other financing sources (uses), net	—	—	1,678,776
Net change in fund balances	<u>\$ —</u>	<u>—</u>	<u>(418,659)</u>
Fund deficit—beginning of year			<u>(6,392,774)</u>
Fund deficit—end of year			<u>\$ (6,811,433)</u>

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2008

**Milwaukee Board of School Directors Early Retirement
Supplement and Benefit Improvement Plan**

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/07	\$ 42,807,076	52,832,971	10,025,895	81.02 %	\$ 32,942,251	30.43 %
7/1/06	40,082,362	50,604,106	10,521,744	79.21	34,756,344	30.27
7/1/05	39,409,013	49,456,069	10,047,056	79.68	37,250,400	26.97

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/07	\$ 82,256,327	210,656,973	128,400,646	39.05 %	\$ 341,271,505	37.62 %
7/1/06	70,897,370	188,159,912	117,262,542	37.68	320,407,690	36.60
7/1/05	60,596,308	174,359,298	113,762,990	34.75	321,226,581	35.42

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

MILWAUKEE PUBLIC SCHOOLS
 Required Supplementary Information
 Schedule of Funding Progress
 Year Ended June 30, 2008

Post-Employment Life and Healthcare Insurance Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age Normal</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age Normal</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2007	-	\$2,222,673,800	\$2,222,673,800	\$2,222,673,800	0%	\$501,134,000	443.5%
7/1/2006	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7/1/2005	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: The District is required to present the above information for the three most recent actuarial studies. The first study was performed as of July 1, 2007.

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

MILWAUKEE PUBLIC SCHOOLS

Notes to Required Supplementary Information

Year ended June 30, 2008

(1) **Budgeting**

Annual appropriated budgets are adopted for the general, special revenue and debt service funds by June 30th each year. Budgets are adopted for the construction fund on a project-length basis. Budgets are adopted on a modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America, except for the treatment of encumbrances (see below) and property tax revenues. Property tax revenues are budgeted based on the amount levied.

In accordance with the Wisconsin Department of Public Instruction's reporting requirements, the Board exercises control over budgeted amounts at the responsibility center level within the general, special revenue, and debt service funds. The capital projects fund is controlled at the project level. During the year, budgets can be amended by approval of a majority of the members of the board.

As a management practice, the superintendent, or his or her designee, may transfer funds between functions at the department, school, or program level subject to the following criteria:

- The transaction does not exceed \$100,000
- Is not initiated by a Board member
- Will not effectuate a change in policy
- Will not create a new area of activity for the District
- Does not increase authorized staffing levels.
- Does not move monies between statutory funds

Board policy requires that all annual appropriations lapse at fiscal year-end except for the following: excess budgetary authority for capital project funds lapse when a specific project is completed; deficits incurred automatically reduce the subsequent year's budget appropriations; and, with school board approval, schools are allowed to carry over appropriations into the following year up to a maximum of 1.5% of the total revised school budget each year up to a total accumulated carryover of 3%; and appropriations for special projects or planned purchases can be carried into the subsequent year.

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**COMBINING AND INDIVIDUAL
FUND STATEMENTS
AND SCHEDULES**

MILWAUKEE PUBLIC SCHOOLS

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes. These funds include the following:

TEACH Wisconsin Programs Fund—This fund is used to account for proceeds from state grants that provide funding for advanced and innovative telecommunications-based projects.

Categorically Aided Programs Fund—This fund is used to account for proceeds from federal grants that provide emphasis on social and curriculum needs of special populations within the District.

Debt Service Fund

Debt Service Fund—This fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

MILWAUKEE PUBLIC SCHOOLS

Combining Balance Sheet—Nonmajor Governmental Funds

June 30, 2008

	<u>Special Revenue</u>			
Assets	TEACH Wisconsin Programs	Categorically Aided Programs	Debt Service	Total
Receivables due from other governmental units	\$ —	5,492,711	—	5,492,711
Due from other funds	1,182,960	—	—	1,182,960
Total assets	<u>\$ 1,182,960</u>	<u>5,492,711</u>	<u>—</u>	<u>6,675,671</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ —	1,120	—	1,120
Deferred revenue	—	334,065	—	334,065
Due to other funds	—	5,157,526	—	5,157,526
Total liabilities	<u>—</u>	<u>5,492,711</u>	<u>—</u>	<u>5,492,711</u>
Fund balances:				
Unreserved and undesignated	<u>1,182,960</u>	<u>—</u>	<u>—</u>	<u>1,182,960</u>
Total fund balances	<u>1,182,960</u>	<u>—</u>	<u>—</u>	<u>1,182,960</u>
Total liabilities and fund balances	<u>\$ 1,182,960</u>	<u>5,492,711</u>	<u>—</u>	<u>6,675,671</u>

MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Revenues, Expenditures, and Changes in Fund
Balances—Nonmajor Governmental Funds

Year ended June 30, 2008

	<u>Special Revenue</u>			
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:				
Property taxes	\$ —	—	—	—
Other local sources	—	169	—	169
State aid—other	995,535	—	—	995,535
Federal aid:				
Other federal aid	—	25,241,622	—	25,241,622
Total revenues	<u>995,535</u>	<u>25,241,791</u>	<u>—</u>	<u>26,237,326</u>
Expenditures:				
Instructional services— special curriculum	—	4,250,317	—	4,250,317
Pupil and staff services	—	20,991,474	—	20,991,474
Debt service:				
Principal	1,991,070	—	3,719,423	5,710,493
Interest	—	—	7,877,949	7,877,949
Issuance Cost	—	—	9,428	9,428
Total expenditures	<u>1,991,070</u>	<u>25,241,791</u>	<u>11,606,800</u>	<u>38,839,661</u>
Excess of revenues over (under) expenditures	(995,535)	—	(11,606,800)	(12,602,335)
Other financing sources:				
Transfers In	—	—	11,606,800	11,606,800
Total other financing sources (uses), net	<u>—</u>	<u>—</u>	<u>11,606,800</u>	<u>11,606,800</u>
Net changes in fund balances	(995,535)	—	—	(995,535)
Fund balances:				
Beginning of year	2,178,495	—	—	2,178,495
End of year	\$ <u>1,182,960</u>	<u>—</u>	<u>—</u>	<u>1,182,960</u>

MILWAUKEE PUBLIC SCHOOLS

TEACH Wisconsin Programs Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual

Year ended June 30, 2008

	<u>Budgeted amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
Revenues:			
State aid:			
Other state aid	\$ —	—	995,535
Total revenues	<u>—</u>	<u>—</u>	<u>995,535</u>
Expenditures:			
Current operating:			
Debt service	995,535	995,535	1,991,070
Total expenditures	<u>995,535</u>	<u>995,535</u>	<u>1,991,070</u>
Net change in fund balance	\$ <u>(995,535)</u>	<u>(995,535)</u>	<u>(995,535)</u>
Fund balance—beginning of year			<u>2,178,495</u>
Fund balance—end of year			<u>\$ <u>1,182,960</u></u>

MILWAUKEE PUBLIC SCHOOLS

Categorically Aided Programs Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual

Year ended June 30, 2008

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Other local sources	\$ —	—	169
Federal aid:			
Other federal aid	29,137,913	29,468,875	25,241,622
Total revenues	<u>29,137,913</u>	<u>29,468,875</u>	<u>25,241,791</u>
Expenditures:			
Current operating:			
Special curriculum	5,973,115	6,040,960	4,250,317
Pupil and staff services	23,164,798	23,427,915	20,991,474
Total expenditures	<u>29,137,913</u>	<u>29,468,875</u>	<u>25,241,791</u>
Net change in fund balance	\$ —	—	—
Fund balance—beginning of year			—
Fund balance—end of year			<u>\$ —</u>

MILWAUKEE PUBLIC SCHOOLS

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget and Actual

Year ended June 30, 2008

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Property taxes	\$ —	—	—
Total revenues	<u>—</u>	<u>—</u>	<u>—</u>
Expenditures:			
Current operating:			
Debt service	16,019,455	16,159,455	11,606,800
Total expenditures	<u>16,019,455</u>	<u>16,159,455</u>	<u>11,606,800</u>
Excess of revenues over (under) expenditures	(16,019,455)	(16,159,455)	(11,606,800)
Other financing sources (uses)			
Transfers In (Out)	<u>16,019,455</u>	<u>16,159,455</u>	<u>11,606,800</u>
Total other financing sources (uses), net	16,019,455	16,159,455	11,606,800
Fund balance—beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance—end of year	<u><u>\$ —</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

MILWAUKEE PUBLIC SCHOOLS

Fiduciary Funds

Pension Trust Funds

The pension trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans. These funds include the following:

Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan—This fund is used to account for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified administrators.

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers—This fund is used to account for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified teachers.

Agency Fund

The agency fund collects and disburses cash and investments for student organizations and activities through district schools that act in the capacity of an agent of such funds.

MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Changes in Net Assets—Pension Trust Funds

Year ended June 30, 2008

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
	<hr/>	<hr/>	<hr/>
Additions:			
Employer contributions	\$ 2,370,916	15,304,501	17,675,417
Investment loss, net of expenses	(2,426,301)	—	—
	<hr/>	<hr/>	<hr/>
Total additions	—	10,343,989	10,288,604
	<hr/>	<hr/>	<hr/>
Deductions:			
Benefits paid to participant's or beneficiaries	4,320,397	11,926,978	16,247,375
Distribution of participant contribution accounts	343,440	—	343,440
Administrative expenses	63,760	128,044	191,804
	<hr/>	<hr/>	<hr/>
Total deductions	4,727,597	12,055,022	16,782,619
	<hr/>	<hr/>	<hr/>
Changes in net assets	(4,782,982)	(1,711,033)	(6,494,015)
Net assets—Beginning of Year	49,462,428	106,675,569	156,137,997
	<hr/>	<hr/>	<hr/>
Net assets—Ending of Year	\$ 44,679,446	104,964,536	149,643,982
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MILWAUKEE PUBLIC SCHOOLS
 Agency Fund
 Schedule of Changes in Assets and Liabilities
 Year ended June 30, 2008

Assets	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Cash and cash equivalents	\$ 5,998,379	15,828,271	(16,227,400)	5,599,250
Total assets	<u>5,998,379</u>	<u>15,828,271</u>	<u>(16,227,400)</u>	<u>5,599,250</u>
Liabilities				
Liabilities:				
Due to student organizations	5,998,379	15,828,271	(16,227,400)	5,599,250
Total liabilities	<u>\$ 5,998,379</u>	<u>15,828,271</u>	<u>(16,227,400)</u>	<u>5,599,250</u>

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APPENDIX B

Draft Form of Legal Opinion

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September 3, 2009

The City Comptroller and the Commissioners
of the Public Debt of the City of Milwaukee,
Wisconsin

We have examined a record of proceedings relating to the issuance of \$228,000,000 aggregate principal amount of School Revenue Anticipation Notes, Series 2009 M4 (the "Notes") of the City of Milwaukee (the "City"), a municipal corporation of the State of Wisconsin. The Notes are authorized and issued pursuant to the provisions of Chapter 65 and Chapter 67 of the Wisconsin Statutes and the City Charter and by virtue of a resolution passed by the Common Council of the City on July 7, 2009.

The Notes constitute an issue of "revenue anticipation notes" under Section 67.12(1) of the Wisconsin Statutes and are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof. The Notes are dated September 3, 2009, mature (without option of prior redemption) on June 30, 2010 and bear interest from their date payable at maturity. \$208,000,000 principal amount of the Notes bear interest at the rate of two percentum (2.00%) per annum and \$20,000,000 principal amount of the Notes bear interest at the rate of two and one-half percentum (2.50%) per annum.

In our opinion, the Notes are valid and legally binding limited obligations of the City; payment of the principal of the Notes is secured by an irrevocable pledge of all School Operations Fund revenues for the 2009-2010 fiscal year that are due and not yet paid to the City and which are not otherwise pledged or applied through June 30, 2010; and payment of the interest on the Notes is secured by a pledge of surplus revenues of the Debt Service Fund of the City. The Notes are not general obligations of the City and neither the full faith and credit nor the general taxing power of the City is pledged as security for the payment of the principal of or interest on the Notes. The enforceability of rights or remedies with respect to the Notes may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and remedies heretofore or hereafter enacted.

We are further of the opinion that, under existing law, interest on the Notes is not includable in the gross income of the owners thereof for Federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), we are of the opinion that interest on the Notes will continue to be excluded from the gross income of the owners thereof for Federal income tax purposes. We are further of the opinion that interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income and is not taken into account when computing corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

The Code contains certain requirements that must be satisfied from and after the date hereof in order to preserve the exclusion from gross income for Federal income tax purposes of interest on the Notes. These requirements relate to the use and investment of the proceeds of the Notes, the payment of certain amounts to the United States, the security and source of payment of the Notes and the use of the property financed with the proceeds of the Notes. The City has covenanted to comply with these requirements.

Interest on the Notes is not exempt from Wisconsin income taxes.

