NEW ISSUE **RATINGS: Moody's Rated "MIG 1"**
BOOK ENTRY ONLY **Standard & Poor's Rated "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. The Notes are not "private activity bonds" and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income." However, interest on the Notes is includable in corporate earnings and profits and therefore must be 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.

$120,000,000
CITY OF MILWAUKEE, WISCONSIN
SCHOOL REVENUE ANTICIPATION NOTES, SERIES 2012 M11
(Not a general obligation of the City)

Dated: Expected Date of Delivery **Due:** As shown below

The School Revenue Anticipation Notes, Series 2012 M11 (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.

MATURITY SCHEDULE

Maturity	Amount	Rate	Yield	CUSIP [1] Base 602424
June 26, 2013	$120,000,000	1.50%	0.19%	AT0

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 September 27, 2012 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 October 25, 2012 (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:
Martin Matson, City Comptroller and Secretary to Public Debt Commission
City Hall, Room 404, 200 East Wells Street - Milwaukee, WI 53202 - Phone (414) 286-3321

[1] The above-referenced CUSIP number has been assigned by an independent company not affiliated with the City and is included solely for the convenience of the holders of the Notes. The City is not responsible for the selection or uses of such CUSIP number, and no representation is made as to its correctness on the Notes, or as indicated above. The CUSIP number is subject to change after the issuance of the Notes.

October 9, 2012

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

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 $120,000,000 School Revenue Anticipation Notes, Series 2012 M11 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:	$120,000,000 School Revenue Anticipation Notes, Series 2012 M11.
Dated Date:	Expected Date of Delivery.
Sale Date and Time:	**Tuesday, October 9, 2012, Until 10:00 A.M. C.T.**
Principal Maturity:	Amount: $120,000,000; Maturity: June 26, 2013; Rate: 1.50%
Interest:	Calculated on a 30/360 day basis and due on the maturity date.
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 that are due MPS, that have not been received as of the date of delivery of the Notes, and that 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. The Notes are not "private activity bonds" and the interest thereon is not required to be included as an item of tax preference for purposes of computing individual or corporate "alternative minimum taxable income." However, interest on the Notes is includable in corporate earnings and profits and therefore must be 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 an electronic copy and up to 10 printed 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
Record Date:	June 15, 2013.
Delivery:	Delivery will be on or about October 25, 2012 (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 Milwaukee Board of School Directors (the "MBSD"), the governing board of Milwaukee Public Schools ("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 28, 2012, 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 6, 2012 (the "City Resolution") in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes.

SECURITY AND PURPOSE

Pursuant to a resolution of MBSD adopted on June 28, 2012, 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, that are due MPS, that have not been received as of the date of delivery of the Notes, and that 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 2013 and 2012" 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 121.15, 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, 2012, and in March, June, and July 2013. 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. MPS anticipates a cash flow deficit of approximately $190 million will occur in November 2012 due to MPS receiving the majority of State Aid and property tax revenues between December 2012 and June 2013, which is not until the last seven months of the MPS fiscal year. In contrast to the timing of the State Aid and property tax revenues, MPS expenditures are relatively evenly distributed throughout the school year (See "School Operations Fund Trends" herein). In September and October 2012, $70 million of commercial paper is anticipated to be issued for cash flow purposes through December, 2012. The commercial paper is scheduled to be redeemed in December, 2012 from State Aids due in December, 2012 and in January, 2013 from property taxes.

This Note issue of $120 million is the anticipated final interim borrowing for MPS during the 2012-2013 fiscal year. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing – Future Financing" herein.)

Pursuant to 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 State Aid received under Section 121.15, Wisconsin Statutes, in June 2013 in the principal amount of the Notes. The City Resolution also directs the City Treasurer to segregate, for payment of the Notes, June 2013 State Aid, 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 26, 2013 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 on a 30/360 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 2012-2013 Fiscal Year.

Total Amount of Estimated School Operations Fund Revenues For the 2012-2013 Fiscal Year	$946,548,495
Statutory Borrowing Limit (60% of Estimated Revenues)	$567,929,097
Borrowing-School Revenue Anticipation Notes, Series 2012 M11	$120,000,000
Unused Amount Following this Issue	$447,929,097
Percentage of Borrowing Limit Used	21.1%
Percentage of Borrowing to Estimated Revenues	12.7%

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 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 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 $120,650,079. 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 (Other than RANs)
AS OF OCTOBER 1, 2012

	Principal [(1)]	Interest [(2)]	Total
12/31/2012	$0	$287,062	$287,062
12/31/2013	12,682,137	4,643,563	17,325,700
12/31/2014	12,288,334	5,011,383	17,299,717
12/31/2015	11,440,876	5,230,830	16,671,706
12/31/2016	13,155,446	4,787,734	17,943,180
12/31/2017	11,238,405	5,053,804	16,292,209
12/31/2018	10,088,637	4,644,472	14,733,109
12/31/2019	9,747,344	5,138,747	14,886,091
12/31/2020	8,887,988	5,267,861	14,155,849
12/31/2021	5,304,814	4,941,185	10,245,999
12/31/2022	5,555,671	5,778,404	11,334,075
12/31/2023	5,340,427	5,611,439	10,951,866
12/31/2024	3,645,000	2,106,600	5,751,600
12/31/2025	3,375,000	2,099,850	5,474,850
12/31/2026	3,450,000	1,958,250	5,408,250
12/31/2027	4,450,000	979,125	5,429,125
	$120,650,079	$63,540,309	$184,190,388

[(1)] Assumes Sinking Fund Deposits in year due.
[(2)] 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 OCTOBER 1, 2012

2012 Equalized Value of Taxable Property in the City		$26,421,932,000
Legal Debt Limitation for City Borrowing		
5% of Equalized Value		$1,321,096,600
General Obligation Debt Outstanding subject to 5% Limit as of 10/01/12	$932,220,000	
Less: Provision for current year maturities	($695,000)	
Net General Obligation Debt Outstanding subject to the 5% Limit as of 10/01/12		$931,525,000
Total Debt Margin for City Borrowing (in Dollars)		$389,571,600
(As a percentage)		29.5%
(As a percentage excluding GO Cash Flow Notes)		37.1%
Legal Debt Limitation for School Purpose Borrowing		
2% of Equalized Value		$528,438,640
General Obligation Debt Outstanding subject to 2% Limit as of 10/01/12	$14,774,150	
Less: Provision for current year maturities	-	
Net General Obligation Debt Outstanding subject to the 2% Limit as of 10/01/12		$14,774,150
Total Debt Margin for School Purpose Borrowing (in Dollars)		$513,664,490
(As a percentage)		97.2%

HISTORY OF FULL VALUATION IN THE CITY OF MILWAUKEE (2008-2012)

Levy Year	Collection Year	Full Valuation	Percent Increase/Decrease
2008	2009	$32,257,525,000	1.16%
2009	2010	31,266,329,200	-3.07
2010	2011	29,520,783,200	-5.58
2011	2012	27,954,669,900	-5.31
2012	2013	26,421,932,000	-5.48

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 intra-district 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 OCTOBER 1, 2012

Year ending June 30	Debt Service Payments	Year ending June 30	Debt Service Payments
2013	$8,705,504	2019	$10,094,129
2014	8,922,258	2020	10,343,094
2015	9,144,649	2021	10,126,549
2016	9,376,675	2022	10,391,138
2017	9,606,995	2023	10,650,500
2018	9,848,206	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 MPS from its School Operations Fund. MPS's obligation under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments.

In November 2005, 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, Craig Montessori School and La Escuela Fratney. The schedule of lease payments is as follows:

Fiscal Year	Principal	Interest	Total
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
	$10,245,000	$3,499,925	$13,744,925

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 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. In 2011, Interest Rate Exchange Agreements with Lehman Brothers were replaced at no net cost to MPS. The schedule of loan payments, after taking into account the Interest Rate Exchange Agreements, is as follows:

REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE
TAXABLE PENSION FUNDING BONDS
(Milwaukee Public Schools)
ANNUAL LOAN PAYMENTS AS OF OCTOBER 1, 2012

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

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:

December 1	Payment Amount
2012	$329,625
2013	103,298

BORROWING - FUTURE FINANCING

The City has $8,000,000 of authorized, but unissued, general obligation borrowing authority for school purposes. MPS is in the process of refunding for savings a portion of the NSI Bonds.

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 594,833. 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	(2015)	Meagan Holman	(2015)
Peter Thomas Blewett, Vice President	(2013)	Jeff Spence	(2015)
Mark Sain	(2015)	Annie Woodward	(2013)
Larry Miller	(2013)	David Voeltner	(2013)
Terrence Falk, Member At-Large	(2015)		

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

Martin Matson	Comptroller	(2016)
Grant F. Langley	Attorney	(2016)
Spencer Coggs	Treasurer	(2016)

PUBLIC SERVICES AND FACILITIES

In the 2011-12 school year, MPS had approximately 80,098 full-time students and 4,946 teachers, attending 175 school programs within approximately 140 school buildings. The average age of the MPS buildings is approximately 66 years, however, significant investment was made in upgrading many of these buildings in the 1970's and 1980's and by the Neighborhood Schools Initiative in 2002-2006.

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 2012:

- 65th Street School
- 68th Street School building (68th Street program is to be merged with 81st Street School)
- John Burroughs Middle School

The following charter schools' contracts with MPS terminated as of June 2012:

- Montessori High School, an IB World School
- School for Urban Planning and Architecture
- WORK Institute
- Wisconsin Career Academy
- La Causa, ECC (will cease to be a self-standing contracted agency school after June 2012. La Causa Charter School is expanding to include the early childhood students).

The following partnership schools' contracts with MPS terminated as of June 2012:

- Sartori School

The Transition Intervention Experience program will close in June 2012.

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

ENROLLMENT

School Year	Average School Daily Membership(1)	School Year	Average School Daily Membership(1)
2000-2001	99,332	2006-2007	92,226
2001-2002	99,025	2007-2008	89,113
2002-2003	99,054	2008-2009	87,140
2003-2004	98,323	2009-2010	85,221
2004-2005	96,874	2010-2011	84,358
2005-2006	94,975	2011-2012	82,777

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

EMPLOYEE RELATIONS

On December 2nd, 2010, the MBSD and the Milwaukee Teachers' Education Association reached agreement on the teacher contract for the period July 1, 2009 thru June 30, 2013.

On February 15th, 2011 the MBSD and the Psychologists' Association in the Milwaukee Public Schools reached an agreement on their contract for the period July 1, 2009 thru June 30, 2013.

On March 25th, 2011, the MBSD and the Administrators and Supervisors Council reached an agreement on their contract for the period July 1, 2009 thru June 30, 2013.

All eligible MPS personnel are covered by the Municipal Employment Relations Act ("MERA") of the Wisconsin Statutes. MERA was amended by 2011 Wisconsin Act 10 ("Act 10") and by 2011 Wisconsin Act 32. Pursuant to MERA, employees have rights to organize and, after significant changes were made to the law by Act 10, very limited rights to collectively bargain with municipal employers.

The collective bargaining agreements between the MBSD and the accountants/bookkeepers, substitute teachers, educational assistants, Local 1053 (clericals), Local 950, Local 150 (Building Service), Local 150 (Food Service), and Local 1616 expired on June 30, 2012. Although the contracts with these collective bargaining units have expired, the unions are still the collective bargaining representatives for these groups of employees. Under Act 10, the MBSD is still required to negotiate total base wages with these collective bargaining units. Additionally, MPS has established and implemented an employee handbook which covers these employees. The employee handbook became effective July 1, 2012.

Certain legal challenges were brought with respect to Act 10. On May 26, 2011, the Dane County Circuit Court (the "Circuit Court") issued a decision which voided the legislative action taken with respect to Act 10 due to violations of the State's Open Meetings Law. However, on June 14, 2011, the Supreme Court of Wisconsin overturned the Circuit Court's decision by vacating and declaring all orders and judgments of the Circuit Court with respect to Act 10 to be void. As a result, Act 10 took effect on June 29, 2011, the day after it was published in accordance with State statutes.

As a result of the 2011 amendments to MERA, the MBSD is prohibited from bargaining collectively with municipal employees with respect to any factor or condition of employment except total base wages. Even then, the MBSD is limited to increasing the base wages only by any increase in the previous year's consumer price index (unless the MBSD were to seek approval for a higher increase through a referendum). Ultimately, the MBSD may unilaterally implement the wages for a collective bargaining unit. Under the changes to MERA, impasse resolution procedures were removed from the law for municipal employees of the type employed by the MBSD, including binding interest arbitration. Strikes by any municipal employee or labor organization are expressly prohibited. Furthermore, if strikes do occur, they may be enjoined by the courts. As a practical matter, it is anticipated that strikes will be rare. Additionally, because the only legal subject of bargaining is the base wage rates, all bargaining over items such as just cause, benefits, and terms of conditions of employment are prohibited and cannot be included in a collective bargaining agreement.

On September 14, 2012, a Dane County Circuit Court struck down the provisions of Act 10 relating to: The prohibition on collective bargaining on anything except total base wages up to CPI; the requirement of a referendum for wage increases beyond CPI; the imposition of certain certification and recertification requirements on general municipal employee unions; and limiting the ability of municipalities to withhold "fair share" dues for employees other than for public safety and transit unions. The State has filed a motion requesting a stay on the decision pending appeal of the case. The decision did not strike down the portion of Act 10 that eliminated Interest Arbitration. So, even if the decision is upheld, after mediation, the MBSD's best final offer is implemented.

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 accounts of the School District.

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 $43,922,652 recorded in the School Operations Fund and $6,908,373 represents an estimate of the amount of claims incurred, but not paid or reported, as of June 30, 2011.

INVESTMENT POLICIES

The City may invest any of its funds not immediately needed in accordance with Section 66.0603 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 Milwaukee Public Schools (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 Group, Moody's Investors Service, 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 ("LGIP") as a subset of the State Investment Fund (the "Fund"). The LGIP 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 LGIP portion of the Fund is additionally secured as to credit risk.

The LGIP is a local option City depository. The City utilizes the LGIP in a manner similar to a "money market" account. When other investment options provide more favorable returns, such options are utilized. As of December 31, 2011, the City had approximately 44.59% ($315,985,037) of its and MPS' investments deposited in the LGIP.

SWIB invests the assets of the Fund, which includes assets of the LGIP. 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.

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 fiscal year 2011-12, MPS's share of levy produced approximately $275,843,911 of the total revenues to the School Operations Fund. MPS's 2012-13 School Operations Fund Revenues are budgeted at $946,548,495 of which City ad volorem property taxes are estimated at $284,214,292.

MILWAUKEE PUBLIC SCHOOLS
PROPERTY TAX LEVIES
ALL FUNDS
(2007-2011)

Levy Year	Collection Year	Taxes Levied
2007	2008	$235,491,856
2008	2009	287,778,700
2009	2010	295,833,114
2010	2011	293,500,000
2011	2012	297,786,794

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 2011, the City's ratio of assessed to equalized value, as reported by the Department of Revenue, was 99.87 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.

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 2011 levies (collected in 2012) were as follows (amounts in millions):

Milwaukee Public Schools	$297.8
City of Milwaukee	248.0
Milwaukee County	126.6
MATC	52.3
Metropolitan Sewerage District	40.6
State Forestry Tax	4.7

The net tax rate for all taxing jurisdictions in 2011 was $26.90 per assessed thousand of property valuation.

Property Tax Collections - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2012 will be collected in 2013. 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 verses State equalization aid.

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

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		
	2008-09	2009-10	2010-11	2008-09	2009-10	2010-11
Revenue per Pupil	$12,463	$12,823	$13,196	$14,211	$14,863	$15,447
Federal share (%)	12.08	10.50	9.14	23.37	20.66	20.52
State share (%)	44.39	44.78	45.85	50.93	53.00	53.87
Local share (%)	43.53	44.72	45.01	25.70	26.34	25.61

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 2011-12 were $3,935,303 or $26.54 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. In June 2011, Governor Walker's Wisconsin Act 32 was passed into law, among other things eliminating the enrollment cap on the Parental Choice Program and increasing the family income limitation for student eligibility. 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 have been reduced by an amount equal to 45% of the total cost of the Choice Program.

For the 2011-12 school year, approximately 22,328 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 2011-12 school year, MPS received $23,298,537 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 2011-12 school year, total federal aids to MPS for food services and other categorical aids are estimated to be approximately $226,245,510.

GENERAL FUND TRENDS

Equalization Aid revenues in the 2010-11 school year increased by approximately $29,923,939. Property tax revenues decreased by approximately $11,337,107.

