

**NEW ISSUE  
BOOK ENTRY ONLY**

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

*In the opinion of Katten Muchin Rosenman LLP, and of Hurtado, S.C., Bond Counsel, under existing law, if there is continuing compliance with certain requirements of the Internal Revenue Code of 1986, interest on the Notes will not be includable in gross income for federal income tax purposes. 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.*

**\$188,000,000**  
**CITY OF MILWAUKEE, WISCONSIN**  
**SCHOOL REVENUE ANTICIPATION NOTES, SERIES 2007 M6**  
**(Not a general obligation of the City)**

**Dated:** Expected Date of Delivery

**Due:** September 4, 2008

The School Revenue Anticipation Notes, Series 2007 M6 (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-form only. Purchasers will not receive certificates representing their beneficial ownership in the Notes. Interest shall be payable at maturity. The Notes are not a general obligation of the City, do not constitute an indebtedness for the purpose of determining the City's constitutional debt limitation, and no tax shall be levied to pay the Notes or the interest thereon. The Notes are not subject to redemption prior to maturity.

<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
\$188,000,000	4.50%	3.64%

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

The Notes have been offered for sale by competitive bid in accordance with the Official Notice of Sale dated August 7, 2007 and are being issued subject to the legal opinion of Katten Muchin Rosenman LLP, Chicago, Illinois, and of Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, and other conditions specified in the Official Notice of Sale. Delivery of the Notes will be on or about September 6, 2007 (the "Expected Date of Delivery") in New York, New York.

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

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

August 14, 2007

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.

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## 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 \$188,000,000 School Revenue Anticipation Notes, Series 2007 M6 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:	\$188,000,000 School Revenue Anticipation Notes, Series 2007 M6.
Dated Date:	Expected Date of Delivery.
Sale Date and Time:	August 14, 2007, 9:30 A.M. C.T.
Maturity:	September 4, 2008.
Principal Amount:	\$188,000,000
Interest:	Calculated at 358 days on a 360-day basis.
Denominations:	\$5,000 or integral multiples thereof.
Purpose:	To finance MPS operations on an interim basis pending receipt of school State Aid payments.
Security:	<p>MPS and the City have pledged and will irrevocably segregate upon receipt, school State Aid payments in an amount sufficient with interest thereon, to pay, when due, the principal of and interest on the Notes. MPS and the City have also pledged all other revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned. The City has also pledged available surplus revenues of the City’s Debt Service Fund to the payment of interest on the Notes. (See “THE NOTES – SECURITY AND PURPOSE” herein.)</p> <p>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.</p>
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-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 up to 100 copies (pro rata) of this Official Statement within seven business days following the award of the Notes.

Professionals:

Bond Counsel:	Katten Muchin Rosenman LLP Chicago, Illinois
	Hurtado, S.C. Wauwatosa, Wisconsin
Financial Advisor	Robert W. Baird & Co. Milwaukee, Wisconsin
	Bagley Financial Corp. Detroit, Michigan
Fiscal Agent:	The Bank of New York Trust Company, N.A. Milwaukee, Wisconsin

Delivery: Delivery will be on or about September 6, 2007 (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 ("MBSD"), the governing board of MPS, has full responsibility for its budget expenditures, and the required tax levy. These requirements are included with the City's financial requirements, and MPS is effectively treated as a department of the City.

Pursuant to a resolution adopted on June 28, 2007, 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 June 19, 2007 in accordance with the provisions of the City Charter and Section 67.12(1), Wisconsin Statutes, which reads as follows:

**"67.12 Temporary borrowing and borrowing on promissory notes.**

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

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

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

### SECURITY AND PURPOSE

Pursuant to a resolution of MBSD adopted on June 28, 2007, MBSD has authorized the City to issue the Notes, and to pledge all revenues of the School Operations Fund included in the budget for the current fiscal year which are due MPS, which have not been received as of the date of delivery of the Notes, and which are not otherwise pledged or assigned, as security for repayment of the Notes (the "Pledged Revenues").

The School Operations Fund is established by Section 119.46, Wisconsin Statutes, and is held by the City on behalf of MPS. Revenues from the local property tax, school State Aid payments and federal school aid payments are deposited into the School Operations Fund. See "REVENUES OF MILWAUKEE PUBLIC SCHOOLS" generally, and "Milwaukee Public Schools-School Operations Fund Budget Fiscal Year 2008 and 2007" 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 Chapter 121.115, Wisconsin Statutes, MBSD is anticipating receipt of school State Aid payments from the State of Wisconsin to the School Operations Fund in September and December, 2007 and in March and June, 2008. Such payments, per Section 119.50, Wisconsin Statutes, shall be received by the City Treasurer.

The Notes are being issued to fund MPS operations pending receipt of school State Aid payments. A cash flow deficit of approximately \$188 million is anticipated to occur in November 2007 due to the receipt of the majority of State Aid and property tax revenues during December 2007 through June 2008, the last seven months of the MPS fiscal year. In contrast, MPS expenditures are relatively evenly distributed throughout the school year (See "School Operations Fund Trends" herein).

This Note issue of \$188 million is the only anticipated interim borrowing for MPS during the 2007-2008 fiscal year. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing – Future Financing" herein.)

Pursuant to a resolution of the Common Council of the City adopted on June 19, 2007 (the "City Resolution"), the Common Council of the City has pledged the Pledged Revenues for the repayment of the Notes and has established a segregated account within the School Operations Fund to capture school State Aid payments received under Section 121.15, Wisconsin Statutes, in June, 2008 in the principal amount of the Notes. The City Resolution also directs the City Treasurer to segregate, for payment of the Notes, June, 2008 school State Aid payments, in the principal amount of the Notes. The City Treasurer has no discretion to otherwise apply such revenues.

The City has also covenanted to deposit by June 30, 2008, with the City's Fiscal Agent, segregated State Aid payments in an amount sufficient, with interest thereon, to pay, when due, the principal of and interest on the Notes.

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 September 4, 2008 without option of prior redemption. Interest is payable at maturity at the rates as shown on the cover of this Official Statement and is calculated at 358 days on a 360 day basis.

### **STATUTORY BORROWING LIMITATIONS**

Section 67.12(1)(a) of the Wisconsin Statutes limits issuance for the purpose of the Notes to sixty percent (60%) of the Estimated School Operation Fund Revenues for 2007-2008 Fiscal Year.

Total Amount of Estimated School Operations Fund Revenues For the 2007-2008 Fiscal Year	\$953,640,747
Statutory Borrowing Limit (60% of Estimated Revenues)	\$572,184,448
Borrowing-School Revenue Anticipation Notes, Series 2007 M6, dated September 6, 2007	<u>\$188,000,000</u>
Unused Amount Following this Issue	<u>\$377,184,448</u>
Percentage of Borrowing Limit Used	34.1%
Percentage of Borrowing to Estimated Revenues	20.4%

# MILWAUKEE PUBLIC SCHOOLS

## GENERAL

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

## BORROWING - GENERAL OBLIGATION DEBT

MPS does not have authority to issue debt. The City has the authority (under Chapters 67 and 119, Wisconsin Statutes) to issue municipal obligations for specific school purposes including the acquisition of sites and constructing, enlarging and remodeling of school buildings for the purpose of providing additional classroom space to accommodate anticipated school enrollments. Such municipal obligations require the adoption of a resolution by the City and the levying by the City of required debt service. As shown below, as of August 1, 2007, the City had outstanding general obligation debt for school purposes of \$115,253,411. The City also has authorized but unissued general obligation debt for school purposes. (See "MILWAUKEE PUBLIC SCHOOLS - Borrowing - Future Financing" herein.)