Respectfully submitted,

LG/be

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APPENDIX C

Form of Continuing Disclosure Certificate

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MASTER CONTINUING DISCLOSURE CERTIFICATE

This Master Continuing Disclosure Certificate (the "Certificate") dated as of March 1, 2004 is executed and delivered in connection with the issuance, from time to time, of municipal securities of the City of Milwaukee, Wisconsin (the "City") and pursuant to resolution 031384 duly adopted by the Common Council of the City on February 10, 2004 (the "Resolution"). Capitalized terms used in this Certificate shall have the respective meanings specified above or in Article I hereof. Pursuant to the Resolution, the City agrees as follows:

ARTICLE I - Definitions

Section 1.1. Definitions. The following capitalized terms used in this Certificate shall have the following respective meanings:

(1) "Annual Financial Information" means, collectively, (i) the financial information and operating data as described in an Addendum Describing Annual Report (Exhibit B); and (ii) information regarding amendments to this Certificate required pursuant to Sections 4.2(c) and (d) of this Certificate.

The descriptions contained in clause (i) above of financial information and operating data constituting Annual Financial Information are of general categories of financial information and operating data. Where such descriptions include information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a new Addendum Describing Annual Report shall be executed describing the information to be provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the City, audited by such auditor as shall then be required or permitted by State law or the Resolution. Audited Financial Statements shall be prepared in accordance with GAAP for governmental units as prescribed by GASB; provided, however, that the City may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification, other than modifications prescribed by GASB, shall be provided to each NRMSIR and the SID, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

(3) "Counsel" means a nationally recognized bond counsel or counsel expert in federal securities laws, acceptable to the City.

(4) "GAAP" means generally accepted accounting principles for governmental units as prescribed by GASB.

(5) "GASB" means the Governmental Accounting Standards Board.

(6) "Material Event" means any of the following events with respect to the Offered Obligations, whether relating to the City or otherwise, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Offered Obligations;
- (vii) modifications to rights of Security Holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Offered Obligations; and
- (xi) rating changes.

(7) "Material Event Notice" means notice of a Material Event.

(8) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934.

(9) "NRMSIR" means, at any time, a then existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs and filing information relating to such NRMSIR's are set forth in the Addendum Describing NRMSIRs (Exhibit A) as may be revised from time to time.

(10) "Offered Obligations" means an issue of municipal securities of the City in connection with which the City has executed and delivered a Supplemental Certificate (Exhibit C).

(11) "Official Statement" means the "final official statement" as defined in paragraph (f)(3) of the Rule.

(12) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Certificate, including any amendments and official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

- (13) "SEC" means the United States Securities and Exchange Commission.
- (14) "Security Holders" means the holders from time to time of Offered Obligations.
- (15) "SID" means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Certificate, there is no SID.
- (16) "State" means the State of Wisconsin.
- (17) "Unaudited Financial Statements" means the same as Audited Financial Statements, except the same shall not have been unaudited.
- (18) "Underwriters" means the underwriter(s) purchasing an issue of Offered Obligations.

ARTICLE II - The Undertaking

Section 2.1. Purpose. This Certificate shall apply to Offered Obligations, and shall constitute a written undertaking for the benefit of the Security Holders, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 2.2. Annual Financial Information. (a) The City shall provide Annual Financial Information for the City with respect to each fiscal year of the City, by no later than nine months after the end of the respective fiscal year, to each NRMSIR and the SID.

(b) The City shall provide, in a timely manner, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 2.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the dates required by Section 2.2(a) hereof, the City shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR and (ii) the SID.

(b) Upon any legal defeasance of an Offered Obligation, the City shall provide notice of such defeasance to (i) each NRMSIR or the MSRB and (ii) the SID, which notice shall state whether the Offered Obligations to be defeased have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 2.5. Additional Disclosure Obligations. The City acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and SEC Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the City, and that under some circumstances compliance with this Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

Section 2.6. Additional Information. Nothing in this Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Certificate or any other means of communication, or including any other information in any Annual Financial Information or Material Event Notice, in addition to that which is required by this Certificate. If the City chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Financial Information or Material Event Notice.

Section 2.7. No Previous Non-Compliance. The City represents that since July 3, 1995, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE III - Operating Rules

Section 3.1. Reference to Other Documents. It shall be sufficient for purposes of Section 2.2 hereof if the City provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC, or (ii) if such a document is an Official Statement, available from the MSRB.

Section 3.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 3.3. Material Event Notices. Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Offered Obligations.

Section 3.4. Transmission of Information and Notices. Unless otherwise required by law and, in the City's sole determination, subject to technical and economic feasibility, the City shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the City's information and notices.

ARTICLE IV - Termination, Amendment and Enforcement

Section 4.1. Termination. (a) The City's obligations under this Certificate with respect to an Offered Obligation shall terminate upon legal defeasance, prior redemption or payment in full of the Offered Obligation.