Total expenditures decreased approximately $6,432,330 in 2010-11 over the previous year. Expenditures for instructional services were 61.65% of total expenditures. 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
FOUR YEAR SUMMARY

	2011 Year End	2010 Year End	2009 Year End	2008 Year End
Revenues				
Property tax levy	$273,079,212	$284,416,319	$268,906,568	$234,101,757
Other local sources	11,029,241	9,627,675	12,174,169	15,465,538
Microsoft Settlement Refunds	6,706,515	6,796,310	—	—
State aid:				
Equalization aid	544,914,729	514,990,790	469,912,641	570,812,646
Special classes	49,429,225	46,323,816	47,564,912	42,288,233
Integration	39,158,028	40,804,682	41,276,129	41,864,808
Other state aid	71,938,535	72,041,083	74,510,985	53,695,405
Federal aid:				
Education Consolidation Improvement Act	121,910,586	121,231,450	102,207,198	81,727,901
Erate Refunds	3,346,923	1,920,868	1,751,957	3,638,805
Other federal aid	61,104,594	77,649,458	129,957,356	54,167,075
Intergovernmental Aid from City of Milwaukee	—	191,000	—	—
Miscellaneous	4,533,161	1,222,859	932,475	816,009
Interest and investment earnings	185,426	187,144	438,526	1,187,660
Total Revenues	1,187,336,175	1,177,403,454	1,149,632,916	1,099,765,837
Expenditures				
Current operating:				
Instructional services:				
Undifferentiated curriculum	408,281,267	419,013,141	426,468,415	420,350,045
Regular and other curriculum	153,723,073	162,055,281	152,019,378	139,085,524
Special curriculum	157,796,084	151,818,754	138,130,512	124,508,207
Total instructional services	719,800,424	732,887,176	716,618,305	683,943,776
Community services	23,467,701	23,184,162	23,482,483	19,337,638
Pupil and staff services	129,016,403	114,858,237	112,412,796	109,023,100
General and school building administration	118,430,195	128,618,542	118,520,404	112,066,634
Business services	170,709,794	160,335,051	161,983,843	169,019,755
Debt Service:				
Principal	4,505,249	12,226,343	3,762,400	3,537,425
Interest	532,831	1,086,685	1,304,377	1,446,457
Bond Issuance Cost	4,999	835,507	10,771	471,133
Capital outlay	1,131,777	—	—	—
Total Expenditures	1,167,599,373	1,174,031,703	1,138,095,379	1,098,845,918
Excess of revenues over (under) expenditures	19,736,802	3,371,751	11,537,537	919,919
Other Financing Sources (Uses)				
Proceeds from sale of assets	18,128	—	—	—
Capital Leases	—	11,504,297	—	—
Transfers in (out)	(20,168,630)	(19,506,580)	(13,156,982)	(13,285,576)
Total Other Financing Sources(uses)	(20,150,502)	(8,002,283)	(13,156,982)	(13,285,576)
Net Change in Fund Balances	(413,700)	(4,630,532)	(1,619,445)	(12,365,657)
Fund balance - beginning of year	92,014,574	96,645,106	—	—
Fund balance - beginning of year, as restated	—	—	98,264,551	110,630,208
Fund balance - end of year	$91,600,874	$92,014,574	$96,645,106	$98,264,551

Source: Comprehensive Annual Financial Report, State of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds.

Milwaukee Public Schools
School Operations Budget
Fiscal years 2013 and 2012

	2012-13 Budget [1]	2011-12 Budget [2]
REVENUES		
Locally Generated:		
Property Tax Levy	$284,214,292[4]	$275,843,911
Other Local Sources	13,505,731	16,067,908
Subtotal	297,720,023	291,911,819
State Aid:		
Equalization Aid	494,305,318	496,704,300
Special Education	51,134,408	51,134,408
Integration	34,154,541	35,235,722
Other	24,879,514	20,934,643
Subtotal	604,473,781	604,009,073
Federal Aid:		
School Nutrition Commodities & Federal Indirect	38,654,691	44,210,481
Other	5,700,000	5,700,000
Subtotal	44,354,691	49,910,481
TOTAL REVENUES	946,548,495	945,831,373
Plus Use of Surplus	0	0
TOTAL SOURCES OF FUNDS	$946,548,495	$945,831,373
EXPENDITURES [3]		
Instructional Services	$586,058,509	$597,670,845
Support Services	360,489,986	348,160,528
TOTAL EXPENDITURES	$946,548,495	$945,831,373
SUMMARY		
Total Revenues and Use of Surplus	$946,548,495	$945,831,373
Total Expenditures	946,548,495	945,831,373
Difference	$0	$0

[1] Initial Fiscal Year 2013 School Operations Fund Budget approved June, 2012.
[2] Final Fiscal Year 2012 School Operations Fund Budget approved October, 2011.
[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 2012-2013. 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
2011-12 ACTUAL RESULTS (UNAUDITED)
2012-2013 PROJECTED
(Millions of Dollars)

ACTUAL

		Beginning	Receipts	Disbursements	Ending
July,	2011	19.784	24.826	60.059	(15.449)
Aug		(15.449)	37.480	58.802	(36.771)
Sept		(36.771)	109.542	98.651	(25.880)
Oct		(25.880)	63.389(1)	82.474	(44.965)
Nov		(44.965)	168.524(2)	89.469	34.090
Dec		34.090	155.557	141.672(3)	47.975
Jan,	2012	47.975	184.414	114.833	117.556
Feb		117.556	71.944	97.007	92.493
Mar		92.493	183.202	137.143	138.552
Apr		138.552	67.749	97.768	108.533
May		108.533	41.344	87.906	61.971
Jun		61.971	342.863	338.469(4)	66.365

(1) Includes $50,000,000 of Commercial Paper proceeds.
(2) Includes $145,000,000 of 2011 M6 Notes.
(3) Includes repayment of Commercial Paper.
(4) Includes repayment of 2011 M6 Notes.

PROJECTED

		Beginning	Receipts	Disbursements	Ending
July,	2012	66.365	37.858	94.680	9.543
Aug		9.543	27.232	90.072	(53.297)
Sept		(53.297)	141.586 (1)	94.632	(6.343)
Oct		(6.343)	155.234 (2)	89.562	59.329
Nov		59.329	34.294	92.774	0.849
Dec		0.849	159.267	157.192 (3)	2.924
Jan,	2013	2.924	193.101	115.485 (4)	80.540
Feb		80.540	74.879	103.229	52.190
Mar		52.190	172.773	134.368	90.594
Apr		90.594	38.368	87.102	41.859
May		41.859	49.471	89.615	1.716
Jun		1.716	332.522	301.177(5)	33.061

(1) Includes $50,000,000 of Commercial Paper proceeds.
(2) Includes $20,000,000 of Commercial Paper proceeds and $120,000,000 of 2012 M11 Notes.
(3) Includes repayment of $50,000,000 of Commercial Paper.
(4) Includes repayment of $20,000,000 of Commercial Paper.
(5) Includes repayment of 2012 M11 Notes.

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND - CASH FLOW ACTUALS
JULY 1, 2011 - JUNE 30, 2012
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	19.784	(15.449)	(36.771)	(25.880)	(44.965)	34.090	47.975	117.556	92.493	138.552	108.533	61.971	
RECEIPTS													
Property Taxes	—	—	—	—	—	—	152.382	35.578	7.121	11.474	7.839	61.450	275.844
Integration Aid	—	—	—	—	—	—	—	—	—	—	—	35.236	35.236
Computer Aid	—	5.821	—	—	—	—	—	—	—	—	—	—	5.821
State Aid													
Equalization Aid	9.174	—	80.122	—	—	112.204	—	—	119.410	—	—	175.229	496.139
Other	—	—	0.010	—	7.951	7.951	12.256	7.951	13.748	3.935	0.000	14.695	68.497
Categorical Aid	7.330	26.700	19.348	11.611	13.220	19.049	10.438	23.110	13.105	31.422	16.335	27.816	219.484
Nutrition	6.710	1.873	0.263	0.591	0.577	4.152	7.591	2.865	1.108	7.169	3.825	2.862	39.586
Local Revenues	0.305	1.520	0.916	0.100	0.137	0.580	0.095	0.084	0.069	0.123	0.224	6.090	10.243
Other Local Receipts	1.307	1.566	3.936	1.087	1.639	0.680	1.652	1.650	1.056	4.102	2.937	1.523	23.135
Non Operating Receipts	—	—	—	—	—	5.397	—	0.706	1.373	—	—	0.412	7.888
Reimbursed Interest (QSCB)	—	—	—	—	—	—	—	—	—	—	—	1.958	1.958
GASB 45	—	—	4.947	—	—	5.544	—	—	26.212	9.524	10.184	15.592	72.003
CP Proceeds	—	—	—	50.000	—	—	—	—	—	—	—	—	50.000
Note Proceeds	—	—	—	—	145.000	—	—	—	—	—	—	—	145.000
Total Receipts	24.826	37.480	109.542	63.389	168.524	155.557	184.414	71.944	183.202	67.749	41.344	342.863	1,450.834
DISBURSEMENTS													
Salaries and Benefits	23.004	21.744	74.929	75.743	74.972	74.527	73.074	75.402	112.608	73.988	75.548	73.224	828.763
Services & Supplies	35.748	35.492	19.786	5.644	12.858	11.068	7.040	19.249	4.777	9.453	9.421	106.196	276.732
Other Local Expenses	1.307	1.566	3.936	1.087	1.639	0.680	1.652	1.650	1.056	4.102	2.937	1.523	23.135
Non Operating Expenses	—	—	—	—	—	5.397	—	0.706	1.373	—	—	0.412	7.888
GASB 45	—	—	—	—	—	—	33.067	—	10.225	10.225	—	4.000	57.517
Debt Service	—	—	—	—	—	—	—	—	7.104	—	—	8.114	15.218
CP Repayment	—	—	—	—	—	50.000	—	—	—	—	—	—	50.000
Note Repayment	—	—	—	—	—	—	—	—	—	—	—	145.000	145.000
Total Disbursements	60.059	58.802	98.651	82.474	89.469	141.672	114.833	97.007	137.143	97.768	87.906	338.469	1,404.253
Balance	(15.449)	(36.771)	(25.880)	(44.965)	34.090	47.975	117.556	92.493	138.552	108.533	61.971	66.365	

MILWAUKEE PUBLIC SCHOOLS
SCHOOL OPERATIONS FUND - CASH FLOW PROJECTION
JULY 1, 2012 - JUNE 30, 2013
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
Balance	66.365	9.543	(53.297)	(6.343)	59.329	0.849	2.924	80.540	52.190	90.594	41.859	1.716	
RECEIPTS													
Property Taxes	—	—	—	—	—	—	155.000	35.000	10.000	10.000	10.000	64.214	284.214
Integration Aid	—	—	—	—	—	—	—	—	—	—	—	34.155	34.155
Computer Aid	5.132	—	—	—	—	—	—	—	—	—	—	—	5.132
State Aid													
Equalization Aid	9.726	—	73.136	—	—	120.730	—	—	121.167	—	—	169.546	494.305
Other	—	—	—	—	7.670	10.319	12.137	7.670	14.518	3.919	—	14.780	71.013
Categorical Aid	10.175	16.289	10.186	6.626	17.173	14.497	11.166	21.626	15.114	12.976	26.967	30.500	193.294
Nutrition	5.382	1.237	0.315	1.013	1.030	4.015	5.603	3.007	3.898	2.843	4.225	2.940	35.507
Local Revenues	0.443	1.706	0.449	0.095	0.421	0.248	1.196	0.075	0.075	0.630	0.279	7.887	13.506
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
Reimbursed Interest (QSCB)	—	—	—	—	—	1.958	—	—	—	—	—	—	1.958
GASB 45	5.000	6.000	5.500	5.500	6.000	5.500	6.000	5.500	6.000	6.000	6.000	6.500	69.500
CP Proceeds	—	—	50.000	20.000	—	—	—	—	—	—	—	—	70.000
Note Proceeds	—	—	—	120.000	—	—	—	—	—	—	—	—	120.000
Total Receipts	37.858	27.232	141.586	155.234	34.294	159.267	193.101	74.879	172.773	38.368	49.471	332.522	1,416.584
DISBURSEMENTS													
Salaries and Benefits	21.485	42.418	69.556	71.218	71.172	72.666	71.386	71.150	107.119	71.898	72.732	72.699	815.499
Services & Supplies	30.595	34.654	17.076	10.344	13.602	15.319	16.099	24.079	18.803	7.204	8.883	91.773	288.432
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
GASB 45	40.600	11.000	6.000	6.000	6.000	6.000	6.000	6.000	6.000	6.000	6.000	6.000	111.600
Debt Service	—	—	—	—	—	11.207	—	—	0.446	—	—	8.705	20.358
CP Repayment	—	—	—	—	—	50.000	20.000	—	—	—	—	—	70.000
Note Principal to Trustee	—	—	—	—	—	—	—	—	—	—	—	120.000	120.000
Total Disbursements	94.680	90.072	94.632	89.562	92.774	157.192	115.485	103.229	134.368	87.102	89.615	301.177	1,449.889
Balance	9.543	(53.297)	(6.343)	59.329	0.849	2.924	80.540	52.190	90.594	41.859	1.716	33.061	

THE CITY OF MILWAUKEE

GENERAL

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 595,525 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Metropolitan Statistical Area ("MSA") includes the principal cities of Milwaukee, Waukesha and West Allis, in the counties of Milwaukee, Ozaukee, Waukesha and Washington, counties, and has a population of nearly 1.6 million.

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

	Population		Adjusted
Year	Department of Administration	U.S. Census	Gross Income Per Return
2011	595,525		Not Available
2010	580,500	594,833	$32,753
2009	584,000		32,492
2008	590,870		33,144
2007	590,190		33,225

Sources: U.S. Census and the Wisconsin Department of Administration, Demographic Service Center and the Wisconsin Department of Revenue, Division of Research and Analysis. The Division's population estimates are used in the distribution of State Shared Revenues.

(The remainder of this page has been intentionally left blank.)

BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity for the years 2007-2011.

General Total

Year	Value	Permits Issued
2011	$269,386,167	2,340
2010	283,026,280	2,065
2009	290,326,431	1,723
2008	249,992,533	2,067
2007	336,748,300	2,405

Residential Building

	Single Family		Multi-Family		Total		Permits
Year	Value	# Of Units	Value	# Of Units	Value	# Of Units	Issued
2011	$17,892,282	139	$42,327,598	364	$60,219,880	503	222
2010	8,400,090	84	91,179,501	726	99,579,591	810	118
2009	7,269,207	59	37,354,152	409	44,623,359	468	72
2008	15,632,811	90	63,975,007	509	79,607,818	599	104
2007	24,940,117	160	123,505,408	677	148,445,525	837	187

Commercial Building

Year	Value	Permits Issued
2011	$58,518,315	47
2010	53,319,884	67
2009	127,122,466	37
2008	59,502,236	74
2007	82,501,318	105

Public Building

Year	Value	Permits Issued
2011	$49,456,901	256
2010	22,238,704	129
2009	10,808,648	107
2008	9,107,611	85
2007	19,791,921	140

Alterations and Additions

Year	Value	Permits Issued
2011	$101,191,071	1,815
2010	107,888,101	1,751
2009	107,771,958	1,506
2008	101,774,868	1,804
2007	86,009,536	1,973

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	2011 Employment Estimates	Type of Business or Service
Aurora Health Care	22,000 (1)	Health Care
U.S. Government (Includes Zablocki V.A. Medical Center)	10,400 (2)	Government
Milwaukee Public Schools	9,142	Education
Wheaton Franciscan Healthcare	8,356	Health care provider
Froedtert Memorial Lutheran Hospital and Community Health	8,000	Health care provider
Kohl's Corporation	7,700	Specialty department stores
Wal-Mart Stores	7,360	Discount retail stores and warehouse clubs
Roundy's Supermarket	6,800	Retail grocer
Quad Graphics	6,700	Commercial printing
City of Milwaukee	6,400	Government
Milwaukee County	5,457	Government
Northwestern Mutual Life	5,000	Insurance
GE Healthcare Technologies	3,000	Medical imaging, healthcare services
Medical College of Wisconsin	4,877	Medical school/academic/health care
Children's Hospital of Wisconsin	4,604	Health care provider
ProHealth Care, Inc.	4,302	Health care provider
Columbia-St. Mary's	4,190	Health care provider
WE Energies	4,060	Electric/natural gas utility
BMO Financial Group (3)	3,924	Holding company banking/finance and data services
University of Wisconsin-Milwaukee	4,081	Education
Walgreens Co.	3,521	Retail drugstore chain
U. S. Bank	3,467	Finance, banking
Briggs and Stratton	3,000	Manufacturer, small engines, automotive locks and keys
Target Corporation	3,000	Discount department store chain
Rockwell Automation	3,000	Industrial automation, power and control

(1) *Aurora's employee number includes four hospitals, rehabilitation, homecare and hospice facilities and their corporate office within a six-county area in and around the City of Milwaukee.*

(2) *Preliminary. As of June, 2012.*

(3) *Formerly M&I Marshall & Ilsley Bank, acquired by Toronto-based BMO Financial Group. The acquisition was completed in July, 2011.*

Source: The 2012 Business Journal Book of Lists, Employer contacts March 2012 and the U.S. Bureau of Labor Statistics February 2012.

EMPLOYMENT AND INDUSTRY

During 2011, the City's unemployment rate averaged approximately 10.6%. Presented below are unemployment rates for the City, as compared to the State of Wisconsin and the United States for the period 2007 through December 2011.

ANNUAL UNEMPLOYMENT RATES
(Not Seasonally Adjusted)

Year	City of Milwaukee	Milwaukee - Waukesha-West Allis Metropolitan Statistical Area	State of Wisconsin	United States
2011	10.6%	7.9%	7.5%	8.9%
2010	11.5	8.7	8.3	9.6
2009	11.4	8.9	8.7	9.3
2008	6.6	4.8	4.7	5.8
2007	7.2	5.1	4.9	4.6

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

RECENT MONTHLY UNEMPLOYMENT RATES
(Not Seasonally Adjusted)

Month	City of Milwaukee	Milwaukee - Waukesha-West Allis Metropolitan Statistical Area	State of Wisconsin	United States
July, 2012	11.4% (1)	8.2% (1)	7.4%	8.6%

(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 2011 Assessed Valuations

US Bank Corporation	$ 249,092,565
Northwestern Mutual Life Ins.	$ 193,493,375
Mandel Group	$ 106,732,616
Marcus Corp/Milw City Center/Pfister	$ 97,387,873
Metropolitan Associates	$ 94,846,441
NNN 411 East Wisconsin LLC	$ 89,724,353
100 E. Wisconsin-CW Wisconsin Ave. LLC	$ 79,822,218
Towne Realty	$ 75,787,573
Flanders Westborough	$ 56,704,469
875 East Wisconsin-875 East Sponsor LLC	$ 54,442,335

Source: City of Milwaukee, Assessor's Office February 2012.