### CITY OF MILWAUKEE OUTSTANDING GENERAL OBLIGATION DEBT FOR SCHOOL PURPOSES AS OF AUGUST 1, 2007

<u>Period Ending</u>	<u>Principal</u>	<u>Interest <sup>(1)</sup></u>	<u>Total Debt Service</u>
12/31/07	\$6,975,830	\$2,471,978	\$9,447,808
12/31/08	11,130,969	4,567,964	15,698,933
12/31/09	9,949,807	4,046,264	13,996,071
12/31/10	9,550,549	3,557,236	13,107,785
12/31/11	9,160,758	3,072,821	12,233,579
12/31/12	8,033,776	2,626,272	10,660,048
12/31/13	7,410,472	2,216,814	9,627,286
12/31/14	7,926,669	2,662,665	10,589,334
12/31/15	7,369,211	2,903,779	10,272,989
12/31/16	9,083,763	2,495,807	11,579,570
12/31/17	7,166,724	2,792,694	9,959,417
12/31/18	6,016,970	2,404,506	8,421,476
12/31/19	5,875,678	2,923,997	8,799,675
12/31/20	5,016,322	3,075,678	8,092,000
12/31/21	1,433,148	2,771,852	4,205,000
12/31/22	1,684,005	3,630,995	5,315,000
12/31/23	1,468,761	3,486,239	4,955,000
	<u>\$115,253,411</u>	<u>\$51,707,559</u>	<u>\$166,960,970</u>

<sup>(1)</sup> Compound interest is included in year paid.

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

**TOTAL UNUSED DEBT MARGIN FOR THE CITY OF MILWAUKEE  
AS OF AUGUST 1, 2007**

2006 Equalized Value of Taxable Property in the City		\$30,226,985,500
Legal Debt Limitation for City Borrowing		
5% of Equalized Value		\$1,511,349,275
General Obligation Debt Outstanding Subject to 5% Limit as of 08/01/07	\$841,888,962	
Less: Provision for current year maturities	<u>(31,185,000)</u>	
Net General Obligation Debt Outstanding Subject to the 5% Limit as of 08/01/07		\$810,703,962
Total Unused Debt Margin for City Borrowing (in Dollars)		\$700,645,313
(As a percentage)		46.36%
Legal Debt Limitation for School Purpose Borrowing		
2% of Equalized Value		\$604,539,710
General Obligation Debt Outstanding Subject to 2% Limit as of 08/01/07	\$14,774,150	
Less: Provision for current year maturities:	<u>—</u>	
Net General Obligation Debt Outstanding Subject to the 5% Limit as of 08/01/07		<u>\$14,774,150</u>
Total Unused Debt Margin for School Purpose Borrowing (in Dollars)		<u>\$589,765,560</u>
(As a percentage)		97.56%



**HISTORY OF FULL VALUATION IN  
THE CITY OF MILWAUKEE  
(2002-2006)**

<u>Levy Year</u>	<u>Collection Year</u>	<u>Full Valuation</u>	<u>Percent Increase/Decrease</u>
2002	2003	\$20,298,387,000	+4.34
2003	2004	21,730,754,000	+7.06
2004	2005	23,491,773,700	+8.10
2005	2006	26,256,713,800	+11.77
2006	2007	30,226,985,500	+15.12

**BORROWING-REVENUE BONDS**

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

**Neighborhood Schools Initiative**

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

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

The schedule of remaining debt service payments (net of bond proceeds expected to be used to pay capitalized interest) on the NSI Revenue Bonds is as follows:

**CITY OF MILWAUKEE  
REDEVELOPMENT AUTHORITY REVENUE BONDS  
ANNUAL DEBT SERVICE PAYMENTS AS OF AUGUST 1, 2007**

<u>Year ending June 30</u>	<u>Debt Service Payments</u>	<u>Year ending June 30</u>	<u>Debt Service Payments</u>	<u>Year ending June 30</u>	<u>Debt Service Payments</u>
2008	\$6,163,834	2014	\$8,922,258	2020	\$10,343,094
2009	7,288,219	2015	9,144,649	2021	10,126,549
2010	8,189,253	2016	9,376,675	2022	10,391,138
2011	8,266,676	2017	9,606,995	2023	10,650,500
2012	8,474,868	2018	9,848,206	2024	11,097,600
2013	8,705,504	2019	10,094,129		

**Lease Revenue Bonds**

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

In May 2003, RACM issued \$34,475,000 Development Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds") on behalf of MPS to refund the 1993 Bonds.

The Series 2003 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 Series 2003 Bonds. Under the lease, the annual rent payments constitute a budgeted expenditure of MPS payable only if funds are budgeted and appropriated annually by the MPS from its School Operations Fund. MPS's obligations under the lease may be terminated on an annual basis by MPS if MPS fails to budget and appropriate for lease payments. The schedule of lease payments after taking into account the 2003 financing is as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE  
DEVELOPMENT REVENUE REFUNDING BONDS  
(2430 West Wisconsin Avenue Project and 1600 North Martin Luther King Drive Project)  
ANNUAL LEASE PAYMENTS AS OF AUGUST 1, 2007**

Year Ending <u>June 30</u>	Lease <u>Payments</u>	Year Ending <u>June 30</u>	Lease <u>Payments</u>
2008	\$3,906,573	2012	\$3,908,325
2009	3,910,973	2013	3,908,475
2010	3,908,763	2014	3,910,900
2011	3,909,313		

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

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$150,000	\$519,300	\$669,300
2009	480,000	509,138	989,138
2010	495,000	492,923	987,923
2011	515,000	475,366	990,366
2012	530,000	456,420	986,420
2013	550,000	436,028	986,028
2014	575,000	413,940	988,940
2015	595,000	390,243	985,243
2016	620,000	365,180	985,180
2017	645,000	338,609	983,609
2018	675,000	310,221	985,221
2019	705,000	280,030	985,030
2020	735,000	248,166	983,166
2021	770,000	214,488	984,488
2022	805,000	178,648	983,648
2023	845,000	140,698	985,698
2024	880,000	101,683	981,683
2025	925,000	61,521	986,521
2026	920,000	20,470	940,470
	<u>\$12,415,000</u>	<u>\$5,953,072</u>	<u>\$18,368,072</u>

**Pension Obligation Bonds**

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

The 2003 Series D Pension Bonds were issued as variable rate securities. 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. The schedule of loan payments, after taking into account the Interest Rate Exchange Agreements are as follows:

**REDEVELOPMENT AUTHORITY OF THE CITY OF MILWAUKEE  
TAXABLE PENSION FUNDING BONDS  
(Milwaukee Public Schools)  
ANNUAL LOAN PAYMENTS AS OF AUGUST 1, 2007**

Year ending <u>June 30</u>	Loan <u>Payments</u>	Year ending <u>June 30</u>	Loan <u>Payments</u>	Year ending <u>June 30</u>	Loan <u>Payments</u>
2008	\$7,340,685	2021	\$7,340,685	2033	\$17,725,853
2009	7,340,685	2022	7,340,685	2034	17,890,228
2010	7,340,685	2023	7,340,685	2035	18,804,603
2011	7,340,685	2024	13,590,685	2036	19,353,978
2012	7,340,685	2025	13,315,060	2037	19,673,353
2013	7,340,685	2026	14,420,228	2038	20,530,533
2014	7,340,685	2027	14,239,603	2039	20,957,713
2015	7,340,685	2028	15,298,978	2040	21,784,893
2016	7,340,685	2029	15,743,353	2041	8,787,073
2017	7,340,685	2030	15,707,728	2042	7,239,253
2018	7,340,685	2031	16,707,103	2043	6,891,433
2019	7,340,685	2032	16,766,478	2044	6,296,806
2020	7,340,685				

**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:

<u>December 1</u>	<u>Payment Amount</u>
2007	\$1,151,365
2008	902,023
2009	902,023
2010	593,441
2011	329,625
2012	329,625
2013	103,298

## BORROWING - FUTURE FINANCING

The City has \$11,400,000 of authorized, but unissued, general obligation borrowing authority for School Purposes.

MPS has \$3,432,000 of Qualified Zone Academy Bond authorization for renovation and repair projects, as well as for equipment, technology, curriculum, and teacher training.

## BOARD OF SCHOOL DIRECTORS

MPS is governed by a nine member Board of Directors. Eight Directors represent and are elected by Districts from within a total population of approximately 590,370. 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:

Peter Thomas Blewett –President	(2009)	Jennifer Morales	(2009)
Jeff Spence, Vice President	(2011)	Bruce Thompson, Member At-Large	(2011)
Terrence Falk	(2011)	Tim Petersons	(2011)
Danny Goldberg	(2009)	Michael Bonds	(2011)
Charlene Hardin	(2009)		

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

W. Martin Morics	Comptroller	(2008)
Grant F. Langley	Attorney	(2008)
Wayne F. Whittow	Treasurer	(2008)

## PUBLIC SERVICES AND FACILITIES

MPS has approximately 90,925 full-time equivalent students and 6,055 teachers. It maintains 116 elementary schools, 21 middle schools, 19 high schools, one K-12 school and 2 MPS alternative schools. The average age of the MPS buildings is just over 50 years. However, significant investment was made in upgrading many of these buildings in the 1970's and 1980's.