(b) This Certificate or any provision hereof, shall be null and void in the event that the City (1) delivers to the City an opinion of Counsel, addressed to the City, to the effect that those portions of the Rule which require the provisions of this Certificate or any of such provisions, do not or no longer apply to the Offered Obligations, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 4.2. Amendment. (a) This Certificate may be amended, by written certificate of the Comptroller, without the consent of the Security Holders if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the City or the type of business conducted thereby; (2) this Certificate as so amended would have complied with the requirements of the Rule as of the date of this Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the City shall have received an opinion of Counsel addressed to the City, to the same effect as set forth in clause (2) above and further to the effect that the amendment does not materially impair the interests of the Security Holders; and (4) the City delivers copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Certificate may be amended and any provision of this Certificate may be waived, without the consent of the Security Holders, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date hereof which is applicable to this Certificate; (2) the City shall have received an opinion of Counsel to the effect that performance by the City under this Certificate as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule; and (3) the City shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Certificate results in a change in the types of financial information or operating data provided pursuant to this Certificate, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to the accounting principles to be followed in preparing financial statements, other than changes prescribed by GASB, the Annual Financial Information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. Notice of any such amendment shall be provided by the City to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 4.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Certificate shall constitute a contract with and inure solely to the benefit of the Security Holders. Beneficial owners of Offered Obligations shall be third-party beneficiaries of this Certificate.

(b) Except as provided in this subparagraph (b), the provisions of this Certificate shall create no rights in any person or entity. The obligations of the City to comply with the provisions of this Certificate shall be enforceable by the Security Holders, including beneficial owners of Offered Obligations. The Security Holders' rights to enforce the provisions of this Certificate shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the City's obligations under this Certificate and the Resolution. In consideration of the third-party beneficiary status of beneficial owners of Offered Obligations pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Security Holders for purposes of this subsection (b).

(c) Any failure by the City to perform in accordance with this Certificate shall not constitute a default under the Resolution and any rights and remedies provided by the Resolution upon the occurrence of a default shall not apply to any such failure.

(d) This Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Certificate shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, I have hereunto executed this Certificate this 1st day of March, 2004.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

ADDENDUM DESCRIBING NRMSIRs

This Addendum Describing NRMSIRs (the "Addendum") is delivered by the City of Milwaukee, Wisconsin (the "Issuer") pursuant to the Master Continuing Disclosure Certificate, executed and delivered by the Issuer and dated March 1, 2004. This Addendum describes the filing information relating to the Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission.

Repositories and Contact Information

In December, 2008, the Securities and Exchange Commission modified Exchange Act Rule 15c2-12 to require that Continuing Disclosure filings made after June 30, 2009 shall be made to the Electronic Municipal Market Access ("EMMA"). Pursuant to that modification, continuing disclosure filings will be provided to the Municipal Securities Rulemaking Board for disclosure on the EMMA system, in an electronic format prescribed by the MSRB.

IN WITNESS WHEREOF, I have hereunto executed this Addendum this 1st day of July, 2009.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

**ADDENDUM DESCRIBING ANNUAL REPORT
FOR SHORT-TERM OBLIGATIONS**

This Addendum Describing Annual Report for Short-Term Obligations (the "Addendum") is delivered by the City of Milwaukee, Wisconsin (the "Issuer") pursuant to the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated March 1, 2004. This Addendum describes the content of Annual Financial Information prepared with respect to obligations maturing within 18 months of the date of issue. Capitalized terms that are not defined in this Addendum have the meanings set forth in the Certificate.

Content of Annual Financial Information for Issuer:

None. (Exception for securities with a stated maturity of 18 months or less).

IN WITNESS WHEREOF, I have hereunto executed this Addendum this 1st day of March, 2004.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

SUPPLEMENTAL CERTIFICATE

This Supplemental Certificate is executed and delivered by the City of Milwaukee, Wisconsin (the "Issuer") to supplement the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated March 1, 2004. Pursuant to the provisions of the Certificate, the Issuer hereby determines that the Certificate and the Addendum Describing Annual Report, as described below, shall apply to the following issue of obligations:

Name of Obligations:

\$228,000,000 School Revenue Anticipation Notes, Series 2009 M4

Addendum Describing Annual Report:

ADDENDUM DESCRIBING ANNUAL REPORT
FOR SHORT-TERM OBLIGATIONS

Date of Issue(s):

September 3, 2009

IN WITNESS WHEREOF, I have caused this Supplemental Certificate to be executed this 3rd day of September, 2009.

CITY OF MILWAUKEE, WISCONSIN

By: _____
Comptroller