(The remainder of this page has been left blank intentionally.)

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 rating: AA+. 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.

(The remainder of this page has been intentionally left blank.)

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 September 15, 2012 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 (District Court). It was filed by Disability Rights Wisconsin (DRW) on behalf of a class of MPS 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 MPS' 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 MPS and enforce federal and state laws.

In May, 2003, the District 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 (Seventh Circuit), which denied the appeal. The District 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 District 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 District 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 District Court entered its Decision and Order, which found liability on behalf of both MPS and DPI. Specifically, the District Court concluded that MPS 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 District 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 District 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 MPS 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 District Court granted preliminary approval of the proposed settlement agreement, finding that MPS did not have standing to object to the settlement agreement. On July 28, 2008, the District 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 DPI will share the costs of any compensatory education ordered by the District Court, DPI submitted a motion for a declaratory ruling that it is not legally responsible for the cost of any court-ordered remedy. MPS filed a response, and the District Court denied the motion.

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 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. The District Court outlined a procedural framework to accomplish its goals which are briefly addressed below.

> Independent Monitor: The District 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 District Court to consider. MPS is responsible for any costs associated with the independent monitor.
>
> Hybrid IEP Team: The District 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 MPS buildings. The parties must also agree on a timeline for responding to the notice.

Status of Litigation: MPS filed its appeal on July 8, 2009, appealing the District Court's decisions on class certification, liability and the remedy. It also appealed the District Court's approval of the settlement between the Plaintiffs and DPI. On July 30, 2009, Plaintiffs filed a motion to dismiss MPS' appeal, arguing the appeal was premature. On August 14, 2009, MPS filed its response to Plaintiffs' motion. On August 20, 2009, MPS filed a motion to stay the District Court's June 9, 2009 order, which order would have required MPS to begin implementing the class remedy. On August 26, 2009, and before Plaintiffs filed their response to MPS' motion, the Seventh Circuit granted the motion to stay the District Court's June 9, 2009 order. The Seventh Circuit also ordered the parties to address Plaintiffs' arguments concerning the alleged prematurity of MPS' appeal in their briefs on the merits. MPS also moved the District Court to stay two orders it issued on August 19, 2009. The August 19, 2009 orders appointed an independent monitor and outlined the procedures for class notification. Based on the Seventh Circuit's stay of the June 9, 2009 order, the District Court granted a stay of the August 19, 2009 orders on August 27, 2009. MPS' opening appeal brief was filed on October 26, 2009.

The same day the Seventh Circuit granted MPS' motion to stay the District Court's June 9, 2009 order, Plaintiffs moved the District Court for an extension of time in which to file a cross-appeal in order to contest the class certification decisions. Without hearing from MPS, the District Court granted Plaintiffs' request. MPS immediately filed a motion for reconsideration, arguing that the Plaintiffs' request to file a late cross-appeal was not timely filed. After ordering the parties to brief the issue, the District Court granted MPS' motion for reconsideration and denied Plaintiffs' request to file a late cross-appeal on September 8. Despite this, Plaintiffs filed a notice of appeal on September 11, 2009, alleging the Seventh Circuit had jurisdiction over its appeal based on the District Court's August 19, 2009 orders. MPS moved to dismiss Plaintiffs' appeal on September 24, 2009.

On March 11, 2010, the Seventh Circuit consolidated MPS' and Plaintiffs' appeals. Briefing on MPS' appeal and the Plaintiffs' cross-appeal was completed. The Seventh Circuit heard oral argument on the consolidated appeals on September 7, 2010. On February 3, 2012, the Seventh Circuit issued its decision reversing the District Court judgment on all issues and remanded the case to the District Court for further action, if any. The Seventh Circuit subsequently denied the plaintiffs' petition for a rehearing en banc. The District Court dismissed the case and ordered the plaintiffs to reimburse MPS the $475,000 in interim attorneys' fees that it paid to plaintiffs' attorneys during the pendency of the District Court case. There remains the possibility that plaintiffs could file a petition for certiorari to the United States Supreme Court, though the possibility of success would be remote.

In reversing the prior rulings, the Seventh Circuit was following the June 2011 decision of the US Supreme Court in the *Dukes v. Wal-Mart* case, which held that the commonality requirement necessary to maintain a class action lawsuit under the Federal Rules of Civil Procedure could not be met by a large proposed class comprised of thousands of individuals with claims involving many disparate circumstances. Likewise, in the *Jamie S.* case, the Seventh Circuit found that the commonality requirement for a class action was not present because the IDEA required individual remedies for disparately situated individual plaintiffs. Undisputed case law requires the return of previously paid attorneys' fees when a party ultimately loses on the merits.

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 excludable from gross income for federal income tax purposes. Bond Counsel are further of the opinion that the Notes are not "private activity bonds" within the meaning of Section 141(a) of the Code. Accordingly, interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. However, interest on the Notes is includable in corporate earnings and profits and therefore must be 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 are 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 retroactively 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 not only in computing the corporate alternative minimum tax but also 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 (the "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 a central repository designated by the Commission, currently the Municipal Securities Rulemaking Board (the "MSRB"), and to provide notices of the occurrence of certain events enumerated in the Rule electronically or in the manner otherwise prescribed by the MSRB to the MSRB. The MSRB has designated its Electronic Municipal Market Access ("EMMA") system as the system to be used for continuing disclosures to investors. 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 intends to fully comply with the Undertaking relating to the Notes.

Continuing disclosure undertakings entered into prior to August of 2003 required that the City provide Annual Financial Information (AFI) within six months of the end of each fiscal year. Each of the City's continuing disclosure undertakings since August of 2003 have required filing AFI within nine months of the end of the fiscal year. While the city has consistently filed AFI within nine months, it has not proven feasible to do so within six months. In each of the last five years, AFI was not available within the six-month requirement and the city filed notices to that effect as required under the pre-August 2003 continuing disclosure undertakings. In the future, the City anticipates continuing to file AFI subsequent to the six month deadline. and expects to file required notices of failure to file AFI before June 30 of each year. The City has complied in all material respects with all continuing disclosure undertakings entered into since August of 2003.

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.

RATINGS

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

FITCH Ratings has rated prior school revenue anticipation notes of the City. No application has been submitted to FITCH Ratings in connection with this issuance of 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.

UNDERWRITING

The Notes will be purchased at competitive bidding conducted on October 9, 2012.

The award of $120,000,000 of the Notes was made to Bank of America Merrill Lynch, New York, New York, its co-managers and associates.

The public reoffering yield on the Notes is 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 Notes 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.

MARTIN MATSON
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/ Martin Matson
City Comptroller and Secretary
City of Milwaukee, Wisconsin

October 9, 2012

This Page Has Been Intentionally Left Blank

APPENDIX A

Audited Annual Financial Report of the Milwaukee Public Schools for the Year Ended June 30, 2011

Selected Sections of the Comprehensive Annual Financial Report

The complete Comprehensive Annual Financial Report for the year ended June 30, 2011, is available from EMMA and is hereby incorporated by reference.

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.

This Page Has Been Intentionally Left Blank

Table of Contents

II. Financial Section

This Page Has Been Intentionally Left Blank

The June 30, 2011 financial statements of Milwaukee Public Schools have been audited by Baker Tilly Virchow Krause, LLP and they have issued an unqualified opinion dated December 14, 2011.

The complete Comprehensive Annual Financial Report for the year ended June 30, 2011, is available from EMMA and is hereby incorporated by reference.

<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, 2011, 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, 2011, 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, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* effective July 1, 2010.

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, budgetary comparison information and schedules of funding progress and employer contributions as listed on the table of contents 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 as listed in the table of contests 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.

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, 2011. 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 ($126.1 million) at June 30, 2011, from ($20.9 million) at June 30, 2010, a decline of approximately $105.2 million, or 502.5%. Of this decrease, $131.4 million is attributable to the increase in the District's Other Post Employment Benefits (OPEB) liability at year-end.
- Total revenues increased to $1.296 billion in fiscal year 2011, up from $1.267 billion in fiscal year 2010, an increase of approximately 2.3%.
- Total expenses decreased to $1.401 billion, down from $1.406 billion for the year ended June 30, 2010, a decrease of 0.4%. The decrease is largely attributable to the cost of the Net Pension Asset.

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

- Total fund balances of the District's governmental funds decreased $2.9 million in fiscal year 2011. This decrease included a $413,700 decline in the General Fund, a $2.4 million decrease in the Construction Fund, a $97,151 decrease in the School Nutrition Fund, and no change in the Nonmajor Governmental Funds.
- The decrease in the General fund balance is the result of the net of a decrease of $3.4 million budgeted use of applied surplus, a $2.5 million transfer to the Construction Fund to finance debt service paid on outstanding bonds, plus increased revenues of $3.8 million and $1.7 million in handicapped aid and tax increment financing, respectively.
- The decrease in the Construction fund balance is the result of payments for projects previously borrowed with American Recovery and Reinvestment Act (ARRA) funds.
- The $97,151 decrease in the School Nutrition fund balance is attributable to retroactive contract settlements.
- Total fund balances for all governmental funds at June 30, 2011 were $134.0 million. Of this amount, $5.9 million was nonspendable, $19.8 million was restricted for self-insurance, debt service, and flex spending, $44.6 million was committed for construction, $1.1 million was assigned, and $62.6 million remains unassigned.

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, 2011. 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.

Table 1

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

	Government-Wide Statements	Fund Statements: Governmental Funds	Fund Statements: Fiduciary Funds
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	- Statement of net assets - Statement of activities	- Balance sheet - Statement of revenues, expenditures, and changes in fund balance	- 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 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 $105.2 million. This decrease is largely the result of a $131.4 million increase in 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, 2011 was $520.6 million. This amount reflects the unfunded portion of the fiscal year 2011 cost of healthcare benefits owed to current and future MPS retirees. The District's total OPEB liability as actuarially determined at July 1, 2009 is $2.398 billion.

MPS ended its fiscal year with net assets of ($126.1 million), of which $499.8 million was invested in capital assets (net of related debt), $11.2 million was restricted for debt service, and ($637.1) million was an unrestricted deficit. The unrestricted deficit is the result of the OPEB liability noted 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, 2011 the balance of the outstanding pension debt grew to $179.2 million due to the fact the pension financing includes capital appreciation securities which accrete over time.

MILWAUKEE PUBLIC SCHOOLS

Table 2

Condensed Statement of Net Assets

(in thousands)

	Governmental Activities 2011	Governmental Activities 2010	Difference
Capital assets, net	$ 625,418	$ 628,002	$ (2,584)
Noncapital assets	286,614	276,860	9,754
Intangible assets	12,985	11,822	1,163
Total assets	925,017	916,684	8,333
Current liabilities	137,288	140,125	(2,837)
Noncurrent liabilities	913,866	797,495	116,371
Total liabilities	1,051,154	937,620	113,534
Net assets:			
Invested in capital assets, net of related debt	499,760	494,531	5,229
Restricted	11,248	4,700	6,548
Unrestricted (deficit)	(637,145)	(520,167)	(116,978)
Total net assets	$ (126,137)	$ (20,936)	$ (105,201)

Capital Assets decreased by $2.6 million. The decrease is the net result of Construction in Progress decreasing by $1.0 million, Buildings and Furniture increasing by $19.0 million, and Accumulated Depreciation increasing by $20.6 million.

Notable changes in Noncapital Assets occurred in the areas of Cash and Investments, Due from other Governments, Deferred Cash Flow Hedges-Unrealized Loss on Derivatives, and Net Pension Assets.

Cash and Investments decreased by $5.8 million and Due from other Governments increased by $10.3 million because cash spent before June 30, 2011 was not received until after June 30, 2011.

Deferred Cash Flow Hedges-Unrealized Loss on Derivatives is reported as the District applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, a decrease in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net assets. For the reporting period, all the District's derivatives meet the effectiveness test. The current asset component of the decrease in fair value is $9.7 million and the noncurrent asset component is $18.2 million.

Net Pension Assets increased to $15,576,085 for the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan and the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers. This $15,576,085 reflects the impact of the District's contribution in excess of Annual Required Contribution (ARC) by prepaying the fiscal year 2012 obligation.

Current liabilities decreased $2.8 million in the current year due to an increase of $5.4 million in Accounts Payable and Other Current Liabilities that is primarily due to increase in accrued self insurance of $3.6 million, a decrease in Unearned Revenue of $3.1 million, a $3.8 million decrease in the Current Portion of Long-Term Obligations, and a decrease of $1.9 million in Deferred Cash Flow Hedges-Unrealized Loss on Derivatives. The decrease of $3.1 million in Unearned Revenue is attributable to a reduction in the amount of Microsoft refunds due as a result of a court-ordered settlement. The Current Portion of Long-Term Obligations decrease is primarily due to a $1.4 million decrease in worker's compensation claims and $1.8 million decrease in capital leases. The Deferred Cash Flow Hedges-Unrealized Loss on Derivatives recognizes the liability associated with the decrease in fair value of District hedges.

Noncurrent Liabilities jumped by $116.4 million primarily due to the $131.4 million increase in the OPEB liability and a decrease of $11.2 million in principal payments.

Statement of Activities

Table 3 shows that on a government-wide basis, the District ended fiscal year 2011 with a decrease in net assets of $105.2 million, compared to a decrease of $139.3 in fiscal year 2010.

MILWAUKEE PUBLIC SCHOOLS

Table 3

Schedule of Revenues and Expenses

(in thousands)

	Governmental Activities 2011	2010	Difference
Program revenues:			
Charges for services	$ 12,448	$ 12,348	$ 100
Operating grants and contributions	353,888	355,599	(1,711)
Capital grants and contributions	11,533	11,118	415
Total program revenues	377,869	379,065	(1,196)
General revenues:			
Property taxes	293,506	295,833	(2,327)
Other taxes	1,730	59	1,671
Federal and state aid	618,077	590,404	27,673
Interest and investment earnings	290	759	(469)
Miscellaneous	4,637	1,076	3,561
Total general revenues	918,240	888,131	30,109
Total revenues	1,296,109	1,267,196	28,913
Expenses:			
Instruction	863,185	887,816	(24,631)
Community services	27,499	25,538	1,961
Pupil and staff services	160,716	143,518	17,198
General administration	117,817	132,145	(14,328)
Business services	169,960	159,725	10,235
School nutrition	44,205	40,555	3,650
Interest on long-term debt	17,927	17,166	761
Total expenses	1,401,309	1,406,463	(5,154)
Increase (decrease) in net assets	$ (105,200)	(139,267)	34,067

Total revenues increased $28.9 million, or 2.3% over the prior year. The greatest changes came in the areas of General- Federal and State Aid. Federal and State Aid increased by $27.7 million as a result of a $30 million increase in equalization aid. In the prior year, the state subsidized $28.8 million of equalization aid with Federal Stimulus Aid. The Federal Stimulus Aid was reported as Other Federal revenues in the prior year.

Total expenses decreased by $5.2 million, or 0.4%. This decline is primarily attributable to a decrease in Instruction $24.6 million, which is partially offset by an increase in Pupil and staff services $17.2 million. The large decrease in Instruction cost is due to $11.9 million of Net Pension Assets and $10.5 million of impaired assets written down in prior year. The increase in Pupil and staff services is primarily due to an increase in salaries and benefits of $8.3 million, $6 million in personal services and $1.1 million in general supplies.

Capital Assets

Table 4 shows that at June 30, 2011, MPS had $1.125 billion in capital assets including Land, Buildings, leasehold improvements, and Furniture and equipment. This amount represents a net increase of $21.2 million from the previous year. The primary driver of this increase is Buildings, which rose $18.8 million, and a $3.2 million increase in Software.

More detailed information can be found in Table 4 and in Note 5 to the District's financial statements.

Milwaukee Public Schools
Table 4
Change in Capital and Intangible Assets
(in thousands)

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital and intangible assets:				
Land	$ 31,689	$ —	$ —	$ 31,689
Construction in progress	14,797	17,754	18,756	13,795
Buildings	960,827	18,756	—	979,583
Leasehold improvements	9,269	—	—	9,269
Furniture and equipment	48,062	928	651	48,339
Software	39,009	5,328	2,162	42,175
Total capital assets	1,103,653	42,766	21,569	1,124,850
Accumulated depreciation and amortization	(463,828)	(23,265)	(646)	(486,447)
Totals	$ 639,825	$ 19,501	$ 20,923	$ 638,403

Long-term Debt

Long-term debt at June 30, 2011 was $358.1 million with debt retirements totaling $11.2 million.

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

	July 1, 2010	Issuances	Retirements	June 30, 2011
Governmental activities:				
Americans with Disabilities Act loans	$ 11,345	$ —	$ 792	$ 10,553
TEACH loan	1,659	—	809	850
Neighborhood School Initiative bonds	99,607	—	4,127	95,480
Qualified School Construction Bonds	48,878	—	—	48,878
Qualified Zone Academy bonds	5,668	—	1,108	4,560
Pension refinancing debt	176,360	—	(2,883)	179,243
Capital leases	14,626	—	3,696	10,930
Other intergovernmental debt	11,193	—	3,581	7,612
Total debt	$ 369,336	$ —	$ 11,230	$ 358,106

The District reduced TEACH loans outstanding in the 2011 fiscal year by $809,282. 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 $4.1 million of NSI debt was retired in fiscal year 2011.