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

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

## ENROLLMENT

<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>	<u>School Year</u>	<u>Average School Daily Membership<sup>(1)</sup></u>
1995-1996	99,278	2001-2002	99,025
1996-1997	101,622	2002-2003	99,054
1997-1998	102,914	2003-2004	98,323
1998-1999	102,097	2004-2005	96,874
1999-2000	100,682	2005-2006	94,975
2000-2001	99,332	2006-2007	92,226

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

## **EMPLOYEE RELATIONS**

In August, 2006 the MBSD and the Milwaukee Teacher's Education Association (the "Union") reached agreement on the teacher contract for the period July 1, 2005 through June 30, 2007. Negotiations for the next contract period covering July 1, 2007 through June 30, 2009 are in process. The FY08 Budget as adopted by the MBSD in May, 2007 includes funds should agreement with the Union be reached.

## **FINANCIAL INFORMATION**

MPS has full control of all expenditures and revenues required to operate the school district. Section 119.46 of the Wisconsin Statutes requires MPS to transmit to the City a budget to operate, maintain, equip and improve the schools. The City's Common Council must levy and collect property taxes equal to the amount of money budgeted by MPS. All taxes so collected and all other funds received by MPS for these purposes are deposited to the School Operations Fund. The audited financial statements of this and other funds under the control of MPS for the year ended June 30, 2006 are set forth in Appendix A of this Official Statement.

## **INSURANCE**

MPS carries Commercial General Liability Insurance, Automobile Liability, Umbrella Excess Liability Insurance, and School Leaders Errors and Omissions 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 \$35,729,871 recorded in the School Operations Fund and \$4,937,508 which are considered long-term liabilities, represent an estimate of the amount of claims incurred, but not paid or reported, as of June 30, 2006.

## **INVESTMENT POLICIES**

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

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

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

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

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

The Local Government Investment Pool is a local option City depository. The City utilizes the Local Government Investment Pool in a manner similar to a "money market" account. When other investment options provide more favorable results, such options are utilized. As of December 31, 2006, the City had approximately 15.132% (\$97,911,638.86) of its and MPS's investments deposited in the Local Government Investment Pool.

## **REVENUES OF MILWAUKEE PUBLIC SCHOOLS**

### **SOURCES OF FUNDING**

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

### **LOCAL PROPERTY TAX**

Property taxes levied on behalf of MPS by the City account for a significant portion of the School Operations Fund revenues available to MPS. For the fiscal year 2006-07, MPS's share of the levy produced approximately \$206,437,997 of the total revenues to the School Operations Fund. MPS's 2007-2008 School Operations Fund revenues are budgeted at \$959,940,747 of which City ad valorem property taxes are estimated at \$206,140,164, a decrease of approximately 0.14% from 2006-2007.

### **MILWAUKEE PUBLIC SCHOOLS PROPERTY TAX LEVIES ALL FUNDS (2003-2007)**

<u>Levy Year</u>	<u>Collection Year</u>	<u>Taxes Levied</u>
2003	2004	\$183,198,437
2004	2005	207,442,419
2005	2006	213,803,808
2006	2007	230,345,991
2007	2008	235,491,856

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 2006, the City's ratio of assessed to equalized value, as reported by the Department of Revenue, was 93.81 percent. Full values of any two major classes of property must also be within 10% during such four-year period or State Revenue Department supervision is required.

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

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

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

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

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

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

The 2006 levies (collected in 2007) for non-MBSD purposes were as follows:

City of Milwaukee	\$220,100,000
Milwaukee County	\$115,100,000
MATC	\$52,000,000
Metropolitan Sewerage District	\$38,200,000
State Forestry Tax	\$5,300,000

The net tax rate for all taxing jurisdictions in 2006 was \$22.41 per assessed thousand of property valuation.

Property Tax Collections - Taxes levied in one year are collected in the succeeding year. Thus, taxes certified in 2007 will be collected in 2008. 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.

Based on the Governor's Proposed Budget for the 2005-2007 Biennium, MPS expects that State Aid will increase from approximately 54% of the MPS budget during the 2003-2004 school year to approximately 60% of the MPS budgets for the 2005-2006 and 2006-2007 school years.

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



## STATE AID-GENERAL AIDS

### Equalization Aid

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

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

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

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

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

### ANNUAL REVENUES PER PUPIL

	Statewide			Milwaukee		
	2003-2004	2004-05	2005-06	2003-2004	2004-05	2005-06
Revenue/Pupil	\$10,590	\$11,043	\$11,493	\$11,453	\$11,768	\$12,385
Federal Share (%)	6.33	6.28	6.15	15.02	14.32	14.82
State Share (%)	51.42	49.81	50.87	62.79	61.70	61.20
Local Share (%)	42.25	43.92	42.98	22.19	23.98	23.98

### 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 2006-2007 were \$3,679,418 or \$23.08 per child.

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

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

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

## **PARENTAL CHOICE PROGRAM**

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

For the 2006-07 school year, approximately 17,088 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 2006-2007 school year, MPS received \$19,804,951 in basic lunch aid under the federal program administered by the United States Department of Agriculture through the Wisconsin Department of Public Instruction.

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

For the year 2006-2007, total federal aids to MPS for food services and other categorical aids are estimated to be approximately \$182,101,848.

## **GENERAL FUND TRENDS**

Equalization aid revenues in the 2005-2006 school year increased by approximately \$12,294,782. Property tax revenues increased by approximately \$3,016,107.

Total expenditures increased approximately \$34,174,977 million in 2005-2006 versus the previous year. Expenditures for instructional services were 61.7% of total expenditures, versus approximately 61% over the prior year. The District remains under a revenue cap limitation first imposed in 1993-1994. Despite this restriction, MPS expects to provide all necessary instructional and operating services without major disruptions.

**MILWAUKEE PUBLIC SCHOOLS  
GENERAL FUND <sup>(1)</sup>  
FOUR YEAR SUMMARY**

	2006 Year End <sup>(2)</sup>	2005 Year End <sup>(3)</sup>	2004 Year End <sup>(4)</sup>	2003 Year End <sup>(5)(6)</sup>
Revenues				
Property tax levy	\$191,722,666	\$188,706,559	\$164,834,180	\$166,054,974
Other local sources	14,427,256	10,192,204	9,106,065	10,384,593
State aid:				
Equalization aid	586,498,521	574,203,739	575,069,738	556,169,239
Special classes	39,188,603	39,419,557	40,437,993	40,312,755
Integration	43,660,426	38,661,528	39,437,167	38,717,298
Other state aid	52,184,246	50,958,075	50,393,039	48,330,871
Federal aid:				
Education Consolidation Improvement Act	72,246,390	69,124,917	59,694,854	55,238,900
Erate Refunds	—	3,296,638	—	857,304
Other federal aid	52,825,041	54,584,105	63,564,038	65,769,875
Interest and investment earnings	2,311,332	784,655	761,505	163,109
Total Revenues	<u>1,055,064,481</u>	<u>1,029,931,977</u>	<u>1,003,298,579</u>	<u>981,998,918</u>
Expenditures				
Current operating:				
Instructional services:				
Undifferentiated curriculum	\$430,564,038	\$418,322,709	\$426,491,163	\$394,787,592
Regular and other curriculum	105,796,528	99,908,858	103,609,583	113,717,969
Special curriculum	108,748,090	108,491,974	97,023,789	95,307,418
Total instructional services	<u>645,108,656</u>	<u>626,723,541</u>	<u>627,124,535</u>	<u>603,812,979</u>
Community services	23,127,716	20,591,303	18,191,494	21,442,778
Pupil and staff services	93,314,147	89,185,984	82,254,854	106,437,367
General and school building administration	111,227,914	108,422,951	116,968,619	115,847,360
Business services	151,129,644	153,790,477	156,312,056	164,931,353
Debt Service:				
Principal	12,002,475	3,657,500	4,003,652	466,528
Interest	9,104,965	8,106,051	907,094	376,242
Bond Issuance Cost			2,082,726	
Other	799,375	1,162,108	1,383,820	1,400,556
Capital outlay:				
Sites and buildings	—	—	—	—
Furniture and equipment	—	—	—	—
Total Expenditures	<u>1,045,814,892</u>	<u>1,011,639,915</u>	<u>1,009,228,850</u>	<u>1,014,715,163</u>
Excess of revenues over (under) expenditures	9,249,589	18,292,062	(5,930,271)	(32,716,245)
Other Financing Sources (Uses)	—	—	—	—
Proceeds from pension bonds	—	—	168,051,136	—
Payment for refunded pension debt	—	—	(165,505,293)	—
Total Other Financing Sources(uses)	—	—	<u>2,545,843</u>	—
Net Change in Fund Balances	9,249,589	18,292,062	(3,384,428)	(32,716,245)
Fund balance - beginning of year	\$100,100,308	\$81,808,246	\$85,192,674	\$117,908,916
Fund balance - end of year	<u>\$109,349,897</u>	<u>\$100,100,308</u>	<u>\$81,808,246</u>	<u>\$85,192,671</u>