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 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 $1.1 million in fiscal year 2011.

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 2011 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. In fiscal year 2010, MPS through an intergovernmental cooperation with the city of Milwaukee, issued general obligation bonds (GO bonds) sufficient to retire the lease revenue bonds associated with the capital leases for MEC and Grand Avenue School. These GO bonds have the same maturity as the refunded debt and will be retired in fiscal year 2014. The Congress, Craig, and Fratney debt will be retired in 2026. The amount outstanding at year end 2011 was $10.8 million, down $515,000 from the previous year.

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 $413,700 over the prior year-end. The decrease in the General fund balance is the result of the net of a decrease of $3.4 million budgeted use of applied surplus, a $2.5 million transfer to the Construction Fund to finance debt service paid on outstanding bonds, plus increased revenues of $3.8 million and $1.7 million in handicapped aid and tax increment financing, respectively.
- The decrease in the Construction fund balance is the result of payments for projects previously borrowed with American Recovery and Reinvestment Act (ARRA) funds.
- The $97,151 decrease in the School Nutrition fund balance deficit is attributable retroactive contract settlements.

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 June 2010, the MPS Board of School Directors (the Board) adopted the District's fiscal 2011 budget (July 1, 2010 – June 30, 2011). The adopted budget by necessity used a *projection* of the fiscal 2011 student enrollment. In October 2010, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2010, 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 2010, the Board approved a revised fiscal year 2011 (FY11) General Fund expenditure budget in the amount of $1,255,763,476. This amount included prior year encumbrances and carryover authority.

Actual General Fund expenditures came within 7.0% of the FY11 revised General Fund budget.

Current Economic Facts and Next Year's Budget

District enrollment declined 1.45% in fiscal year 2012 due to demographics and competition from both private and public schools. Student participation in the Milwaukee Parental Choice Program (estimated 10.3% increase in FY12 school vouchers) and Open Enrollment in suburban districts (3.6% actual increase in FY12 Open Enrollment) are major factors in declining enrollments.

In October 2011, the MPS Board approved a revised FY12 General Fund budget of $1,139,130,542. The FY11 budget includes prior year encumbrances and carryover appropriation authority and represents a 10.1% decrease over the revised 2011 general fund budget.

The state-imposed revenue limit for FY12 decreased to $823,514,126, a 6.4% decrease over FY11. The decrease is due to:

- $53.1 million decrease based on a $555.70 reduction in the per pupil revenue limit which was established in the state budget process;
- declining enrollment exemption decrease of $2.7 million; from $16.1 million to $13.4 million; and
- $108,542 decrease in the transfer of service exemption portion of the revenue limit; from $7.8 million to $7.7 million.

State general aids decreased 9.4% to $537,737,214. The change in equalization and integration aids is attributed to state formula changes that reduced aids and declining enrollment that reduced aids.

The main priority of the FY12 budget is to keep as many resources as possible in the classroom - the most important place in the district. The proposed budget:

- Increases the number of charter schools to improve market share of students in MPS.
- Begins the centralization process of school budgets to enable school leaders to spend more time on instructional leadership. The FY12 budget includes centralizing the following:
    - guidance counselor positions,
    - long-term leaves for teaching staff, and
    - extra hours for building operations staff.
- Provides additional instructional and operational support for principals.
- Funds the Transition Intervention Experience Center (TIE) to address the needs of chronically disruptive students. The center will provide interventions and supports for these students to transition back into their schools of origin.

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

MILWAUKEE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2011

		Governmental Activities
Assets		
Current assets:		
Cash and investments (note 2)	$	59,434,432
Accounts receivable, net (note 3)		26,289,765
Due from other governments (note 3)		87,578,622
Inventory (note 1(g))		586,777
Prepaid expenses (note 1(g))		3,032,231
Deferred cash flow hedges-unrealized loss on derivatives (note 7)		9,694,948
Total current assets		186,616,775
Noncurrent assets:		
Restricted cash and investments (note 1(d))		59,656,045
Deposits for self-insurance (note 1(l))		3,723,449
Deferred charges—bond issuance costs (note 1(m))		2,852,681
Deferred cash flow hedges-unrealized loss on derivatives (note 7)		18,188,700
Capital assets not being depreciated (note 5)		45,483,763
Capital assets being depreciated, net (note 5)		579,934,881
Intangible assets being amortized, net (note 5A)		12,984,897
Net Pension assets (note 10)		15,576,085
Total noncurrent assets		738,400,501
Total assets		925,017,276
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities		82,061,978
Accrued interest payable on long-term liabilities		4,571,062
Unearned revenue (note 1(j))		18,543,351
Current portion of long-term obligations (note 7)		22,416,911
Derivative instruments liability (note 7)		9,694,948
Total current liabilities		137,288,250
Noncurrent liabilities:		
Noncurrent portion of long-term obligations (note 7)		895,677,254
Derivative instruments liability (note 7)		18,188,700
Total liabilities		1,051,154,204
Net Assets		
Invested in capital assets, net of related debt		499,760,461
Restricted for debt service		11,247,463
Unrestricted (Deficit)		(637,144,852)
Total net assets	$	(126,136,928)

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Activities

Year ended June 30, 2011

Functions/programs		Expenses	Program revenues: Charges for services	Program revenues: Operating grants and contributions	Program revenues: Capital grants and contributions	Net (expenses) revenues and changes in net assets
Governmental activities:						
Instruction	$	863,184,570	5,270,970	284,307,386	11,532,654	(562,073,560)
Support services:						
Community services		27,499,000	1,981,562	6,693,672	—	(18,823,766)
Pupil and staff services		160,715,900	—	16,187,840	—	(144,528,060)
General, administration, and central services		117,817,193	—	—	—	(117,817,193)
Business services		169,960,141	1,962,560	7,058,695	—	(160,938,886)
School nutrition services		44,205,351	3,233,097	39,640,325	—	(1,331,929)
Interest on long-term debt		17,926,945	—	—	—	(17,926,945)
Total support services		538,124,530	7,177,219	69,580,532	—	(461,366,779)
Total school district	$	1,401,309,100	12,448,189	353,887,918	11,532,654	(1,023,440,339)

General revenues:		
Taxes:		
Property taxes levied for general purposes		259,744,794
Property taxes levied for construction		14,729,342
Property taxes levied for debt service		5,698,454
Property taxes levied for community services		13,334,418
Other taxes		1,729,836
Federal and state aid not restricted to a specific purpose:		
General (equalization aid)		544,914,729
Other		73,161,388
Miscellaneous		4,636,939
Interest and investment earnings		289,979
Total general revenues		918,239,879
Change in net assets		(105,200,460)
Net assets—Beginning of Year		(20,936,468)
Net assets—Ending of Year	$	(126,136,928)

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2011

Assets		General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Deposits with the City of Milwaukee and other cash (note 2)	$	42,859,544	16,574,888	—	—	59,434,432
Receivables, net:						
Accounts (note 3)		26,172,180	6,000	111,585	—	26,289,765
Due from other governmental units (note 3)		64,777,266	—	9,003,260	13,798,096	87,578,622
Due from other funds (note 4)		35,336,859	—	—	—	35,336,859
Total receivables		126,286,305	6,000	9,114,845	13,798,096	149,205,246
Restricted cash and investments (note 1(d))		16,062,694	43,593,351	—	—	59,656,045
Inventories (note 1(g))		586,777	—	—	—	586,777
Prepaid expenditures (notes 1(g))		3,032,231	—	—	—	3,032,231
Deposits for self-insurance (note 1(l))		3,723,449	—	—	—	3,723,449
Total assets	$	192,551,000	60,174,239	9,114,845	13,798,096	275,638,180
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	$	7,499,569	225,562	1,293,512	83,692	9,102,335
Contracts payable		8,281,431	3,758,763	20,794	—	12,060,988
Accrued salaries and wages		13,846,753	—	—	—	13,846,753
Deferred revenue (note 1(j))		24,270,471	—	14,658	—	24,285,129
Accrued claims for self-insurance (note 9)		43,922,652	—	—	—	43,922,652
Accrued pension payable (note 10)		3,101,941	—	—	—	3,101,941
Other accrued expenditures		27,309	—	—	—	27,309
Due to other funds (note 4)		—	11,585,410	10,037,045	13,714,404	35,336,859
Total liabilities		100,950,126	15,569,735	11,366,009	13,798,096	141,683,966
Fund balances (deficits):						
Non-Spendable						
Inventories		586,777	—	—	—	586,777
Prepaid Expenditures		3,032,231	—	—	—	3,032,231
Noncurrent Advances		2,251,164	—	—	—	2,251,164
Restricted:						
Self-insurance deposits		3,723,449	—	—	—	3,723,449
Debt service		15,818,504	—	—	—	15,818,504
Flex Spending		241,978	—	—	—	241,978
Committed:						
Construction		2,122	44,604,504	—	—	44,606,626
Assigned for 2012 budget appropriation		1,123,863	—	—	—	1,123,863
Unassigned		64,820,786	—	(2,251,164)	—	62,569,622
Total fund balances (deficits)		91,600,874	44,604,504	(2,251,164)	—	133,954,214
Total liabilities and fund balances	$	192,551,000	60,174,239	9,114,845	13,798,096	275,638,180

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, 2011

Total fund balances—governmental funds			$	133,954,214
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				2,852,681
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	$	1,082,675,369		
Accumulated depreciation		(457,256,725)		
Net capital assets				625,418,644
Intangible assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:				
Cost of intangible assets	$	42,174,864		
Accumulated depreciation		(29,189,967)		
Net capital assets				12,984,897
Net Pension assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds				15,576,085
Grant and other 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				5,741,778
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		(448,129,102)		
Bonds premium and discounts		1,445,736		
Discount on capital appreciation bonds		99,506,888		
Capital leases payable		(10,929,713)		
Accrued bond interest payable		(4,571,062)		
Compensated absences payable (vacation and sick leave)		(29,863,484)		
OPEB liability		(520,600,193)		
Workers' compensation claims payable		(6,031,995)		
Self-insurance claims payable		(876,378)		
Life insurance benefits and other long-term liabilities		(2,615,924)		
Total long-term debt liabilities				(922,665,227)
Total net assets—government activities			$	(126,136,928)

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, 2011

		General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Revenues:						
Property tax levy	$	273,079,212	14,729,342	—	5,698,454	293,507,008
Other taxes		108,820	—	—	—	108,820
Lunchroom sales		—	—	3,226,519	—	3,226,519
Other local sources		10,920,421	909,891	6,557	—	11,836,869
Microsoft Settlement Refunds		6,706,515	—	—	—	6,706,515
State aid:						
Equalization aid		544,914,729	—	—	—	544,914,729
Special classes		49,429,225	—	—	—	49,429,225
Integration		39,158,028	—	—	—	39,158,028
Other state aid		71,938,535	3,694	1,004,873	—	72,947,102
Federal aid:						
Education Consolidation Improvement Act		121,910,586	—	—	—	121,910,586
School nutrition services		—	—	38,163,553	—	38,163,553
Erate refunds		3,346,923	—	—	—	3,346,923
Other federal aid		61,104,594	—	749,101	40,926,390	102,780,085
Miscellaneous		4,533,161	—	—	—	4,533,161
Interest and investment earnings		185,426	104,555	—	—	289,981
Total revenues		1,187,336,175	15,747,482	43,150,603	46,624,844	1,292,859,104
Expenditures:						
Current:						
Instructional services:						
Undifferentiated curriculum		408,281,267	—	—	—	408,281,267
Regular and other curriculum		153,723,073	—	—	—	153,723,073
Special curriculum		157,796,084	—	—	11,908,443	169,704,527
Total instructional services		719,800,424	—	—	11,908,443	731,708,867
Community services		23,467,701	—	—	—	23,467,701
Pupil and staff services		129,016,403	—	—	29,017,947	158,034,350
General and school building administration		118,430,195	—	—	—	118,430,195
Business services		170,709,794	—	—	—	170,709,794
School nutrition services		—	—	43,247,754	—	43,247,754
Capital Outlay		1,131,777	20,716,022	—	—	21,847,799
Debt Service:						
Principal		4,505,249	—	—	9,593,886	14,099,135
Interest		532,831	—	—	13,643,504	14,176,335
Bond administrative fees		4,999	—	—	106,526	111,525
Total expenditures		1,167,599,373	20,716,022	43,247,754	64,270,306	1,295,833,455
Excess of revenues over (under) expenditures		19,736,802	(4,968,540)	(97,151)	(17,645,462)	(2,974,351)
Other financing sources (uses):						
Long-Term Debt Issued		—		—	—	—
Proceeds from sale of assets		18,128	20,649	—	—	38,777
Transfers In (Out)		(20,168,630)	2,523,168	—	17,645,462	—
Total other financing sources (uses), net		(20,150,502)	2,543,817	—	17,645,462	38,777
Net change in fund balances		(413,700)	(2,424,723)	(97,151)	—	(2,935,574)
Fund balances (deficit):						
Beginning of year		92,014,574	47,029,227	(2,154,013)	—	136,889,788
End of year	$	91,600,874	44,604,504	(2,251,164)	—	133,954,214

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, 2011

Net change in fund balances—total governmental funds			$	(2,935,574)
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	$	21,847,799		
Depreciation and amortization expense reported in the statement of activities		(23,265,141)		
Amount by which capital outlays are less than depreciation and amortization in the current period				(1,417,342)
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets				(4,174)
Some revenues 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				3,210,759
Some expenses reported in the statement of activities require the use of current financial resources and, therefore, are reported as expenditures in the government funds.				15,576,085
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				14,099,135
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 increase in accrued interest payable		(514,084)		
Accretion of interest on capital appreciation bonds		(2,882,882)		
Amortization of bond premium and discount		13,942		
Amortization of bond issuance costs		(256,062)		
Net decrease in compensated absences payable (vacation and sick pay)		2,145,307		
Net increase in workers' compensation claims payable		(452,050)		
Net increase in OPEB liability		(131,449,543)		
Net increase in general insurance claims payable		56,432		
Net decrease in life insurance benefits payable		(390,409)		
Net adjustment				(133,729,349)
Change in net assets of governmental activities			$	(105,200,460)

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

June 30, 2011

Assets		Pension and Other Post Employment Benefits trusts	Private purpose trust	Agency
Deposits with City of Milwaukee and other cash (note 2)	$	—	1,139,194	5,786,890
Investments (note 2)		—	1,727,598	—
Money market accounts		5,564,369	—	—
Treasury and agency securities		5,397,816	—	—
Mortgage-backed securities		64,848	—	—
Nongovernment obligations		5,067,575	—	—
Municipal bonds		30,904	—	—
Investment in the State of Wisconsin		164,917,431	—	—
Receivables-interest and contributions		710,311	—	—
Total assets		181,753,254	2,866,792	5,786,890
Liabilities				
Accounts payable and accrued expenses		4,062,728	—	—
Due to student organizations		—	—	5,786,890
Total liabilities		4,062,728	—	5,786,890
Net Assets				
Held in trust for:				
Supplemental benefits		177,690,526	—	—
Endowments		—	2,866,792	—
Total net assets	$	177,690,526	2,866,792	—

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2011

		Pension and Other Post Employment Benefits trusts	Private purpose trust
Additions:			
Employer contributions	$	34,563,144	—
Participants contributions		77,383,576	—
Private donations		—	607,021
Interest income		—	4,854
Investment income, net of expenses		31,194,491	—
Total additions		143,141,211	611,875
Deductions:			
Benefits paid to participant's or beneficiaries		88,189,590	—
Distribution of participant contribution accounts		219,319	—
Administrative expenses		177,007	—
Scholarships and awards		—	499,954
Total deductions		88,585,916	499,954
Changes in net assets		54,555,295	111,921
Net assets—beginning of year		123,135,231	2,754,871
Net assets—end of year	$	177,690,526	2,866,792

See accompanying notes to the basic financial statements.

(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 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. They include all funds of the District except for fiduciary funds. 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. Taxes, equalized aid, and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than program 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.

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 is 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 and report financial resources that are restricted, committed, or assigned to expenditures 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 and report the proceeds of specific revenue sources (other than major capital projects) that are restricted or committed to expenditures for specified purposes.

Categorically Aided Programs

Debt Service Fund: used to account and report financial resources that are restricted, committed or assigned to expenditures for 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.

Other Postemployment Employee Benefits Funds (OPEB): The OPEB trust fund account may hold or be used to account for assets used to pay post-employment benefits or fund accrued liability associated with such benefits.

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.

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 and for federal and state grant revenues which is at the most 180 days. 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.

(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, corporate bonds obligations, 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.

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 and Intangible Assets

Capital and intangible assets are reported at actual cost or estimated costs. Donated assets are reported at the estimated fair market value at the time received. Capital and intangible assets are depreciated and amortized 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 and intangible assets reported in the government-wide statements are as follows:

	Capitalization threshold	Estimated useful life
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	50,000	7 years
Intangible assets	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 and other sources that have not yet been earned.

(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 $3,723,449 at June 30, 2011 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) Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental funds if it has matured. Claims and judgments are recorded in the district-wide statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

(o) Net Assets

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

Invested in Capital Assets, Net of Related Debt—This consists of capital assets including restricted 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.

Restricted—This consists of net assets with constraints placed on their use by 1) external groups such as creditors, grantors, contributors, or 2) 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."