(1) Reflects the GASB 34 reporting format begun in 2002

(2) Source: Comprehensive Annual Financial Report for June 30, 2006, p. 18

(3) Source: Comprehensive Annual Financial Report for June 30, 2005, p. 18

(4) Source: Comprehensive Annual Financial Report for June 30, 2004, p. 17

(5) Source: Comprehensive Annual Financial Report for June 30, 2003, p. 13

(6) Expenditures, Other: In 2003, due to GASB 34, most of the "Other" category has been reallocated, primarily to Pupil and staff services, and to General and school building administration.

**Milwaukee Public Schools  
School Operations Budget  
Fiscal year 2008 and 2007**

	<b><u>2007-08</u> Budget <sup>(1)</sup></b>	<b><u>2006-07</u> Budget <sup>(2)</sup></b>
<b>REVENUES</b>		
<b>Locally Generated:</b>		
Property Tax Levy	\$206,140,164	\$206,437,997
Other Local Sources	<u>11,296,449</u>	<u>8,841,214</u>
Subtotal	<u>217,436,613</u>	<u>215,279,211</u>
<b>State Aid:</b>		
Equalization Aid	598,843,644 <sup>(4)</sup>	586,637,784
Special Education	40,052,997	38,313,000
Integration	46,144,751	45,207,327
Other	<u>16,610,860</u>	<u>13,729,034</u>
Subtotal	<u>701,652,252</u>	<u>683,887,145</u>
<b>Federal Aid:</b>		
School Nutrition Commodities & Federal Indirect	31,351,882	30,155,981
Other	<u>3,200,000</u>	<u>4,250,000</u>
Subtotal	<u>34,551,882</u>	<u>34,405,981</u>
<b>TOTAL REVENUES</b>	953,640,747	933,572,337
Plus Use of Surplus	<u>6,300,000</u>	<u>2,587,448</u>
<b>TOTAL SOURCES OF FUNDS</b>	<u><u>\$959,940,747</u></u>	<u><u>\$936,159,785</u></u>
<b>EXPENDITURES <sup>(3)</sup></b>		
Instructional Services	\$608,156,167	\$593,525,304
Support Services	<u>351,784,580</u>	<u>342,634,481</u>
<b>TOTAL EXPENDITURES</b>	<u><u>\$959,940,747</u></u>	<u><u>\$936,159,785</u></u>
<b>SUMMARY</b>		
Total Revenues and Use of Surplus	\$959,940,747	\$936,159,785
Total Expenditures	<u>959,940,747</u>	<u>936,159,785</u>
Difference	<u><u>\$0</u></u>	<u><u>\$0</u></u>

<sup>(1)</sup> Initial Fiscal Year 2008 School Operations Fund Budget approved May, 2007.

<sup>(2)</sup> Final Fiscal Year 2007 School Operations Fund Budget approved October, 2006.

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

<sup>(4)</sup> Subsequent to the adoption of the MPS Fiscal Year 2008 Budget, the Wisconsin Department of Public Instruction (DPI) issued its July 1, 2007 Estimate of 2007-2008 General Aid. The DPI estimate is \$575.7 million or approximately \$23.2 million less than MPS budgeted. At the time of this release the Milwaukee Board of School Directors has not determined how the projected shortfall would be resolved.

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 2007-2008. 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.

Subsequent to the adoption of the MPS Fiscal Year 2008 Budget, the Wisconsin Department of Public Instruction (DPI) issued its July 1, 2007 Estimate of 2007-2008 General Aid. The DPI estimate is \$575.7 million or approximately \$23.2 million less than MPS estimated and budgeted in May, 2007. At the time of this official statement, the Milwaukee Board of School Directors has not determined how the projected shortfall will be resolved. The projections for 2007-2008 are based upon the fiscal 2008 Budget as adopted, and do not reflect any adjustments that are likely to occur with the adoption of the Final fiscal 2008 Budget in October, 2007.

**MILWAUKEE PUBLIC SCHOOLS  
SCHOOL OPERATIONS FUND MONTHLY CASH FLOW SUMMARY  
2006-2007 ACTUAL RESULTS (UNAUDITED)  
2007-2008 PROJECTED  
(Millions of Dollars)**

**ACTUAL**

	<u>Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending</u>
July, 2006	31.135	30.282	49.513	11.904
August	11.904	211.758 <sup>(1)</sup>	64.843	158.819
September	158.819	98.384	88.903	168.300
October	168.300	12.628	87.012	93.916
November	93.916	27.918	105.340	16.494
December	16.494	168.122	120.398	64.218
January, 2007	64.218	135.183	93.003	106.398
February	106.398	52.498	95.364	63.532
March	63.532	169.262	96.711	136.083
April	136.083	31.621	89.019	78.685
May	78.685	41.691	94.160	26.216
June	26.216	381.931	373.302 <sup>(1)</sup>	34.845

<sup>(1)</sup> Includes \$175,000,000 2006 M7 Notes

**PROJECTED**

	<u>Beginning</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Ending</u>
July, 2007	34.845	33.505	54.536	13.814
August	13.814	36.567	69.466	(19.085)
September	(19.085)	287.820 <sup>(2)</sup>	76.505	192.230
October	192.230	12.639	88.787	116.082
November	116.082	28.200	143.949	0.333
December	0.333	173.147	84.336	89.144
January, 2008	89.144	136.114	96.009	129.249
February	129.249	60.642	102.395	87.496
March	87.496	170.630	100.711	157.415
April	157.415	29.721	88.800	98.336
May	98.336	28.918	123.349	3.905
June	3.905	390.213	359.118 <sup>(2)</sup>	35.000

<sup>(2)</sup> Includes \$188,000,000 2007 M6 Notes

**MILWAUKEE PUBLIC SCHOOLS**  
**SCHOOL OPERATIONS FUND - CASH FLOW PROJECTION**  
**JULY 1, 2007 - JUNE 30, 2008**  
(Millions of Dollars)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
<b>Balance</b>	34.845	13.814	(19.085)	192.230	116.082	0.333	89.144	129.249	87.496	157.415	98.336	3.905	
<b>RECEIPTS</b>													
Property Taxes							118.400	24.425	2.740	6.562	2.721	51.292	206.140
Integration Aid												46.145	46.145
Computer Aid	3.269												3.269
State Aid													
Equalization Aid	9.701		86.590			149.067			147.286			206.200	598.844
Other					6.008	6.836	8.738	9.080	6.008	4.431	2.000	10.437	53.538
Categorical Aid	11.718	27.347	5.164	6.708	16.585	5.914	3.398	19.228	7.426	7.145	17.979	64.720	193.332
Nutrition	2.900	2.000		0.250	0.050	5.600	0.020	3.200	2.400	3.400	3.200	2.532	25.552
Local Revenues	0.917	0.220	0.066	0.181	0.057	0.230	0.058	0.209	0.270	3.183	0.018	5.887	11.296
Other Local Receipts	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	24.000
Non Operating Receipts	3.000	5.000	6.000	3.500	3.500	3.500	3.500	2.500	2.500	3.000	1.000	1.000	38.000
Note Proceeds			188.000										188.000
<b>Total Receipts</b>	<b>33.505</b>	<b>36.567</b>	<b>287.820</b>	<b>12.639</b>	<b>28.200</b>	<b>173.147</b>	<b>136.114</b>	<b>60.642</b>	<b>170.630</b>	<b>29.721</b>	<b>28.918</b>	<b>390.213</b>	<b>1,388.116</b>
<b>DISBURSEMENTS</b>													
Salaries and Benefits	20.160	21.832	64.115	74.158	113.996	73.455	72.832	75.150	77.832	75.234	112.574	65.252	846.590
Services & Supplies	27.076	39.634	6.890	9.129	24.453	5.381	18.677	22.745	16.779	10.566	7.775	80.866	269.971
Other Local Expenses	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	2.000	24.000
Non Operating Expenses	5.000	6.000	3.500	3.500	3.500	3.500	2.500	2.500	3.000	1.000	1.000	1.000	36.000
Note Principal to Trustee												188.000	188.000
Debt Service	0.300								1.100			22.000	23.400
GASB 45													
<b>Total Disbursements</b>	<b>54.536</b>	<b>69.466</b>	<b>76.505</b>	<b>88.787</b>	<b>143.949</b>	<b>84.336</b>	<b>96.009</b>	<b>102.395</b>	<b>100.711</b>	<b>88.800</b>	<b>123.349</b>	<b>359.118</b>	<b>1,387.961</b>
<b>Balance</b>	<b>13.814</b>	<b>(19.085)</b>	<b>192.230</b>	<b>116.082</b>	<b>0.333</b>	<b>89.144</b>	<b>129.249</b>	<b>87.496</b>	<b>157.415</b>	<b>98.336</b>	<b>3.905</b>	<b>35.000</b>	