(p) Fund Balance

Governmental fund equity is classified as fund balance. Milwaukee Public Schools has elected to implement GASB Statement 54 employing new terminology and classifications for fund balance items according to the following classifications:

- Nonspendable fund balance—Includes amounts that cannot be spent because they are either not in spendable form or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.
- Restricted fund balance—Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).
- Committed fund balance—Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority. Fund balance amounts are committed through a formal action of the District. The formal action must occur prior to the end of the reporting period, but the amount of commitment, which will be subject to the constraints, may be determined in the subsequent period. Any changes to the constraints imposed require the same formal action of the District that originally created the commitment.
- Assigned fund balance—Amounts that are constrained by MPS intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

- Unassigned fund balance—This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed or assigned.

  The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as in grant agreements requiring dollar for dollar spending. Additionally, the District would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

  Fiduciary fund equity is classified as held in trust for employee benefits.

(q) 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.

(r) New Accounting Pronouncements

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy primarily based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This Statement provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. This Statement also clarifies the definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type. The District implemented this Statement beginning with fiscal year July 1, 2010.

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No.61, *The Financial Reporting Entity: Omnibus*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* Application of these standards may restate portions of these financial statements.

(2) Deposits and Investments

District's Deposits and Investments, Exclusive of Pension Trusts

	Carrying Value	Bank Balance
Cash at the City	$ 92,405,627	$ 87,384,833
Demand deposits	9,834,303	8,937,163
Repurchase Agreement	3,000,000	31,770,203
Money market funds	25,387,688	25,387,688
U.S. Treasury Notes	4,869,130	4,869,130
Corporate Bonds	1,595,478	1,595,478
Certificate of Deposit	20,000	20,000
Total Cash and Investments	$ 137,112,226	$ 159,964,495

Reconciliation to financial statements	
Per statement of net assets	
Unrestricted cash and investments	$ 59,434,432
Restricted cash and investments	59,656,045
Per statement of net assets – Fiduciary Funds	
Private purpose trust	2,866,792
Other post employment benefits trust	9,368,067
Agency	5,786,890
Total Cash and Investments	$ 137,112,226

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, or the Wisconsin Aerospace Authority.

- 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, US Treasury Notes, non-governmental obligations and certificates of deposit. The overnight repurchase agreements have underlying securities of U.S. Treasury, Government or agency instruments with an A1+/P1 (Standard & Poor's and Moody's) credit rating. All of the $25,387,688 invested in money market funds are triple-A rated. The District's $4,869,130 investments in U.S. Treasury Notes is rated triple A. The corporate bonds obligations of $1,595,478 range from triple-A rated to BAA3.

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, 2011 the District had the following investments, shown with their maturities.

		Maturities (in Years)			
Investment Type	**Fair Value**	**Less Than 1**	**Less Than 5**	**5-10**	**Over 10**
Repurchase Agreement	$31,770,203	$ 31,770,203	-	-	-
Money market funds	25,387,688	25,387,688	-	-	-
U.S. Treasury Notes	4,869,130	-	3,654,813	1,140,770	73,547
Corporate Bonds	1,595,478	-	866,534	636,613	92,331
	$63,622,499	57,157,891	4,521,347	1,777,383	165,878

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 $40,707,366, of which $31,770,203 was invested in overnight repurchase agreements. Of the $40,707,366 bank balance, $7,330,005 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit

Guarantee Fund, and $33,377,360 was uninsured, with the bank posting securities at 125% of the value of the repurchase agreements. However, the posted securities are not held in the Districts' name but are allocated to the District. As such, the deposits are considered uncollateralized. The District is taking steps to have the securities held in its name, thereby qualifying them as collateral.

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 $650,000. Milwaukee Public Schools' deposits with the City Treasurer for investments are all insured or collateralized on June 30, 2011.

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. The portfolio is rebalanced toward the Policy targets quarterly. For 2011, the SWIB Core Fund asset-mix policy targets were 28% to U.S. Stocks, 33% to Fixed Income, 25% to International Stocks, 6% to Real Estate, and 12% to Alternative Investments. The target allocations total 104%, reflecting the possibility of introducing leverage into the portfolio. For 2011, the SWIB Variable Fund asset-mix policy targets were 69% to U.S. Stocks, 30% 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 4% 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.

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2011.

Investment	Duration (Years)	Fair Value
SWIB Core and Variable Funds	26% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 11.0 years. Additional detail on the SWIB fixed income investments is included below.	$ 44,127,993
Money market accounts	0.1	$ 1,228,351
U.S. Treasuries, Agencies, and Government Bonds	5.2	$ 114,879
Municipal Bonds	3.2	$ 25,986
Mortgage-backed securities	1.2	$ 58,820
Non-government obligations	3.0	$ 1,099,504
Mutual Funds	5.6	$ 182,310

SWIB Investments	Duration (Years)	Fair Value
Asset Backed Securities	3.5	$ 30 Million
Asset Backed Securities	N/A	$ 2 Million
Certificate of Deposit	0.2	$ 15 Million
Commerical Paper	0.2	$ 94 Million
Corporate Bonds and Private Placements	4.9	$ 5,058 Million
Corporate Bonds and Private Placements	N/A	$ 79 Million
Future Contracts	6.5	$ 142 Million
Future Contracts	N/A	$ (6)Million
Government Agency	2.6	$ 595 Million
Government Agency	N/A	$ 7 Million
Commercial Mortgages	N/A	$ 23 Million
Municipal Bonds	11.0	$ 94 Million
Pooled Investments	0.0 to 6.8	$14,074 Million
Repurchase Agreements	0.1	$ 1 Million
Foreign Gov't/Agency Bonds	6.9	$ 3,751 Million
Foreign Gov't/Agency Bonds	N/A	$ 3 Million
United States Treasuries	7.3	$ 4,526 Million

Note: On June 30, 2011, SWIB's Core Fund and Variable Fund had $76.7 billion and $5.8 billion in assets, respectively. As of June 30, 2011, the Plan's assets were invested 85% in the SWIB Core Fund, 9% in the SWIB Variable Fund, and 6% in portfolios managed by M&I. 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 on June 30, 2011. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations.

Ratings*	SWIB 2011	M&I 2011
P-1 or A-1	2%	45%
UST	16%	2%
AGY	2%	2%
AAA	6%	2%
AA	11%	11%
A	6%	15%
BBB	6%	15%
BB	2%	0%
B	2%	0%
CCC	1%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Collective Trust or Mutual Funds	36%	7%
Not-Rated	10%	1%

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

SWIB's Core Fund's Government/Credit 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. Securities sold to SWIB under Rule 144A may not exceed 20% of the portfolios market value. Financial futures, options, and swaps are permitted for purposes of adjusting duration, taking or modifying credit positions, or investing anticipated cash flows, subject to SWIB's guidelines. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities may not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of countries in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolio's market value. Securities rated "BB+" or lower but no lower than "CCC-/Caa3" may not exceed 5% of the portfolio's market value.

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. SWIB had uninsured and uncollateralized deposits totaling

$203.4 million on June 30, 2011 that were held in foreign currencies in SWIB's custodian's nominee name or in uninsured margin accounts. In addition, SWIB held time deposits with foreign financial institutions with a fair value of $28.8 million on June 30, 2011, all of which were uncollateralized and uninsured. In total, these deposits represented 0.3% of the combined assets of the SWIB Core and Variable Funds on June 30, 2011.

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. SWIB's Retirement Funds held 10 and 18 tri-party repurchase agreements totaling $1,582 million on June 30, 2011. 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 1.9% of the combined assets of the SWIB Core and Variable Funds on June 30, 2011.

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 or Rule 144A securities to less than 5% of assets. 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, 2011, $19.9 billion of the SWIB Core and Variable Funds' $82.5 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 investments types were provided by M&I.

F. Derivative Investments

The Plan holds investments in SWIB Funds, which may enter into a variety of financial contracts, including futures and options, primarily to enhance performance, reduce volatility of the portfolio, and aid in cash flow management. SWIB also enters into foreign exchange positions, such as forward and spot contracts, to obtain or hedge foreign currency exposure. The financial contracts are included in SWIB Variable and Core Investments on the Statement of Plan Net Assets. At June 30, 2011, the Plan's interest in the plan net assets of the Core Trust was approximately 0.052% , and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.078%. The SWIB Funds are exposed to credit risk in the event of non-performance by counterparties to financial instruments. Exposure to market risk, the risk that future changes in market conditions may make an instrument less valuable, is managed in accordance with risk limits through buying or selling instruments or entering into offsetting positions.

A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain or loss is typically received or paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Losses may arise from future changes in the value of the underlying instrument. Substantially all future contracts have a maturity date of less than one year.

Option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The fair value of option contracts is based upon the closing market price of the contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid to enter into the contract.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Spot and forward contracts entered into by SWIB are over-the-counter contracts, entered into with various counterparties. These contracts are valued daily, and guidelines have been established which provide minimum credit ratings for counterparties. Losses may arise from future changes in value of the underlying currency, or if the counterparties do not perform under the terms of the contract.

The following table summarizes the aggregate notional or contractual amounts for SWIB's derivative financial instruments at June 30, 2011 (in thousands):

	2011
Future contracts	$ 1,370,136
Foreign exchange forward and spot contracts – sold	2,698,940
Foreign exchange forward and spot contracts – purchased	(2,687,946)
Options – puts	(67,802)
Options - calls	(3,048)

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 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. The portfolio is rebalanced toward the Policy targets quarterly. For 2011, the SWIB Core Fund asset-mix targets were 28% to U.S. Stocks, 33% to Fixed Income, 25% to International Stocks, 6% to Real Estate, and 12% to Alternative Investments. The target allocations total 104%, reflecting the possibility of introducing leverage into the portfolio. For 2011, the SWIB Variable Fund asset-mix targets were 69% to U.S. Stocks, 30% 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 4% 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.

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2011.

Investment	Duration (Years)	Fair Value
SWIB Core and Variable Funds	27% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 11.0 years. Additional detail on the SWIB fixed income investments is included below.	$ 120,789,438
Money market accounts	0.1	$ 1,432,558
U.S. Treasuries, Agencies, and Government Bonds	6.5	$ 413,807
Municipal Bonds	15.3	$ 4,918
Mortgage-backed securities	1.6	$ 6,032
Non-government obligations	2.6	$ 1,584,008
Mutual Funds	4.7	$ 606,275

SWIB Investments	Duration (Years)	Fair Value
Asset Backed Securities	3.5	$ 30 Million
Asset Backed Securities	N/A	$ 2 Million
Certificate of Deposit	0.2	$ 15 Million
Commerical Paper	0.2	$ 94 Million
Corporate Bonds and Private Placements	4.9	$ 5,058 Million
Corporate Bonds and Private Placements	N/A	$ 79 Million
Future Contracts	6.5	$ 142 Million
Future Contracts	N/A	$ (6 Million)
Government Agency	2.6	$ 595 Million
Government Agency	N/A	$ 7 Million
Commerical Mortgages	N/A	$ 23 Million
Municipal Bonds	11.0	$ 94 Million
Pooled Investments	0.0 to 6.8	$14,074 Million
Repurchase Agreements	0.1	$ 1 Million
Foreign Gov't/Agency Bonds	6.9	$ 3,751 Million
Foreign Gov't/Agency Bonds	N/A	$ 3 Million
United States Treasuries	7.3	$ 4,526 Million

Note: On June 30, 2011, SWIB's Core Fund and Variable Fund had $76.7 billion and $5.8 billion in assets, respectively. As of June 30, 2011, the Plan's assets were invested 88.3% in the SWIB Core Fund, 9.4% in the SWIB Variable Fund, and 2.3% in portfolios managed by M&I. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolio 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.

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 on June 30, 2011. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations.

Ratings*	SWIB 2011	M&I 2011
P-1 or A-1	2%	35%
UST	16%	10%
AGY	2%	0%
AAA	6%	1%
AA	11%	10%
A	6%	16%
BBB	6%	12%
BB	2%	0%
B	2%	0%
CCC	1%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Collective Trusts & Mutual Funds	36%	15%
Not-Rated	10%	1%

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

SWIB's Core Fund's Government/Credit Portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of the 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 may not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of countries in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolio's market value. Securities rated "BB+" or lower but no lower than "CCC-/Caa3" may not exceed 5% of the portfolio's market value.

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. SWIB had uninsured and uncollateralized deposits totaling $203.4 million on June 30, 2011, that were held in foreign currencies in SWIB's custodian's nominee name or in uninsured margin accounts. In addition, SWIB held time deposits with foreign financial institutions with a fair value of $28.8 million on June 30, 2011, all of which were uncollateralized and uninsured. In total, these deposits represented 0.3% of the combined assets of the SWIB Core and Variable Funds, on June 30, 2011.

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. SWIB's Retirement Funds held 10 and 18 tri-party repurchase agreements totaling $1,582 million June 30, 2011. 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 1.9% of the combined assets of the SWIB Core and Variable Funds on June 30, 2011.

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 or Rule 144A securities to less than 5% of assets. 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, 2011, $19.9 billion of the SWIB Core and Variable Funds' $82.5 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 were provided by M&I.

F. Derivative Investments

The Plan holds investments in SWIB Funds, which may enter into a variety of financial contracts, including futures and options, primarily to enhance performance, reduce volatility of the portfolio, and aid in cash flow management. SWIB also enters into foreign exchange positions, such as forward and spot contracts, to obtain or hedge foreign currency exposure. The financial contracts are included in SWIB Variable and Core Investments on the Statement of Plan Net Assets. At June 30, 2011, the Plan's interest in the plan net assets of the Core Trust was approximately 0.142%, and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.202%. The SWIB Funds are exposed to credit risk in the event of non-performance by counterparties to financial instruments. Exposure to market risk, the risk that future changes in market conditions may make an instrument less valuable, is managed in accordance with risk limits through buying or selling instruments or entering into offsetting positions.

A financial futures contract is an exchange traded agreement to buy or sell a financial instrument at an agreed upon price and time in the future. Futures contracts are marked to market daily, based upon the closing market price of the contract at the board of trade or exchange on which they are traded. The resulting gain or loss is typically received or paid the following day until the contract expires. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Losses may arise from future changes in the value of the underlying instrument. Substantially all future contracts have a maturity date of less than one year.

Option contracts give the purchaser of the contract the right to buy (call) or sell (put) the security or index underlying the contract at an agreed upon price on or before the expiration of the option contract. The fair value of option contracts is based upon the closing market price of the contract. The seller of the contract is subject to market risk, while the purchaser is subject to credit risk and market risk to the extent of the premium paid to enter into the contract.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Spot and forward contracts entered into by SWIB are over-the-counter contracts, entered into with various counterparties. These contracts are valued daily, and guidelines have been established which provide minimum credit ratings for counterparties. Losses may arise from future changes in value of the underlying currency, or if the counterparties do not perform under the terms of the contract.

The following table summarizes the aggregate notional or contractual amounts for SWIB's derivative financial instruments at June 30, 2011 (in thousands):

	2011
Future contracts	$ 1,370,136
Foreign exchange forward and spot contracts – sold	2,698,940
Foreign exchange forward and spot contracts – purchased	(2,687,946)
Options – puts	(67,802)
Options - calls	(3,048)

(3) Receivables

Receivables as of June 30, 2011 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

		General Fund	Construction Fund	School Nutrition Services Fund	Nonmajor Fund	Total
Receivables:						
Accounts	$	26,658,699	6,000	111,585	—	26,776,284
Intergovernmental-federal		46,543,079	—	9,003,260	13,798,096	69,344,435
Intergovernmental-state		18,234,187	—	—	—	18,234,187
Gross receivables		91,435,965	6,000	9,114,845	13,798,096	114,354,906
Less allowance for uncollectibles		(486,519)	—	—	—	(486,519)
Total receivables, net	$	90,949,446	6,000	9,114,845	13,798,096	113,868,387

The District expects to collect all receivables within one year except for $552,186.

Accounts Receivable includes $16.7 million from the settlement of a class action lawsuit with Microsoft Corporation. The settlement will be paid in the form of hardware and software vouchers upon the expenditure of eligible costs. The District has reported $14.4 million of this balance as deferred/unearned revenue pending the future expenditures for eligible costs.

(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, 2011 represent due to/from balances among all funds:

	Due from other funds			
	General Fund	Nonmajor Fund	Total	Due In More Than One Year
Due to other funds:				
Construction fund	$ 11,585,410	—	11,585,410	—
Nutrition fund	10,037,045	—	10,037,045	2,251,164
Nonmajor funds	13,714,404	—	13,714,404	—
Total	$ 35,336,859	—	35,336,859	2,251,164

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, 2011 represent transfer in/out balances among all funds:

Fund Transferred To	Fund Transferred From	Amount	Reason
Construction	General Fund	$ 2,523,168	To fund current year expenditures
Debt Service Fund	General Fund	17,645,462	To fund current year debt service

(5) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

		Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:					
Capital assets, not being depreciated:					
Land	$	31,688,681	—	—	31,688,681
Construction in progress		14,797,209	17,754,497	18,756,624	13,795,082
Total capital assets, not being depreciated		46,485,890	17,754,497	18,756,624	45,483,763
Capital assets, being depreciated:					
Buildings		960,826,586	18,756,624	—	979,583,210
Leasehold improvements		9,269,204	—	—	9,269,204
Furniture and equipment		48,062,301	927,905	651,014	48,339,192
Total capital assets, being depreciated		1,018,158,091	19,684,529	651,014	1,037,191,606
Less accumulated depreciation for:					
Buildings		(390,295,936)	(19,667,362)	—	(409,963,298)
Leasehold improvements		(2,407,242)	(393,442)	—	(2,800,684)
Furniture and equipment		(43,937,660)	(1,201,924)	(646,841)	(44,492,743)
Total accumulated depreciation		(436,640,838)	(21,262,728)	(646,841)	(457,256,725)
Total capital assets, being depreciated		581,517,253	(1,578,199)	4,173	579,934,881
Capital assets, net	$	628,003,143	16,176,298	18,760,797	625,418,644

Depreciation expense for governmental activities for the year ended June 30, 2011 was charged to functions/programs as follows:

Governmental activities:		
Instruction	$	13,637,084
Community services		415,698
Pupil and staff services		2,441,237
General, administration and central services		1,843,223
Business services		2,254,489
School nutrition		670,997
Total depreciation	$	21,262,728

(5A) Intangible Assets

Intangible assets activity for the year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Intangible assets, not being amortized:				
Work in progress	$ 4,125,188	3,165,397	2,162,847	5,127,738
Total intangible assets, not being depreciated	4,125,188	3,165,397	2,162,847	5,127,738
Intangible assets, being amortized:				
Software	$ 34,884,279	2,162,847	—	37,047,126
Total intangible assets, being amortization	34,884,279	2,162,847	—	37,047,126
Less accumulated amortization for:				
Software	(27,187,554)	(2,002,413)	—	(29,189,967)
Total accumulated amortization	(27,187,554)	(2,002,413)	—	(29,189,967)
Intangible assets, net	$ 11,821,913	3,325,831	2,162,847	12,984,897

.