# THE CITY OF MILWAUKEE

## GENERAL

The City of Milwaukee, Wisconsin (the “City”), is located on the western shore of Lake Michigan in southeastern Wisconsin. The City is the hub of the metropolitan area and a thriving place to live and work. The City is Wisconsin’s largest city with a population of approximately 590,370 and is the principal trade, service and financial center of southeastern Wisconsin. The surrounding Standard Consolidated Metropolitan Statistical Area (SCMSA) consisting of Milwaukee, Waukesha, Washington, Ozaukee, and Racine Counties, has a population of nearly 1.6 million. This SCMSA is the 24<sup>th</sup> largest metropolitan area in the United States of America.

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

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

## CITY OF MILWAUKEE SELECTED ECONOMIC DATA

<u>Year</u>	<u>Population</u>	<u>Adjusted Gross Income Per Return</u>
2006	590,370	N/A
2005	592,765	\$30,988
2004	593,920	29,922
2003	595,245	29,402
2002	595,958	28,694
2001	595,508	29,056
2000	596,974	28,834

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

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## BUILDING PERMITS

Another indicator of economic growth is the activity in the building industry. The following table indicates building permit activity during the period 2002 through December 2006.

### General Total

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2002	\$337,028,003	2,756
2003	334,954,154	2,884
2004	294,811,125	2,784
2005	529,251,733	2,599
2006	424,763,947	2,655

### Residential Building

<u>Year</u>	<u>Single Family</u>		<u>Multi-Family</u>		<u>Total</u>		<u>Permits Issued</u>
	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	<u>Value</u>	<u># Of Units</u>	
2002	\$18,726,773	135	\$53,525,650	562	\$72,252,423	697	172
2003	20,069,077	159	91,792,191	666	111,861,268	825	187
2004	29,896,986	194	48,346,002	553	78,242,988	747	244
2005	33,751,976	193	113,713,239	500	147,465,215	693	231
2006	25,146,380	162	95,804,142	519	120,950,522	681	189

### Commercial Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2002	\$87,778,047	89
2003	61,824,799	96
2004	63,485,441	89
2005	166,425,515	106
2006	134,084,138	113

### Public Building

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2002	\$24,122,613	159
2003	54,241,508	202
2004	34,176,914	95
2005	51,889,921	49
2006	38,009,733	243

### Alterations and Additions

<u>Year</u>	<u>Value</u>	<u>Permits Issued</u>
2002	152,874,920	2,336
2003	107,026,579	2,399
2004	118,905,782	2,356
2005	163,471,082	2,213
2006	131,719,554	2,110

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	2006 Employment Estimates <sup>(1)</sup>	Type of Business or Service
Aurora Health Care	15,054	Health Care
Wheaton Franciscan Healthcare	10,840	Health Care
U.S. Government (Includes Zablocki V.A. Medical Center)	10,800	Government
Covenant Health Care	9,000	Health Care
City of Milwaukee	7,263	Government
Milwaukee Public Schools	7,137	Education
Roundy's Supermarkets	6,800	Grocery Retailer
M&I Marshall & Ilsley	6,139	Holding company banking/finance and data services
Columbia-St. Mary's	5,749	Health Care
Milwaukee County	5,568	Government
WE Energies	5,177	Electric/natural gas utility
Northwestern Mutual Life	4,839	Insurance
Medical College of Wisconsin	4,625	Medical school/academic/health care
University of Wisconsin-Milwaukee	4,307	Education
Froedert Memorial Lutheran Hospital	3,720	Health Care
Harley-Davidson Motor Company	3,684	Manufacturer, motorcycles
Rockwell Automation (formerly Allen-Bradley)	3,400	Manufacturer, electrical/electronic products
US Bank (formerly Firststar Corporation)	3,085	Finance, banking
SBC Communications (Ameritech Corporation)	2,766	Communications
Briggs and Stratton	2,600	Manufacturer, small engines, automotive locks & keys
Children's Hospital of Wisconsin	2,500	Health care
Johnson Controls, Inc.	2,500	Manufacturer, of electronic control systems, automobile interior modules
Assurant Health Care	2,083	Health care
Marquette University	1,843	Higher Education
Miller Brewing Company	1,700	Manufacturer of beer and aluminum containers

<sup>(1)</sup> Reflects full-time equivalent employees (FTEs).

Source: The 2007 Business Journal Book of Lists.

## EMPLOYMENT AND INDUSTRY

During 2006, the City's unemployment rate averaged approximately 7.2%. Presented below are unemployment rates for the City of Milwaukee, as compared to the State of Wisconsin and the United States for the period 2002 through December 2006. The information below reflects revisions, corrections, and new inputs from the 2000 census, including the application of the changes to the prior years shown. For further information on the changes, please contact the U.S. Bureau of Labor Statistics, or visit their website at <http://www.bls.gov>.

### ANNUAL UNEMPLOYMENT RATES

<u>Year</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
2006	7.0%	4.9%	4.7%	4.6%
2005	7.2	5.0	4.8	5.1
2004	7.8	5.4	5.0	5.5
2003	8.7	6.1	5.6	6.0
2002	8.2	5.8	5.3	5.8

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

### RECENT MONTHLY UNEMPLOYMENT RATES (Not Seasonally Adjusted)

<u>Month</u>	<u>City of Milwaukee</u>	<u>Milwaukee - Waukesha Metropolitan Area</u>	<u>State of Wisconsin</u>	<u>United States</u>
June 2007	7.9%	5.7%	5.3%	4.5%

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 percent of the workforce. Manufacturing firms employ 17 percent of the work force. 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.

**County of Milwaukee**  
**Establishments and Employment by Industry Group**  
**2006 - 3rd Quarter**

<u>NAICS Description</u>	<u>Number of Establishments</u>	<u>Total Average Employment</u>
Utilities	34	1,918
Construction	1,351	13,894
Manufacturing	1,273	61,431
Wholesale Trade	1,527	19,499
Retail Trade	2,495	45,160
Transportation And Warehousing	657	22,018
Information	321	12,015
Finance And Insurance	1,311	29,979
Real Estate And Rental And Leasing	848	7,477
Professional And Technical Services	2,332	24,039
Management Of Companies And Enterprises	196	14,034
Administrative And Waste Services	1,187	38,413
Educational Services	563	32,967
Health Care And Social Assistance	2,680	83,112
Arts, Entertainment, And Recreation	271	9,129
Accommodation And Food Services	1,733	36,629
Other Services, Ex. Public Admin	2,597	15,430
Public Administration	109	22,812
Unclassified	4	51
Total	21,489	490,007
All Government	465	52,413
Private Sector	21,043	437,697

Source: Wisconsin Department of Workforce Development

**TEN LARGEST TAXPAYERS WITH 2006 ASSESSED VALUATIONS**

US Bank Corporation	\$231,049,930
Northwestern Mutual Life Ins.	172,345,420
Metropolitan Associates	107,791,600
NNN 411 East Wisconsin LLC	97,877,000
Marcus Corp/Milw City Center/Pfister	97,491,970
Towne Realty	94,773,970
M & I Marshall & Ilsley Bank/Metavante Corp	80,462,090
Crichton-Hauck/Shoreline/Juneau Village	73,276,400
Miller Brewing	68,405,190
100 E. Wisconsin Ave Joint Venture	59,035,950

Source: City of Milwaukee, Assessor's Office February 2007.

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## **BOOK-ENTRY ONLY SYSTEM**

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

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 bond certificate will be issued for each maturity of the Notes, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest 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 2.2 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://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 Security (“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 effect 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.

Redemption notices shall be sent to DTC. If less than all of the securities 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 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 Issuer 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 securities 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 [nor its nominee], Agent, or Issuer, 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 The 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered to DTC.

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

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

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## LEGAL MATTERS

### LITIGATION

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

The City Attorney's Office has currently reviewed the status of pending or threatened litigation, claims and assessments to which the office has devoted substantive attention in the form of legal consultation or representation. Those which individually represent the maximum potential loss exposure in excess of \$1 million which existed as of the date August 7, 2007 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 civil rights suit, pending in the U.S. District Court for the Eastern District of Wisconsin. It is filed on behalf of seven District special-education students, alleging violations of the Individuals with Disabilities Education Act, the Rehabilitation Act of 1973 (Section 504) and Section 1983 of the Civil Rights Act of 1871 (42 U.S.C. §1983). The suit alleges that the District violated the statutory and constitutional rights of the named plaintiffs as a result of the District's delivery and/or failure to provide education and services to students protected under the referenced statutes. The plaintiffs have also brought claims against the State of Wisconsin, Department of Public Instruction, alleging that the State of Wisconsin has failed to properly monitor the District and enforce federal and state laws. The suit also seeks certification of a class action of all District special education students, as well as students who have not been found eligible for special education. This number exceeds 16,000 students. The class allegations assert the District systematically violates the rights of all special education students, in a broad range of areas, as well as the rights of their parents and/or guardians.

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

Plaintiffs seek equitable relief, including the entry of injunctions against MPS requiring MPS to ensure that MPS provide education and services and follow procedures called for under the federal statutes. Plaintiffs also seek undefined compensatory relief, in the form of compensatory education. It is unclear from the pleadings whether plaintiffs seek monetary relief; they do seek attorney's fees and expenses

In November, 2005, the Court concluded that MPS failed in its Child Find obligations under the IDEA in its failure to ensure the 90 day time limit for completing evaluations and failure to identify or untimely identifications of disabled students who have been subject to excessive suspensions. The Court concluded that DPI failed in its monitoring and oversight obligations. The Court deemed these "systemic" violations. The Court noted a third problematic area – poor record keeping. The Court also stressed that both defendants are currently operating in good faith to ensure compliance with the law.

In April of 2006, the Court heard testimony regarding whether MPS and DPI met other Child Find obligations under IDEA. A Post-trial briefing was completed in June, 2006 and the parties are now awaiting a decision from the Court.



## 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 opinion for the Notes are included herein as Appendix B.

## TAX STATUS

### Summary of Bond Counsel Opinion

Bond Counsel are of the opinion that under existing law, interest on the Notes is not includable in the gross income of the owners thereof for federal income tax purposes. If there is continuing compliance with the applicable requirements of the Internal Revenue Code of 1986 (the "Code"), Bond Counsel are of the opinion that interest on the Notes will continue to be excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel are further of the opinion that 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 is sold to the public (the "Offering Price") and the principal amount payable at maturity of such Notes is given special treatment for federal income tax purposes. If the Offering Price is higher than the maturity value of a Note, the difference between the two is known as "bond premium;" if the Offering Price is lower than the maturity value of a Note, the difference between the two is known as "original issue discount."

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

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

### Exclusion from Gross Income: Requirements

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

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

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

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

### **Covenants to Comply**

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

### **Risks of Non-Compliance**

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

### **Federal Income Tax Consequences**

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

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

**Corporate Owners.** Interest on the Notes is generally taken into account in computing the earnings and profits of a corporation and consequently may be subject to federal income taxes based thereon. Thus, for example, interest on the Notes is taken into account 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.

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

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

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

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

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

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

## **STATE TAX MATTERS**

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

## **NO DESIGNATION AS QUALIFIED TAX-EXEMPT OBLIGATIONS**

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

## **CONTINUING DISCLOSURE**

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

## **RATINGS**

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

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

## **FINANCIAL ADVISOR**

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

## **UNDERWRITING**

The Notes have been purchased at competitive bidding conducted on August 14, 2007.

The award of \$188,000,000 of the Notes was made to Lehman Brothers, Inc. New York, New York, its co-managers and associates.

The public reoffering yield on the Notes will be detailed on the cover of the Final Official Statement.

## **LEGISLATION**

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

## **CLOSING DOCUMENTS AND CERTIFICATES**

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

- (1) a signature and no litigation certificate;
- (2) a tax certificate;
- (3) a certificate of delivery and payment;
- (4) the opinions as to the legality of the Offered Obligations under Wisconsin law and as to the tax-exempt status of the interest thereon for federal income tax purposes rendered by Katten Muchin Rosenman LLP, Chicago, Illinois, and by Hurtado, S.C., Wauwatosa, Wisconsin, Bond Counsel to the City, in substantially the forms as set forth in Appendix B;
- (5) copies of this Official Statement issued in conjunction with the Notes within seven business days after the award of the Notes in accordance with SEC Rule 15c2-12(b)(3);
- (6) a Continuing Disclosure Certificate; and
- (7) a statement to the effect that this Official Statement, to the best of its knowledge and belief as of the date of sale and the date of delivery, is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading.

## **REPRESENTATIONS OF THE CITY**

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

## **ADDITIONAL INFORMATION**

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

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

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

August 14, 2007

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**APPENDIX A**

**Audited Annual Financial Report of  
the Milwaukee Public Schools  
for the Year Ended June 30, 2006**

**Selected Sections of the Comprehensive Annual Financial Report**

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

[www.milwaukee.k12.wi.us](http://www.milwaukee.k12.wi.us)

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

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**MILWAUKEE PUBLIC SCHOOLS**

Comprehensive Annual Financial Report

Year Ended June 30, 2006

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The following disclosure has been provided by the Virchow, Krause & Company, LLP:

“The June 30, 2006 financial statements of MPS have been audited by Virchow, Krause & Company, LLP and they have issued an unqualified opinion dated November 17, 2006, except for Note 16, as to which the date is December 22, 2006. The District’s complete financial statements and the related auditors’ report are available at the District office located at 5225 W. Vliet St., Milwaukee, WI.”

On the next page is a form of the Auditor’s letter that appears in the CAFR.

## <Form of Auditor's Letter>

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, 2006, 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 *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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 17, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information and schedules of funding progress on pages 3 through 13 and pages 64 through 67 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Milwaukee Public School's basic financial statements. The combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund 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 Milwaukee Public Schools. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2006

(Unaudited)

### INTRODUCTION

This discussion and analysis of the financial performance of Milwaukee Public Schools (MPS or the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. 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 increased to \$386.2 million at June 30, 2006 from \$366.8 million at June 30, 2005, an increase of \$19.4 million, or 5.3%.
- Total revenues increased to \$1.15 billion from \$1.12 billion for fiscal year 2005, an increase of 2.6%.
- Total expenses increased to \$1.13 billion, up from \$1.10 billion for the year ended June 30, 2005, an increase of 2.7%.

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

- Total fund balances of the District's governmental funds decreased \$3.6 million in the 2006 fiscal year. This decrease resulted from a combination of a \$9.2 million surplus in the General Fund, and deficits in both the Construction and Nonmajor funds of \$10.8 million and \$2.1 million, respectively. The General Fund surplus was primarily the result of delayed expenditures in the area of undifferentiated curriculum; while the Construction Fund deficit was attributable to the completion of Neighborhood School Initiative (NSI) projects. Bond proceeds to fund the NSI projects were received in prior years.
- The total fund balance for all governmental funds at June 30, 2006 was \$136.7 million. Of this amount, \$61.2 million was reserved for encumbrances, \$0.7 million was reserved for inventories, \$37.1 million was reserved for self-insurance and prepaid expenditures, \$7.2 million was reserved for School Nutrition, and \$30.5 million remains unreserved.