Amortization expense for governmental activities for the year ended June 30, 2011 was charged to functions/programs as follows:

Governmental activities:		
Instruction	$	1,284,270
Community services		39,148
Pupil and staff services		229,903
General, administration and central services		173,585
Business services		212,316
School nutrition		63,191
Total amortization	$	2,002,413

(6) Short-term Borrowings

To finance on an interim basis MPS' general operating costs pending receipt of state school aid payments, the City of Milwaukee issued $50,000,000 of commercial paper on September 15, 2010, and $45,000,000 of commercial paper on October 7, 2010. The entire $95,000,000 of commercial paper was retired October 27, 2010 using proceeds received from $225,000,000 of Revenue Anticipation Notes (RANs), Series 2010 M8, issued October 27, 2010. $50,000,000 of the RANs matured December 29, 2010, with the remaining $175,000,000 maturing June 27, 2011. Interest is payable at maturity. The debt was repaid in June, 2011 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, 2011 totaled $415,112,308. Of this total, $57,006,117 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 $358,106,191 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.

Long-term obligations of the District are as follows:

	Original amount	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee:						
American with Disabilities Act loans:						
4.75% – 5.375%, due in annual install-ments to June 2014	$ 300,000	80,000	—	20,000	60,000	20,000
4.74% – 5.625%, due in annual install-ments to September 2015	2,000,000	799,816	—	133,304	666,512	133,304
3.59%, due in annual installments to September 2016	3,095,000	1,031,270	—	206,254	825,016	206,254
3.74%, due in annual installments to March 2017	1,205,000	160,404	—	80,205	80,199	80,199
4.0 – 5.0%, due in annual installments to September 2017	660,000	307,754	—	44,042	263,712	43,952
4.0 – 5.0%, due in annual installments to February 2019	335,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	268,000	—	67,000	201,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	4,582,676	—	—	4,582,676	—
2.5 – 3.0%, due in annual installments to Februrary 2019	2,700,000	2,430,000	—	270,000	2,160,000	270,000
5.0%, due in installments to Februrary 2024	1,350,000	1,350,000	—	—	1,350,000	—
General Obligation Bonds:						
1.5 – 3.0%, due in May 2014	11,020,000	11,020,000	—	3,470,000	7,550,000	3,585,000
Plus: Premium on issuance	334,110	172,802	—	110,490	62,312	—
Qualified School Construction Bonds:						
1.18%, due in December 2025	12,000,000	12,000,000	—	—	12,000,000	—
Less: Discount on issuance	(450,000)	(421,875)	—	(28,125)	(393,750)	—
5.25%, due August 15th, 2014 to Februrary 2027	37,300,000	37,300,000	—	—	37,300,000	—
TEACH loan, 5.0%, due in annual install-ments to March 2012	15,144,033	1,659,026	—	809,282	849,744	849,744
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to August 2023	143,905,000	100,790,000		4,195,000	96,595,000	4,555,000
Plus: Premium on issuance	1,357,121	323,996	—	58,767	265,229	—
Less: Discount on 2007A issuance	(338,503)	(253,030)	—	(21,360)	(231,670)	—
Less: Deferred amount of refunding	(1,677,174)	(1,253,687)	—	(105,830)	(1,147,857)	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	19,318,100	5,668,324	—	1,108,081	4,560,243	879,205
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)	(15,501,027)	—	(1,357,239)	(14,143,788)	—
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)	(86,888,743)	—	(1,525,643)	(85,363,100)	—
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	—
Capital leases-Microsoft and other leases	11,504,297	3,335,679	—	3,180,966	154,713	154,713
Capital lease—MEC/Grand Avenue & CCF	46,890,000	11,290,000	—	515,000	10,775,000	530,000
Total intergovernmental cooperation agreement debt		$ 369,336,385	—	11,230,194	358,106,191	11,374,371

	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	$ 369,336,385	—	11,230,194	358,106,191	11,374,371
Accrued compensated absences	32,008,791	5,536,874	7,682,181	29,863,484	7,700,000
Accrued OPEB Obligation	389,150,650	196,701,424	65,251,881	520,600,193	—
Workers' compensation claims	5,579,945	3,377,253	2,925,203	6,031,995	2,900,000
General insurance claims	932,810	3,202,492	3,258,924	876,378	57,139
Life insurance benefits	1,940,464	390,409	—	2,330,873	385,401
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	$ 799,234,096	209,208,452	90,348,383	918,094,165	22,416,911

Estimated payments of compensated absences, other post employment benefits, and insurance claims are not included in the debt service requirement schedules. The compensated absences, OPEB, and insurance claims liabilities 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 $2,230,320 as of June 30, 2011. Accordingly, the total liability for workers' compensation claims was approximately $8.3 million.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2011 are as follows:

	Principal	Interest	Total
Fiscal year ended June 30:			
2012	$ 10,689,666	14,068,644	24,758,310
2013	10,252,932	13,765,320	24,018,252
2014	9,050,845	13,424,538	22,475,383
2015	10,180,841	13,153,463	23,334,304
2016	10,141,468	12,870,059	23,011,527
2017 – 2021	65,756,126	58,782,283	124,538,409
2022 – 2026	73,742,222	47,938,117	121,680,339
2027 – 2031	87,080,001	29,582,825	116,662,826
2032 – 2036	71,390,000	18,858,950	90,248,950
2037 – 2041	81,320,001	10,123,713	91,443,714
2042 – 2044	18,525,000	1,729,283	20,254,283
Total	$ 448,129,102	234,297,195	682,426,297

Interest on the $130,850,000 variable rate pension debt (index-linked bonds), included in the schedule of future payments above, is based upon the one-month LIBOR rate (the London Interbank Offered Rate) plus 25 basis points (.25%) and is adjusted monthly. The LIBOR interest rate was 0.18555% as of June 30, 2011.

The District leases land and buildings with a historical cost and accumulated amortization of $12,415,000 and $1,640,000. In addition, the District has capital leases for computers with a historical cost of $11,504,297 and accumulated amortization of $11,349,584.

Future minimum lease payments under these capital leases at June 30, 2011 are as follows:

Fiscal year ended June 30:		
2012	$	1,149,333
2013		986,028
2014		988,940
2015		985,243
2016		985,180
2017 – 2021		4,921,514
2022 – 2026		4,878,019
Total minimum lease payments		14,894,257
Less amount representing interest		(3,964,544)
Present value of minimum lease payments	$	10,929,713

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 2011 was $27,936,389,500 and the 5% debt limit was $1,396,819,475. No referendum-approved debt is outstanding at June 30, 2011.

The District has pledged future Intradistrict Aid revenues to repay $109,545,000 million in Neighborhood School Initiative Bonds due between the fiscal years ending June 30, 2004 and June 30, 2024. The bonds are payable solely from pledged revenues and are payable through August 1, 2023. Annual principal and interest payments on the bonds are expected to require 33.6% of net revenues at the point of the highest debt service payment, due August 1, 2023. The total principal and interest remaining to be paid on the bonds as of June 30, 2011 is $126,782,164. Principal and interest paid for the year ended June 30, 2011 was $8,266,676 while the Intradistrict Aid revenues were $36,130,070.

Revenue debt payable at June 30, 2011 consists of the following:

Neighborhood Schools Initiative Bonds

Amounts Outstanding

	Principal	Interest	Total
Fiscal year ended:			
2012	$ 4,555,000	3,919,868	8,474,868
2013	4,960,000	3,745,504	8,705,504
2014	5,375,000	3,547,258	8,922,258
2015	5,820,000	3,324,649	9,144,649
2016	6,300,000	3,076,675	9,376,675
2017	6,805,000	2,801,995	9,606,995
2018	7,350,000	2,498,206	9,848,206
2019	7,930,000	2,164,129	10,094,129
2020	8,545,000	1,798,094	10,343,094
2021	8,705,000	1,421,549	10,126,549
2022	9,355,000	1,036,138	10,391,138
2023	10,015,000	635,500	10,650,500
2024	10,880,000	217,600	11,097,600
	$ 96,595,000	30,187,164	126,782,164

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, 2011, $29.3 million of bonds outstanding are considered defeased. The bonds are callable on August 1, 2013.

Derivative Instruments - Interest Rate Swap Agreements

In December 2003, the District entered into contracts to hedge its exposure to fluctuating interest rates associated with the variable rate bonds that it issued to fund an unfunded actuarial accrued liability for pensions. These contracts are evaluated pursuant to GASB Statement No. 53, Accounting and Financial reporting for Derivative Instruments, to determine whether they effectively hedge the expected cash flows associated with interest rate exposures.

The District applies hedge accounting for derivatives that are deemed effective hedges. Under hedge accounting, the increase (decrease) in the fair value of a hedge is reported as a deferred cash flow hedge on the statement of net assets. For the reporting period, all of the District's derivatives meet the effectiveness test.

The following is a summary of the fair values and notional amounts of derivative instruments outstanding as of June 30, 2011 and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows(amounts in thousands; gains shown as positive amounts, losses as negative):

	2011 Change in Fair Value		Fair Value, End of 2011		
	Classification	Amount	Classification	Amount	Notional Amount
Governmental activities					
Interest Rate Derivatives:					
Pay-fixed interest rate swaps	Deferred outflow	$9,695	Derivative	($27,884)	$130,850

Objective and Terms of Hedging Derivative Instruments

The following table displays the objective and terms of the District's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty (amounts in thousands).

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Pay fixed, receive variable interest rate swap	Hedge of changes in cashflow on the Series 2003 D bonds	$10,850	12/23/2003	10/1/2043	Receive LIBOR + 20 basis points, pay LIBOR + 25 basis points.	D
B	Pay fixed, receive variable interest rate swap	Hedge of changes in cashflow on the Series 2003 D bonds	$60,000	12/23/2003	10/1/2043	Receive LIBOR + 20 basis points, pay LIBOR + 25 basis points.	D
C	Pay fixed, receive variable interest rate swap	Hedge of changes in cashflow on the Series 2003 D bonds	$60,000	12/23/2003	10/1/2043	Receive LIBOR + 20 basis points, pay LIBOR + 25 basis points.	A2

Objective. 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 three interest rate swap agreements in connection with the $130,850,000 Taxable Pension Funding Bonds, 2003 Series D (originally variable 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 eliminated liquidity and basis risk, and maintained the swap agreements, but with a fixed rate cost to MPS of 5.61%.

Terms. The bonds and the related swap agreements mature on October 1, 2043 and the swaps' 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 1-month 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 (0.25%).

Fair Value. The fair values of the interest rate swaps were 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 curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risks of Derivative Instruments

Credit risk – Credit risk is the risk of loss due to a counterparty defaulting on its obligations. The District seeks to minimize credit risk by requiring counterparty collateral posting provisions in its hedging derivative instruments. These terms require full collateralization should the counterparties credit ratings fall below certain levels.

As of June 30, 2011 the District was not exposed to credit risk because the swaps had negative fair value. There are two swap counterparties with whom the District has a total of three swap agreements. The credit ratings of the counterparties are provided in the prior table. To mitigate the potential for credit risk, if the credit quality is below Aa3 by Moody's Investor's Service, AA- by Standard & Poor's, and AA- by Fitch Ratings, the fair value of the swap will be fully collateralized by the counterparty. Collateral is posted with the trustee of the bonds.

Interest rate risk – The District is exposed to interest rate risk on its interest rate swap. On its pay-variable, received-fixed interest rate swap, as LIBOR increases, the District's net payment on the swap increases. Alternatively, on its pay-fixed, receive-variable interest rate swap, as LIBOR or the SIFMA swap index decreases, the District's net payment on the swap increases.

Basis risk – Basis risk is the risk that arises when a hedged item and a derivative that is attempting to hedge that item are based on different indices. As a result of the District's conversion to index-linked bonds from auction rate securities, the basis risk exposure to the District from its swap agreements was eliminated.

Termination risk – Termination risk is the risk that a derivative will terminate prior to its scheduled maturity due to a contractual event. Contractual events include bankruptcy, illegality, default and mergers in which the successor entity does not meet credit criteria. The District or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. The swaps may be terminated by the District at any time. A swap may be terminated by a counterparty if the District's credit quality rating falls below "BBB-" as issued by Standard & Poor's or "Baa3" by Moody's Investors Service. If a swap is terminated, the variable-rate bonds will no longer carry a synthetic interest rate and the District would be subject to interest costs reflective of the variable interest rates. 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. The swap's currently have a cumulative negative fair value of $27.9 million.

Rollover risk – Rollover risk occurs when the hedging derivative instrument does not extend to the maturity of the hedgeable item. When the hedging derivative instrument terminates, the hedgeable item will no longer have the benefit of the hedging derivative instrument. Because the District's swap agreements extend to the maturity of the hedged debt, the District is not exposed to rollover risk.

Swap payments and associated debt – Using rates as June 30, 2011, 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		rate	
	Principal	Interest	swaps, net	Total
Fiscal year ended June 30:				
2012	$ —	242,792	7,097,893	7,340,685
2013	—	242,792	7,097,893	7,340,685
2014	—	242,792	7,097,893	7,340,685
2015	—	242,792	7,097,893	7,340,685
2016	—	242,792	7,097,893	7,340,685
2017 – 2021	—	1,213,961	35,489,464	36,703,425
2022 – 2026	18,825,000	1,173,209	34,298,119	54,296,328
2027 – 2031	31,250,000	913,679	26,710,896	58,874,575
2032 – 2036	31,250,000	623,757	18,235,193	50,108,950
2037 – 2041	31,000,000	334,840	9,788,872	41,123,712
2042 – 2044	18,525,000	57,196	1,672,087	20,254,283
Totals	$ 130,850,000	5,530,602	161,684,096	298,064,698

(8) Fund Balance

The Board has established a formula to identify the amount of unassigned fund balance required to fund the six months of the subsequent year's school operations property tax levy. The purpose of this portion 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, 2011, is as follows:

General fund unassigned fund balance	$	64,820,786
Amount required to fund six months of the school operation's property tax levy:		
Subsequent year's school operations school levy ($280,232,990) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (76) to total calendar school year days (180)		118,320,596
General fund unassigned fund balance deficiency	$	(53,499,810)

(9) 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 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.

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, fiduciary liability, 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 general aggregate protection. The District is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

The only significant change in the insurance coverage from coverage provided in the prior year for the above described risks effective July 1, 2011 was a reduction in flood and earthquake coverage due to the District's flood losses and insurance market conditions. The per occurrence and annual aggregate limits for flood and earthquake decreased from $100 million to $25 million, the deductible increased from $50,000 to $250,000 and flood coverage at Riverside University High School is excluded effective July 1, 2011, until flood mitigation work is completed at this site. After mitigation work is completed, which is anticipated to be before November 1, 2011, flood coverage at this site will be reinstated at $5 million annual aggregate and $1 million deductible. To fill this $1 million deductible, the District has purchased federal flood insurance ($.5 million contents and $.5 million building). 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	
	2011	**2010**
Beginning of year liability	$ 44,013,910	44,925,890
Current year claims and changes in estimate	247,346,348	246,279,551
Claim payments	(243,766,106)	(247,191,531)
End of year liability	$ 47,594,152	44,013,910

The District has recognized the liability for health and dental benefits, which totaled $35,839,535 and $34,297,226 as of June 30, 2011 and 2010, respectively, in the general fund. The District has also recognized a liability of $2,230,320 and $978,414 as of June 30, 2011 and 2010, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. Accrued claims also include $5.8 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.

(10) 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.

Wisconsin Retirement System—All eligible District certificated employees (mainly teachers, principals and assistant principals) participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple employer, defined benefit public employee retirement system (PERS). 2011 Wisconsin Act 32 changes the eligibility requirements for certificated employees initially working for the District on or after July 1, 2011. 2011 Wisconsin Act 32 does not change the eligibility provision of over 440 hours a year for certificated employees employed by the District prior to July 1, 2011. Certificated employees first hired by a WRS employer such as the District qualify for participation in the WRS if the employee works or is expected to work at least 880 hours a year and be employed for at least one year from the employee's date of hire.