### 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

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2006

(Unaudited)

- Fund Financial Statements
  - Governmental Funds
  - Fiduciary Funds
- Notes to Financial Statements

### 3. Required Supplementary Information (RSI)

- Budget-to-Actual Comparison
- Employee Pension Plan Liabilities, Current and Past Service

The **Management's Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2006. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

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

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

**MILWAUKEE PUBLIC SCHOOLS**

Management’s Discussion and Analysis

June 30, 2006

(Unaudited)

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

	Government-Wide	Fund Statements	
	<u>Statements</u>	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
<b>Scope</b>	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
<b>Required financial statements</b>	- 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
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
<b>Type of asset/liability information</b>	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
<b>Type of inflow/outflow information</b>	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.

## MILWAUKEE PUBLIC SCHOOLS

### Management's Discussion and Analysis

June 30, 2006

(Unaudited)

The **Required Supplementary Information (RSI)** section 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. 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

This is the fifth year MPS is providing government-wide financial statements using the full accrual basis of accounting.

#### Statement of Net Assets

MPS ended its fiscal year with net assets of \$386.2 million, of which \$481.5 million was invested in capital assets (net of related debt), \$1.8 million was restricted, and (\$97.0) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the pension liability of approximately \$166.4 million previously owed to the Wisconsin Retirement System. In November 2003, the MPS Board of School Directors took action to refinance this liability. The full funding allowed by the bond issue will ensure that future employee pension benefits already granted through collective bargaining will be provided.



**MILWAUKEE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
June 30, 2006  
(Unaudited)

**Table 2**  
**MILWAUKEE PUBLIC SCHOOLS**  
Condensed Statement of Net Assets  
(in thousands)

	<b>Government-wide activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Difference</b>
Capital assets, net	\$ 633,895	\$ 608,274	\$ 25,621
Noncapital assets	221,827	264,220	(42,393)
Total assets	<u>855,722</u>	<u>872,494</u>	<u>(16,772)</u>
Current liabilities	92,834	130,883	(38,049)
Noncurrent liabilities	376,648	374,775	1,873
Total liabilities	<u>469,482</u>	<u>505,658</u>	<u>(36,176)</u>
Net assets:			
Invested in capital assets, net of related debt	481,469	475,758	5,711
Restricted	1,796	13,502	(11,706)
Unrestricted (deficit)	(97,025)	(122,424)	25,399
Total net assets	<u>\$ 386,240</u>	<u>\$ 366,836</u>	<u>\$ 19,404</u>

Total net assets increased by \$19.4 million over the prior year. This change is largely the result of the fact that fiscal year 2005 year-end included a retro-pay accrual associated with wage settlements. Other year-over-year changes included a \$25.6 million increase in capital assets, offset by both a \$42.4 million decrease in non-capital assets, and a \$1.9 million increase in the non-current portion of long-term liabilities.

**Statement of Activities**

On a government-wide basis, the District ended fiscal year 2006 with an increase in net assets of \$19.4 million, compared to an increase of \$14.0 million in fiscal year 2005.

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2006

(Unaudited)

**Table 3**

**MILWAUKEE PUBLIC SCHOOLS**

Schedule of Revenues and Expenses

(in thousands)

	<b>Government-wide activities</b>		
	<b>2006</b>	<b>2005</b>	<b>Difference</b>
<b>Program revenues:</b>			
Charges for services	\$ 10,682	\$ 10,090	\$ 592
Operating grants and contributions	243,641	185,228	58,413
Capital grants and contributions	9,920	21,083	(11,163)
Total program revenues	<u>264,243</u>	<u>216,401</u>	<u>47,842</u>
<b>General revenues:</b>			
Property taxes	214,196	207,442	6,754
Federal and state aid	666,052	690,352	(24,300)
Gain on sale of property	—	10	(10)
Interest and investment earnings	1,650	1,774	(124)
Miscellaneous	—	1,201	(1,201)
Total general revenues	<u>881,898</u>	<u>900,779</u>	<u>(18,881)</u>
Total revenues	<u>1,146,141</u>	<u>1,117,180</u>	<u>28,961</u>
<b>Expenses:</b>			
Instruction	664,464	652,166	12,298
Community services	23,271	20,561	2,710
Pupil and staff services	117,139	110,035	7,104
General administration	112,658	108,743	3,915
Business services	155,889	162,748	(6,859)
School nutrition	32,793	32,165	628
Interest on long-term debt	20,176	16,245	3,931
Other	347	549	(202)
Total expenses	<u>1,126,737</u>	<u>1,103,212</u>	<u>23,525</u>
Increase (decrease) in net assets	<u>\$ 19,404</u>	<u>\$ 13,968</u>	<u>\$ 5,436</u>

- Total revenues rose \$29.0 million over the prior year primarily due to a \$58.4 million increase in operating grants and contributions, and a \$6.8 million increase in property taxes. The increase in operating grants and contributions came in the area of instructional services, while the property tax increase was the maximum amount allowed under the state-imposed revenue limit.
- Total expenses grew by \$23.5 million, or 2.1%. Increases in community services (13.2%), pupil and staff services (6.5%), and interest on long-term debt (24.2%), were offset by a decrease in business services (4.2%). The rise in service costs is attributable to increased wages, salaries, and benefits. The growth in interest expense is due in part to an increase in

**MILWAUKEE PUBLIC SCHOOLS**

Management's Discussion and Analysis

June 30, 2006

(Unaudited)

the discount amortization for pension-related capital appreciation bonds, and to an increase in long-term debt for capital leases.

**Capital Assets**

At June 30, 2006, MPS had \$1,019.8 million invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$41.7 million from the previous year. The increase came primarily in the area of buildings as the last of the Neighborhood School Initiative projects came on-line in fiscal year 2006. More detailed information can be found in Table 4 and in note 5 to the District's financial statements.

The beginning furniture and equipment balance was increased by \$24.2 million to reflect the addition of assets previously omitted. The assets are fully depreciated and, therefore, the accumulated depreciation account was increased by an equal amount.

**Table 4**

**MILWAUKEE PUBLIC SCHOOLS**

Change in Capital Assets  
(in thousands)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets:				
Land	\$ 31,461	\$ —	\$ —	\$ 31,461
Construction in progress	50,372	46,712	44,837	52,247
Buildings	811,338	44,837	—	856,175
Leasehold improvements	5,410	673	—	6,083
Furniture and equipment	54,269	386	6,849	47,806
Software	25,198	780	—	25,978
Total capital assets	<u>978,048</u>	<u>93,388</u>	<u>51,686</u>	<u>1,019,750</u>
Accumulated depreciation	<u>(369,774)</u>	<u>(22,524)</u>	<u>(6,443)</u>	<u>(385,855)</u>
Totals	<u>\$ 608,274</u>	<u>\$ 70,864</u>	<u>\$ 45,243</u>	<u>\$ 633,895</u>

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**Long-term Debt**

Long-term debt at June 30, 2006 was \$353.5 million. This represents a net decrease of \$0.2 million from the prior year. Issuances during the year were \$14.4 million, while retirements were \$14.7 million. Issuances included \$2.0 million of Qualified Zone Academy Bond debt, and \$12.4 million of capital lease obligations. This new debt was used to fund capital improvements at various MPS schools.

In fiscal year 2006 the District paid off the refinancing debt of \$0.7 million issued to retire the state trust fund loans in fiscal year 2003. The District also retired \$0.8 million of outstanding Americans with Disabilities Act (ADA) loans. Both the trust fund and ADA loans were issued for the purpose of bringing Milwaukee Public Schools into compliance with ADA regulations.

**Table 5**

**MILWAUKEE PUBLIC SCHOOLS**

Change in Long-term Debt and Capital Lease Obligations

(in thousands)

	<u>July 1, 2005</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Governmental activities:				
Refinancing for state trust fund loans	\$ 700	\$ —	\$ 700	\$ —
Americans with Disabilities Act loans	11,284	—	835	10,448
TEACH loan	10,236	—	1,829	8,408
Neighborhood School Initiative bonds (NSI)	113,197	—	100	113,097
Qualified Zone Academy bonds	11,357	2,021	2,129	11,249
Financial and Student Tracking note	5,057	—	1,331	3,727
Pension refinancing debt	170,695	—	4,247	166,448
Capital leases	30,150	12,415	3,000	39,565
Other intergovernmental debt	1,005	—	482	522
Total debt	<u>\$ 353,681</u>	<u>\$ 14,436</u>	<u>\$ 14,653</u>	<u>\$ 353,464</u>

TEACH loans also had net retirements. 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.