2011 Wisconsin Acts 10 and 32 change the required employer and employee contributions and what the District is allowed to pay towards WRS contributions for its certificated employees. These Acts prohibit the District from paying any portion of the employee-required WRS contribution on behalf of certificated employees who participate in the WRS. The implementation of employee required contributions is delayed for certificated employees who are covered at the time the law became effective on June 29, 2011 by a collective bargaining agreement that provides otherwise. Where such collective bargaining agreement exists, the District is required under law to continue to pay all or a portion of the employee's share of the WRS contribution until any such agreement expires or is extended or modified in a manner that is inconsistent with the 2011 Wisconsin Act 32 (this Act allows school districts and their unions to negotiate a single Memorandum of Understanding modifying bargaining agreements entered into before February 1, 2011 within 90 days of the July 1, 2011 effective date of the Act but only if the modifications effectuates a reduction in negotiated compensation or fringe benefit costs.) Accordingly, the District pays all of the employee and employer contributions to the WRS for teachers and psychologists covered under union contracts to July 1, 2013. For all other certificated employees (mainly principals, assistant principals represented by the Administrators and Supervisors Council) the employee pays the employee required contribution and the District pays the employer required contribution effective with the May 13, 2011 paycheck. Prior to these Acts the District paid all employer and employee contributions to the WRS.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2010 was approximately $421,773,000; the District's total payroll was $551,317,000. The total required contribution for the year ended December 31, 2010 was approximately $46,395,000, which consisted of $20,245,000, or 4.8% of payroll, from the District and $26,150,000, or 6.2% 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 years ending December 31, 2009 and 2008 were $43,886,000 and $43,822,000, 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 and 50 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 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 800 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 1,600 hours for 10-month school year teachers) are eligible to participate in the System.

2011 Wisconsin Acts 10 and 32 prohibit the District from paying any portion of the 5.5% employee contribution on behalf of classified employees who participate in the ERS. The implementation of employee required contributions is delayed for classified employees who are covered at the time the law became effective on June 29, 2011 by a collective bargaining agreement that provides otherwise. Where such collective bargaining agreement exists, the District is required under law to continue to pay the employee’s share of the ERS contribution until any such agreement expires or is extended or modified in a manner that is inconsistent with the 2011 Wisconsin Act 32 (this Act allows school districts and their unions to negotiate a single Memorandum of Understanding modifying bargaining agreements entered into before February 1, 2011 within 90 days of the July 1, 2011 effective date of the Act but only if the modifications effectuates a reduction in negotiated compensation or fringe benefit costs.) Accordingly, the District pays all of the employee and employer contributions to the ERS for most classified employees. Most classified employees are covered under union contracts that expire July 1, 2012. For classified employees represented by the Administrators and Supervisors Council, the employee pays the 5.5% employee required contribution and the District pays the employer required contribution effective with the May 13, 2011 paycheck. Prior to these Acts the District paid substantially all employer and employee contributions to the ERS except those labor units that agreed to new employees hired after certain dates to pay the 5.5% contribution.

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. Effective August 29, 2011, the Common Council of the City of Milwaukee eliminated the 1.6% employee contribution for the COLA effective (get date) for classified employees who are also paying the 5.5% employee required contribution. Also, employees enrolled as of January 1, 2000 have the option to object to 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. Based on actuarial valuation dated January 1, 2010, the District is not required to make any employer contributions on January 1, 2011.

The payroll for the District's employees covered by the System for the year ended December 31, 2010 was $111,733,245; the District's total payroll was $551,317,000. The total required contribution including retroactive adjustments for the year ended December 31, 2010 was $14,139,000 or 12.7% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2009 and 2008 were $7,017,000 and $6,509,000, 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. As previously mentioned, the Common Council of the City of Milwaukee eliminated the 1.6% employee contribution for the COLA effective August 29, 2011 for classified employees who are also paying the 5.5% employee required contribution. The COLA shall be 1.5% annually beginning after the 2nd, 3rd, and 4th anniversary after retirement and 2% after the 6th 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, 789 North Water Street, Suite 300, 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, or 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.

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

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, effective 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 on or after 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 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.

In fiscal year 2004, the District received more than the required 95% of signed waivers and consents from covered employee to implement the negotiated change to the Plan. Subsequently the MBSD adopted the restated Plan at its June 2004 regular meeting.

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.

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.

The plan also provides 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 value of the participant's employee contribution account is provided to the participant's beneficiary.

The Plan does not provide for any post retirement increases.

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.

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.

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, 1998, are vested upon participation. Employees who first became participants on or after July 1, 1998, are vested after being employed by the District for at least 15 years after July 1, 1998, 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).

The Plan provides for early reduced retirement benefits to participants who are eligible and commence their WRS benefits after age 55 and prior to age 62 and provides early retirement benefits if they commence WRS benefits after age 62 but prior to age 65. Benefits are paid in the form of monthly payments based on compensation, years of service, and a defined maximum of average monthly compensation for the three fiscal years of highest earnings preceding the date of retirement. The Plan does not provide for any post employment increases.

Accrued plan liabilities are reduced by the amount attributed to employer contributions for employees who are not vested for benefits and who terminate participation under 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.

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, 2011 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
Contribution rates as a percentage of payroll:			
District		2.660%	1.248%
Plan participants		—	—
Annual required contribution	$	3,595,479	15,645,398
Interest on net pension obligation		(23,062)	(52,943)
Adjustment to annual required contribution		9,615	—
Annual pension cost		3,582,032	15,592,455
Contributions made including prior year prepayment		7,196,396	27,366,748
Increase (decrease) in net pension obligation		(3,614,364)	(11,774,293)
Net pension prepayment, beginning of year		—	(187,428)
Net pension prepayment, end of year	$	(3,614,364)	(11,961,721)

The funded status of the plans of July 1, 2010, the most recent actuarial valuations date, was 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
Actuarial accrued liability(AAL)	$	52,695,253	228,417,032
Actuarial value of plans assets		42,306,659	102,968,116
Unfunded Actuarial Accrued Liability	$	10,388,594	125,448,916
Funded ratio (actuarial value of plan assets/AAL)		80.29%	45.08%
Covered payroll (active plan members)	$	26,473,931	342,784,884
UAAL as a percentage of covered payroll		39.24%	36.60%

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, 2010	July 1, 2010
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	5- 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 21.18 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 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
Mortality Table	1994 GAM, sex distinct	1994 GAM, sex distinct

(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:			
2010	$ 3,595,476	100%	$ (3,614,364)
2009	3,242,746	100%	-
2008	2,482,200	100%	(2,500,000)

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:					
2010	$	15,645,398	100%	$	(11,961,721)
2009		15,641,408	100%		(187,428)
2008		15,235,493	100%		(11,447,452)

(11) 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. 2011 Wisconsin Acts 10 and 32 stipulate that once existing collective bargaining agreements expire, or are terminated, extended, modified or renewed, such benefit provisions are a prohibited subject of bargaining and therefore such benefits including contributions are established through Board policy as may be amended by action of the governing body.

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.) A special one-time provision providing the higher PPO/Indemnity active single plan or family plan premium rate of March 31, 2011 or July 1, 2011 was extended to certain bargaining units and non-represented employees who gave their retirement notice by April 1, 2011 and retired by the end of their regular work year in June, 2011. 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 retirements, 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.

Effective August 1, 2011, all active employees pay premium contributions for health insurance based on either a percentage of the active premium rate or a percentage of salary in accordance with their collective bargaining agreement and Board Policy. This is as a result of settlement of all union contracts in late 2010 and early 2011. Prior to this, there was no employee premium contribution for most active employees. Certain non-represented employees paid 5 percent of their health plan premium. Board members pay any premium difference between the health plan they selected and the lowest cost health plan. The 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 was eliminated August 1, 2011. This conditional premium share was never triggered.

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 65^{th} birthday. Coverage is not reduced below 25 percent of the original coverage in effect at time of retirement.

Effective July 1, 2010 the District established an IRC Section 115 trust for the purpose of holding assets and funding for the District's postemployment health and life insurance benefits. The trust is reported as a fiduciary fund in the District's financial statement. For fiscal year ending June 30, 2011, the District contributed $65,251,881 (including pre-funding contributions, Medicare Part D and ERRP contributions) to the Retiree Plan. For fiscal year ending June 30, 2011, total member contributions to the Retiree Plan were $11,456,100.

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 ending June 30, 2011, the amount actually contributed to plan, and changes in the district's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	$194,969,742
Interest on Net OPEB Obligation	17,706,356
Adjustment to annual required contribution	(15,974,674)
Annual OPEB cost	196,701,424
MPS Contributions made	(65,251,881)
Increase in Net OPEB Liability	131,449,543
Net OPEB obligation, beginning of year	389,150,650
Net OPEB obligation, end of year	$520,600,193

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, 2011 and the two preceding years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/11	$196,701,424	33.2%	$520,600,193
6/30/10	$187,867,651	32.3%	$389,150,650
6/30/09	$190,432,565	31.3%	$261,946,200

The funded status of the plan as of July 1, 2009, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	$2,398,129,600
Actuarial value of plan assets	—
Unfunded Actuarial Accrued Liability (UAAL)	$2,398,129,600
Funded ratio (actuarial value of plan assets/AAL)	0 %
Covered payroll (active plan members)	$ 507,339,100
UAAL as a percentage of covered payroll	472.7 %

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.

The District's OPEB financial disclosure information for fiscal year ending, June 30, 2011 was based on the assumptions and methods in the July 1, 2009 actuarial valuation. The health benefit and eligibility changes that became effective on April 1, 2011 in accordance with the 2010/2011 union contract settlements and Board policy for non-represented employees are not expected to significantly impact the Annual Required Contribution for fiscal year end on June 30, 2011 and the impact of such changes will be measured in the subsequent valuation as of July 1, 2011. The entry age normal actuarial cost method was used. The District established an IRC Section 115 trust to contribute 105 percent of actual retiree healthcare claims to the trust beginning July 1, 2010. The actuarial assumptions include a 4.55 percent investment rate of return that reflects the District's prefunding policy and an annual healthcare cost trend rate of 9 percent initially, reduced by 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 with an open amortization method. Financial statements of the Other Post Employment Benefits Trust are included on pages 92 and 93.

(12) 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, 2011, the District met its revenue limitation.

(13) School Nutrition Deficit

The School Nutrition Services Fund had a deficit of $2,251,164. The deficit is anticipated to be funded through future operations.

(14) Excess Expenditures Over Appropriations

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2011:

Fund	Excess Expenditures
General Fund:	
Milwaukee County Collaborative	$ 67,073
Contracted Kindergarten	65,584
Summer School	3,148,363
S.E. Asian/Native American Program	16,573
Instrumental Music	720,215
Office of School Administration	259,242
Textbook Adoption	468,057
Musical Festival	1,372
Transportation	2,515,983
Debt Service	4,390,048
Special and Contingent Funds	2,052,816
CAMP	3,364,681
School Nutrition Services Fund	640,419
Debt Service	5,114,077

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

(15) 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, 2011 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.

(b) *Contractual Commitments*

The District has $31.5 million of encumbrances outstanding as of June 30, 2011 of which $24.3 million are contractual commitments.

(c) *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.

(d) *Class Action Litigation*

The District has no reasonable measurable estimate of the cost to remedy the situation related to the Districts' pending class action litigation. A decision on the retrospective remedy was rendered by the District Court in June, 2009 which was subsequently appealed and stayed by the Seventh Circuit Court of Appeals pending the outcome of the appeal. Oral arguments were heard in front of the Seventh Circuit in September, 2010.

(e) *Interest Rate Swap Agreement*

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 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 October 1, 2043, when the last of the variable rate debt is retired.

On September 15, 2008, Lehman Brothers Holdings Inc., parent company of Lehman Brothers 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 or firms.

On September 23, 2011, swap agreements with new counterparties were established. The replacement counterparties are PNC Bank, National Association in the amount of $21,255,000 and Wells Fargo Bank N.A. in the amount of $49,595,000. The material terms of the new agreements are the same as the terms of the agreements with Lehman Brothers Special Financing, Inc.

(f) FCC Channels

The District has had the 4 FCC channels for a number of years and has the right to sell and or lease these channels. The District must renew the FCC license every twelve years. MPS entered into a consortium with MATC and UWM to combine the district's channels to lease them to Clearwire in November 1991. MPS received $4,200,000 upfront in March 2008, and $55,000 per month initially, which increases 3% each March during the contract period. Clearwire will build a WiMax Network and MPS plans on buying back WiMax broadband internet services from Clearwire. At that time, Clearwire will then pay an additional monthly fee to MPS ranging from $2,000, increasing every five years, to a maximum of $4,023.

(16) Subsequent Events

To finance on an interim basis MPS' general operating expenses pending receipt of state school aid payments, the City of Milwaukee issued $50,000,000 of commercial paper on October 12, 2011 maturing on December 7, 2011 and $25,000,000 of commercial paper on October 26, 2011 maturing November 10, 2011. $145,000,000 of Revenue Anticipation Notes (RANs), Series 2011 M6, were issued November 9, 2011. The commercial paper matures in December 2011 and the RANs mature June 27, 2012. Interest is payable at maturity.

REQUIRED SUPPLEMENTARY INFORMATION

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2011

	Budgeted amounts		Actual	Variance with
	Adopted	Revised	(GAAP basis)	Revised Budget
REVENUES:				
Property Tax Levy	$ 279,274,534	$ 273,079,212	$ 273,079,212	$ -
Equalization & Integration Aids	586,488,154	589,894,186	584,072,757	(5,821,429)
Other State Aids	66,536,231	66,229,480	76,164,317	9,934,837
Federal Aids	9,700,000	13,100,000	6,793,634	(6,306,366)
Other Local Revenues	18,971,778	19,915,488	19,755,302	(160,186)
Applied Surplus	3,400,000	3,400,000	-	(3,400,000)
SCHOOL OPERATIONS & EXTENSION	964,370,697	965,618,366	959,865,222	(5,753,144)
CAMP	-	-	3,765,918	3,765,918
GRANTS	226,847,624	276,126,623	223,705,035	(52,421,588)
Total Revenues	1,191,218,321	1,241,744,989	1,187,336,175	(54,408,814)
EXPENDITURES:				
PROGRAM ACCOUNTS				
High Schools	148,053,216	157,695,174	150,624,701	7,070,473
Middle Schools	43,520,652	43,774,662	42,912,832	861,830
K-8 Schools	216,992,469	214,433,915	205,991,623	8,442,292
Elementary Schools	138,093,513	131,865,892	128,288,420	3,577,472
Charter Schools	85,967,687	83,417,376	80,348,997	3,068,379
School To Work Transition	3,125,503	3,106,877	2,882,774	224,103
School Age Parents	1,912,906	1,924,061	1,755,273	168,788
Alternative Schools	6,593,276	5,921,729	5,261,475	660,254
Agency Programs	24,780,403	24,102,535	22,453,824	1,648,711
Home & Hospital Instruction	922,651	917,146	699,359	217,787
Milwaukee County Collaborative	1,317,497	1,304,881	1,371,954	(67,073)
Contracted Kindergarten	1,881,735	1,842,425	1,908,009	(65,584)
Guidance Positions		487,944	465,003	22,941
Summer School	4,043,055	4,145,337	7,293,700	(3,148,363)
School Special Funds	52,163,628	51,003,723	50,455,924	547,799
S.E. Asian/Native American Program	276,957	278,381	294,954	(16,573)
Interscholastic Athletics/Academics	5,490,631	5,473,918	5,203,369	270,549
Driver Education	385,694	711,346	371,463	339,883
School Safety Operations	3,834,851	4,418,024	3,869,290	548,734
Instrumental Music	1,256,273	1,250,651	1,970,866	(720,215)
Schools Program Funds	1,776,755	1,894,554	1,626,117	268,437
MTEC/Compton	145,241	144,007		144,007
Peer Evaluation & Mentor Teachers	3,025,779	3,410,881	2,919,767	491,114
Social Work Services	290,915	294,768	280,776	13,992
EEN Itinerant Allied Services	7,802,735	7,855,672	6,592,734	1,262,938
Special Education Optional Services	205,355	208,440	201,444	6,996
Non-MPS Special Education Costs	3,188,017	3,246,854	2,964,399	282,455
TABS Program	771,456	774,837	601,005	173,832
TOTAL - PROGRAM ACCOUNTS	**$** 757,818,850	755,906,010	729,610,052	26,295,958

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

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2011

	Budgeted amounts		Actual	Variance with Revised
	Adopted	Revised	(GAAP basis)	Budget
INDIRECT & SUPPORT SERVICES				
Board of School Directors	$ 415,455	$ 623,383	$ 417,270	$ 206,113
Office of Board Governance	8,036,404	3,859,102	2,487,196	1,371,906
Office of Accountability and Efficiency	-	1,791,237	1,323,902	467,335
Office of Superintendent	4,556,169	3,171,574	2,746,847	424,727
Office of School Administration	-	2,177,858	2,437,100	(259,242)
Office of Academic Support	3,015,443	4,175,221	3,439,456	735,765
Office of Chief Financial Officer	-	5,023,529	4,212,579	810,950
Office of Family Services	2,902,062	2,962,802	2,913,746	49,056
Dept. of Special Services	5,148,105	4,386,240	3,945,696	440,544
Office of Planning & Operations	55,655,291	62,260,466	50,398,833	11,861,633
Dept. of Human Resources	5,245,661	6,187,723	5,244,511	943,212
TOTAL - INDIRECT & SUPPORT	84,974,590	96,619,135	79,567,136	17,051,999
OTHER ACCOUNTS				
Textbook Adoptions	5,727,848	5,842,800	6,310,857	(468,057)
Partnership Academy	56,296	142,939	85,036	57,903
Safety Supplement	2,355,350	2,822,814	2,489,993	332,821
Technology Licenses	3,724,859	3,951,501	3,247,638	703,863
Music Festival	-	4,043	5,415	(1,372)
Transportation	54,465,366	55,135,312	57,651,295	(2,515,983)
School District Insurances	10,565,781	10,273,425	10,066,988	206,437
Debt Service (includes NSI)	-	653,031	5,043,079	(4,390,048)
Utilities & Leases	26,824,605	26,936,224	26,648,452	287,772
Special & Contingent Funds	807,017	17,941,915	19,994,731	(2,052,816)
TOTAL - OTHER ACCOUNTS	104,527,122	123,704,004	131,543,484	(7,839,480)
DIVISION OF RECREATION AND COMMUNITY SERVICES				
Playgrounds & Recreation Centers	8,480,620	8,999,416	7,351,197	1,648,219
Earn to Learn	60,000	101,037	39,294	61,743
Summer School Wrap-around	2,553,623	3,539,037	1,094,102	2,444,935
Summer Read Program	-	100,000	79,866	20,134
Community Arts Program	1,193,960	1,848,665	1,019,365	829,300
Partnership for Humanities	0	500,000	80,595	419,405
District Insurances	338,196	338,196	296,645	41,551
Other	-	2,508,184	2,508,184	-
Special & Contingent Fund	528,841	835,212	191,973	643,239
TOTAL DIVISION OF RECREATION AND COMMUNITY SERVICES	13,155,240	18,769,747	12,661,221	6,108,526
OFFSET FOR CHARGES TO SCHOOLS AND OTHER ADJUSTMENTS TOTAL - CHARGES	(12,482,259)	(15,362,043)	(15,514,346)	152,303
SCHOOL OPERATIONS & EXT. FUND	947,993,543	979,636,853	937,867,547	41,769,306
CAMP	-	-	3,364,681	(3,364,681)
GRANTS	226,847,624	276,126,623	226,367,145	49,759,473
Total Expenditures	1,174,841,167	1,255,763,476	1,167,599,373	88,164,098
Excess of revenues over (under) expenditures	16,377,154	(14,018,487)	19,736,802	33,755,289
Transfer In (Out)	(16,377,154)	(12,531,385)	(20,168,630)	(7,637,245)
Proceeds from sale	-	-	18,128	18,128
Change in Fund Balance	$ -	$ (26,549,872)	(413,700)	$ 26,136,172
Fund balance-beginning of year			92,014,574	
Fund balance-end of year			$ 91,600,874	

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, 2011

	Budgeted amounts		Actual	Variance with
	Adopted	**Revised**	**(GAAP basis)**	**Revised Budget**
Revenues:				
Lunchroom sales	$ 4,122,500	$ 4,000,000	$ 3,226,519	$ (773,481)
Other local sources	—	—	6,557	6,557
State aid:				
School nutrition aid	867,000	1,000,000	1,004,873	4,873
Federal aid:				
School nutrition aid	33,423,800	36,100,000	38,163,553	2,063,553
Other federal aid	—	686,469	749,101	62,632
Total revenues	38,413,300	41,786,469	43,150,603	1,364,134
Expenditures:				
Current operating:				
School Nutrition Services	38,413,300	42,607,335	43,247,754	(640,419)
Total expenditures	38,413,300	42,607,335	43,247,754	(640,419)
Excess of revenues over(under) expenditures	—	(820,866)	(97,151)	723,715
Transfer In	—	—	—	-
Net change in fund balances	$ —	—	(97,151)	(97,151)
Fund deficit—beginning of year			(2,154,013)	
Fund deficit—end of year			$ (2,251,164)	

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Year ended June 30, 2011

Schedules of Funding Progress

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
7/1/2010	$ 42,306,659	$ 52,695,253	$ 10,388,594	80.29 %	$ 26,473,931	39.24 %
7/1/2009	43,207,285	53,727,359	10,520,074	80.42	28,690,983	36.67
7/1/2008	44,570,940	53,278,752	8,707,812	83.70	30,534,301	28.52
7/1/2007	42,807,076	52,832,971	10,025,895	81.02	32,942,251	30.43
7/1/2006	40,082,362	50,604,106	10,521,744	79.21	34,756,344	30.27
7/1/2005	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
7/1/2010	$ 102,968,116	$ 228,417,032	$ 125,448,916	45.08 %	$ 342,784,884	36.60 %
7/1/2009	99,077,126	225,134,052	126,056,926	44.01	353,723,230	35.64
7/1/2008	94,204,651	217,642,068	123,437,417	43.28	350,580,446	35.21
7/1/2007	82,256,327	210,656,973	128,400,646	39.05	341,271,505	37.62
7/1/2006	70,897,370	188,159,912	117,262,542	37.68	320,407,690	36.60
7/1/2005	60,596,308	174,359,298	113,762,990	34.75	321,226,581	35.42

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

Fiscal year beginning	Annual Required Contribution	Percentage Contributed
7/1/2010	$ 3,595,479	100 %
7/1/2009	3,242,746	100
7/1/2008	2,482,200	100
7/1/2007	2,576,104	100
7/1/2006	3,096,247	100
7/1/2005	2,814,526	100

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Fiscal year beginning	Annual Required Contribution	Percentage Contributed
7/1/2010	$ 15,645,398	100 %
7/1/2009	15,641,408	100
7/1/2008	15,235,493	100
7/1/2007	15,408,267	100
7/1/2006	14,113,631	100
7/1/2005	13,440,927	100

See Independent Auditors Report and accompanying Notes to Required Supplementary Informatior

MILWAUKEE PUBLIC SCHOOLS
Required Supplementary Information
Year Ended June 30, 2011

Post-Employment Life and Healthcare Insurance Benefits
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age Normal	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2010	n/a	n/a	n/a	n/a	n/a	n/a
7/1/2009	-	$2,398,129,645	$2,398,129,645	0%	$507,339,126	472.7%
7/1/2008	n/a	n/a	n/a	n/a	n/a	n/a
7/1/2007	-	$2,222,673,800	$2,222,673,800	0%	$501,184,000	443.5%

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.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Postemployment Health Care Plan

Fiscal Year Beginning	Annual Required Contribution	Percentage Contributed
7/1/2010	$ 194,969,742	34.7%
7/1/2009	186,702,017	32.7
7/1/2008	189,880,613	31.3

For the plan year beginning July 1, 2009, there were several changes made to the assumptions from the prior valuation done. The changes include a change in the discount rate from 4.5% to 4.55%, less increase in healthcare costs then the trend previously used, and a change in demographic assumptions, including less retirements and less new actives than expected.

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

(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.

This page intentionally left blank.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

This page intentionally left blank

MILWAUKEE PUBLIC SCHOOLS

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used and report the proceeds of specific revenue sources other than debt service or capital projects that are restricted or committed to expenditure for particular purposes. These funds include the following:

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, 2011

Assets		Special Revenue: Categorically Aided Programs	Debt Service	Total
Receivables due from other governmental units	$	13,798,096	—	13,798,096
Total assets	$	13,798,096	—	13,798,096
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$	83,692	—	83,692
Due to other funds		13,714,404	—	13,714,404
Total liabilities		13,798,096	—	13,798,096
Fund balances:				
Unreserved and undesignated		—	—	—
Total fund balances		—	—	—
Total liabilities and fund balances	$	13,798,096	—	13,798,096

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2011

	Special Revenue		
	Categorically Aided Programs	**Debt Service**	**Total**
Revenues:			
Property taxes	$ —	5,698,454	5,698,454
Federal aid:			
Other federal aid	40,926,390	—	40,926,390
Total revenues	40,926,390	5,698,454	46,624,844
Expenditures:			
Instructional services—special curriculum	11,908,443	—	11,908,443
Pupil and staff services	29,017,947	—	29,017,947
Debt service:			
Principal	—	9,593,886	9,593,886
Interest	—	13,643,504	13,643,504
Bond administrative fees	—	106,526	106,526
Total expenditures	40,926,390	23,343,916	64,270,306
Excess of revenues over (under) expenditures	—	(17,645,462)	(17,645,462)
Other financing sources:			
Transfers In	—	17,645,462	17,645,462
Total other financing sources (uses), net	—	17,645,462	17,645,462
Net changes in fund balances	—	—	—
Fund balances:			
Beginning of year	—	—	—
End of year	$ —	—	—

MILWAUKEE PUBLIC SCHOOLS

Categorically Aided Programs Fund

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

Year ended June 30, 2011

	Budgeted amounts		Actual
	Adopted	**Revised**	**(GAAP basis)**
Revenues:			
Federal aid:			
Other federal aid	$ 49,439,097	49,349,873	40,926,390
Total revenues	49,439,097	49,349,873	40,926,390
Expenditures:			
Current operating:			
Special curriculum	14,386,214	14,360,251	11,908,443
Pupil and staff services	35,052,883	34,989,622	29,017,947
Total expenditures	49,439,097	49,349,873	40,926,390
Net change in fund balance	$ —	—	—
Fund balance—beginning of year			—
Fund balance—end of year			$ —

MILWAUKEE PUBLIC SCHOOLS

Debt Service Fund

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

Year ended June 30, 2011

	Budgeted amounts Adopted	Budgeted amounts Revised	Actual (GAAP basis)
Revenues:			
Property taxes	$ —	5,698,454	5,698,454
Total revenues	—	5,698,454	5,698,454
Expenditures:			
Current operating:			
Debt service	16,377,154	18,229,839	23,343,916
Total expenditures	16,377,154	18,229,839	23,343,916
Excess of revenues over (under) expenditures	(16,377,154)	(12,531,385)	(17,645,462)
Other financing sources (uses)			
Transfers In (Out)	16,377,154	12,531,385	17,645,462
Total other financing sources (uses), net	16,377,154	12,531,385	17,645,462
Net changes in fund balances	$ —	—	—
Fund balance—beginning of year			—
Fund balance—end of year			—

This page intentionally left blank.

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.

Other Post Employment Benefits Trust—This fund is used to account for assets used to pay post employment benefits or fund accrued liability associated with such benefits.

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 Net Assets—Pension and Other Post Employment Benefits Trust Funds

June 30, 2011

		Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Other Post Employment Benefits trust	Total
Assets					
Investments					
Money market accounts	$	1,228,351	1,432,558	2,903,460	5,564,369
U.S. treasury and agency securities		114,879	413,807	4,869,130	5,397,816
Mortgage-backed securities		58,820	6,028	—	64,848
Nongovernment obligations		1,281,814	2,190,283	1,595,478	5,067,575
Municipal Bonds		25,986	4,918	—	30,904
Investment in the State of Wisconsin		44,127,993	120,789,438	—	164,917,431
Receivables-interest and contributions		12,960	21,756	675,595	710,311
Total assets		46,850,803	124,858,788	10,043,663	181,753,254
Liabilities					
Liabilities:					
Accounts payable and accrued expenses		406,188	1,199,011	2,457,529	4,062,728
Total liabilities		406,188	1,199,011	2,457,529	4,062,728
Net Assets					
Held in trust for supplemental pension benefits	$	46,444,615	123,659,777	7,586,134	177,690,526

MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Changes in Net Assets—Pension and Other Post Employment Benefits Trust Funds

Year ended June 30, 2011

		Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Other Post Employment Benefits trust	Total
Additions:					
Employer contributions	$	7,196,396	27,366,748	—	34,563,144
Participants contributions		—	—	77,383,576	77,383,576
Investment income, net of expenses		8,570,567	22,517,315	106,609	31,194,491
Total additions		15,766,963	49,884,063	77,490,185	143,141,211
Deductions:					
Benefits paid to participant's or beneficiaries		4,683,943	13,608,816	69,896,831	88,189,590
Distribution of participant contribution accounts		219,319	—	—	219,319
Administrative expenses		50,691	119,096	7,220	177,007
Total deductions		4,953,953	13,727,912	69,904,051	88,585,916
Changes in net assets		10,813,010	36,156,151	7,586,134	54,555,295
Net assets—Beginning of Year		35,631,605	87,503,626	—	123,135,231
Net assets—Ending of Year	$	46,444,615	123,659,777	7,586,134	177,690,526

MILWAUKEE PUBLIC SCHOOLS

Agency Fund

Schedule of Changes in Assets and Liabilities

Year ended June 30, 2011

Assets		Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Cash and cash equivalents	$	5,754,010	12,036,900	(12,004,020)	5,786,890
Total assets		5,754,010	12,036,900	(12,004,020)	5,786,890
Liabilities					
Liabilities:					
Due to student organizations		5,754,010	12,036,900	(12,004,020)	5,786,890
Total liabilities	$	5,754,010	12,036,900	(12,004,020)	5,786,890

APPENDIX B

Draft Form of Legal Opinion

This Page Has Been Intentionally Left Blank

October 25, 2012

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 $120,000,000 aggregate principal amount of School Revenue Anticipation Notes, Series 2012 M11 (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 6, 2012.

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 October 25, 2012, mature (without option of prior redemption) on June 26, 2013 and bear interest from their date at the rate of one and one-half per centum (1.50%) per annum payable at maturity.

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 2012-2013 fiscal year that are due and not yet paid to the City and which are not otherwise pledged or applied through June 30, 2013; 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 the Notes are not "private activity bonds" within the meaning of Section 141(a) of the Code; accordingly, interest on the Notes is not an item of tax preference for purposes of computing individual or corporate alternative minimum taxable income. Interest on the Notes, however, is includable in earnings and profits of a corporation and therefore must be 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

This Page Has Been Intentionally Left Blank

APPENDIX C

Form of Continuing Disclosure Certificate

This Page Has Been Intentionally Left Blank

MASTER CONTINUING DISCLOSURE CERTIFICATE

This Master Continuing Disclosure Certificate (the "Certificate") dated as of December 1, 2010 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 100846 duly adopted by the Common Council of the City on November 23, 2010 (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 the Repository, 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:

(i) principal and interest payment delinquencies;
(ii) non-payment related defaults, if material;
(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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Offered Obligations, or other events affecting the tax-exempt status of the Offered Obligations;
(vii) modifications to rights of Security Holders, if material;
(viii) bond calls, if material;
(ix) defeasances;
(x) release, substitution, or sale of property securing repayment of the Offered Obligations, if material;
(xi) rating changes;
(xii) tender offers;
(xiii) bankruptcy, insolvency, receivership or similar event of the Obligor (as specified in the Addendum Describing Annual Report).

The event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligor in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligor, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligor.

(xiv) the consummation of a merger, consolidation, or acquisition involving the Obligor or the sale of substantially all of the assets of the Obligor, other than pursuant to its terms, if material; and
(xv) appointment of a success or additional trustee or the change of name of a trustee, if material.

(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) "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).

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

(11) "Repository" means the SID and repository(ies), as designated from time to time by the SEC to receive continuing disclosure filings. The SID, repository(ies), and filing information are set forth in the Addendum Describing Repository and SID (Exhibit A) as may be revised from time to time.

(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 the Repository.

(b) The City shall provide, in a timely manner, not in excess of ten (10) business days after the occurence of the event, notice of any failure of the City to provide the Annual Financial Information by the date specified in subsection (a) above to the Repository.

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 the Repository.

Section 2.4. Notices of Material Events. (a) If a Material Event occurs, the City shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of the event, a Material Event Notice to the Repository.

(b) Upon any legal defeasance of an Offered Obligation, the City shall provide notice of such defeasance to the Repository, 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.

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 the Repository existing at the time of such reference, 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. Transmission of information and notices shall be as prescribed by the SEC and the Repository. The transmission requirements are described in the Addendum Describing Repository.

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 the Repository.

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 the Repository.

(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 the Repository.

(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 the Repository.

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 December, 2010.

CITY OF MILWAUKEE, WISCONSIN

By:____________________________________

Comptroller

ADDENDUM DESCRIBING REPOSITORY AND SID

This Addendum Describing Repository (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 December 1, 2010. This Addendum describes the filing information as specified by the Securities and Exchange Commission.

Repositories

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

Information submitted to the MSRB for disclosure on the EMMA shall be in an electronic format as prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

SID (State Information Depository)

None.

IN WITNESS WHEREOF, this Addendum is executed this 1st day of December, 2010.

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 "City") pursuant to the Master Continuing Disclosure Certificate (the "Certificate"), executed and delivered by the Issuer and dated December 1, 2010. 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.

Obligor: The City of Milwaukee, Wisconsin

Content of Annual Financial Information for Issuer:

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

IN WITNESS WHEREOF, this Addendum is executed this 1st day of October, 2012.

CITY OF MILWAUKEE, WISCONSIN

By:___________________________________

Comptroller

MM:RL

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 December 1, 2010. 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:

$120,000,000 School Revenue Anticipation Notes, Series 2012 M11

Addendum Describing Annual Report:

ADDENDUM DESCRIBING ANNUAL REPORT
FOR SHORT-TERM OBLIGATIONS

Date of Issue:

October 25, 2012

No Previous Non-Compliance. The Issuer represents that for the period beginning 6 years prior to the date hereof, 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.

IN WITNESS WHEREOF, this Supplemental Certificate is executed this 25th day of October 2012.

CITY OF MILWAUKEE, WISCONSIN

By:_______________________________________
Comptroller

MM:RL

This Page Has Been Intentionally Left Blank

This Page Has Been Intentionally Left Blank

SERIES 2012 M11 • CITY OF MILWAUKEE, WISCONSIN • SCHOOL REVENUE ANTICIPATION NOTES

City of Milwaukee

MIX
From responsible sources
FSC™ C017146
FSC
www.fsc.org

Printed by: ImageMaster
www.ImageMaster.com