## **MILWAUKEE PUBLIC SCHOOLS**

### Management's Discussion and Analysis

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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 has been issued. The first tranche was issued in February 2002 in the amount of \$33,300,000. In November 2003, a second tranche of revenue bonds was sold in the amount of \$78,740,000.

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.

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

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 retired \$5.9 million of pension-related capital appreciation bonds.

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

### **FUND FINANCIAL STATEMENTS**

Milwaukee Public Schools has two major funds reported on the governmental fund statements. The major funds are the general fund and the construction fund.

- The general fund balance had an increase of \$9.2 million over the prior year. This increase is in large part the result of actual costs coming in lower than budgeted in the areas of health care and purchased services.
- The construction fund balance decreased by \$10.8 million due primarily to timing differences attributable to Neighborhood School Initiative projects. NSI bond proceeds were received in fiscal years 2003 and 2004, while spending on NSI projects continued into fiscal year 2006.

# MILWAUKEE PUBLIC SCHOOLS

## Management's Discussion and Analysis

June 30, 2006

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### Notes to Basic Financial Statements

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

### BUDGETARY HIGHLIGHTS

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

In May 2005, the MPS Board of School Directors (the Board) adopted the District's fiscal 2006 budget (July 1, 2005 – June 30, 2006). The adopted budget by necessity used a *projection* of the fiscal 2006 student enrollment. In October 2005, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2005, 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 more current information. The adopted budget, as amended, becomes the District's final budget.

In October 2005, the Board approved a revised 2006 fiscal year balanced budget in the amount of \$1,139,843,350. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,269,167,772.

General Fund revenues and expenditures both came within 1.3% of the adopted budget.

### Next Year's Budget

In October 2006, the MPS Board approved a revised 2007 general fund budget of \$1,070,337,176. This represents an increase of \$11 million over the revised 2006 general fund budget. The 2007 budget includes an increase in local property tax revenue of \$16.5 million. Encumbrances and carryovers are not included in this amount.

### Current Economic Facts and Academic Achievements

The state-imposed revenue limit rose 2% to \$856,132,542 in fiscal year 2007. State aids grew 1.4% to \$691,771,064 and the property tax levy increased 7.7% to \$230,345,991. Despite these increased revenues, higher costs and decline in enrollment forced the District to eliminate approximately 327 positions including those of principals, teachers, administrators, technicians, safety assistants, and clerical staff.

District enrollment declined 2% in the 2005-06 school year due to demographics and competition from both private and public schools. The Wisconsin State Legislature raised the maximum participation limit in the Milwaukee Parental Choice Program (school vouchers) which negatively impacted the Milwaukee Public Schools enrollment. As a result of the enrollment decline and excess building capacity, the MPS Board of School Directors closed six school facilities.

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## Management's Discussion and Analysis

June 30, 2006

(Unaudited)

Student poverty remains at a high level, with 3 of every 4 students eligible for free or reduced lunch. The Administration continues to identify viable solutions to address the many effects of poverty including a universal free breakfast program and the Milwaukee Student Health Initiative.

During the 2005-06 school year, many factors supported increased student achievement for Milwaukee's children including the efforts of the Milwaukee Partnership Academy, full deployment of the No Child Left Behind Act, the principal and literacy coach models, school learning teams, high school redesign, the capacity builders, and the District's core beliefs.

The District's results on the Wisconsin Knowledge and Concepts Examinations remained similar to the results of the previous year. In the subject areas assessed at Grades 4, 8, and 10, results rose in five areas, declined in six, and remained unchanged in four. In addition, the achievement gap, which is the difference in test scores between various groups of students, is still evident in MPS and across the state. MPS Superintendent William Andrekopoulos noted that the results show there is more work to do. He announced the launching of a new differentiated approach to improving student achievement and reducing achievement gaps. The differentiated approach concentrates on being "more prescriptive, more focused on improving instruction in our schools that continue to lag." The Superintendent also noted the District's recent creation of a booklet called *Characteristics of a High Performing Urban Classroom*. The booklet is a tool that outlines what a classroom can look like when educators are instructing to state standards.

### 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](http://www.milwaukee.k12.wi.us)**

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Net Assets

June 30, 2006

	<b>Governmental activities</b>
<b>Assets</b>	
Current assets:	
Cash and investments (note 2)	\$ 63,382,671
Accounts receivable, net (note 3)	10,799,765
Due from other governments (note 3)	60,248,210
Inventory (note 1(g))	707,411
Prepaid expenses (note 1(g))	29,052,922
Total current assets	<u>164,190,979</u>
Noncurrent assets:	
Restricted cash and investments (note 1(d))	51,763,041
Deposits for self-insurance (note 1(l))	3,080,846
Deferred charges—bond issuance costs (note 1(m))	2,792,999
Capital assets not being depreciated (note 5)	83,708,449
Capital assets being depreciated, net (note 5)	550,186,081
Total noncurrent assets	<u>691,531,416</u>
Total assets	<u>855,722,395</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable and other current liabilities	75,668,010
Accrued interest payable on long-term liabilities	3,135,040
Current portion of long-term obligations (note 7)	14,031,159
Total current liabilities	<u>92,834,209</u>
Noncurrent liabilities:	
Noncurrent portion of long-term obligations (note 7)	<u>376,648,005</u>
Total liabilities	<u>469,482,214</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	481,469,344
Restricted for debt service	1,796,177
Unrestricted	(97,025,340)
Total net assets	<u>\$ 386,240,181</u>

See accompanying notes to basic financial statements.



**MILWAUKEE PUBLIC SCHOOLS**

Statement of Activities

Year ended June 30, 2006

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net (expenses) revenues and changes in net assets</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>		<u>Capital grants and contributions</u>
Governmental activities:					
Instruction	\$ 664,463,808	9,925,797	204,453,803	9,759,824	(440,324,384)
Support services:					
Community services	23,270,780	1,906,234	9,864,927		(11,499,619)
Pupil and staff services	117,138,777	—	3,746,360	—	(113,392,417)
General, administration, and central services	112,657,972	—	—	—	(112,657,972)
Business services	155,889,203	103,409	3,511,831	—	(152,273,963)
School nutrition services	32,793,305	4,391,811	25,961,118	—	(2,440,376)
Interest on long-term debt	20,176,300	—	—	—	(20,176,300)
Other	346,361	—	—	—	(346,361)
Total support services	462,272,698	6,401,454	43,084,236	-	(412,787,008)
Total school district	\$ 1,126,736,506	16,327,251	247,538,039	9,759,824	(853,111,392)
General revenues:					
Taxes:					
Property taxes levied for general purposes					183,710,164
Property taxes levied for construction					13,237,040
Property taxes levied for debt service					8,843,502
Property taxes levied for community services					8,077,455
Federal and state aid not restricted to a specific purpose					
General (equalization aid)					586,498,521
Other					69,325,745
Interest and investment earnings					2,823,351
Total general revenues					872,515,778
Change in net assets					19,404,386
Net assets—Beginning of Year					366,835,795
Net assets—Ending of Year					\$ 386,240,181

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Balance Sheet

Governmental Funds

June 30, 2006

<b>Assets</b>	<b>General</b>	<b>Construction</b>	<b>School Nutrition Services</b>	<b>Nonmajor governmental funds</b>	<b>Total governmental funds</b>
Deposits with the City of Milwaukee and other cash (note 2)	\$ 37,631,808	25,750,863	—	—	63,382,671
Receivables, net:					
Accounts (note 3)	10,799,765	—	—	—	10,799,765
Due from other governmental units (note 3)	49,135,699	—	4,006,753	6,987,076	60,129,528
Due from other funds (note 4)	23,273,072	—	—	3,126,624	26,399,696
Total receivables	83,208,536	—	4,006,753	10,113,700	97,328,989
Restricted cash and investments (note 1(d))	31,973,503	19,789,538	—	—	51,763,041
Inventories (note 1(g))	707,411	—	—	—	707,411
Prepaid expenditures (notes 1(g))	29,052,922	—	—	—	29,052,922
Deposits for self-insurance (note 1(l))	3,080,846	—	—	—	3,080,846
Total assets	\$ 185,655,026	45,540,401	4,006,753	10,113,700	245,315,880
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 10,140,432	—	211,214	219,077	10,570,723
Contracts payable	1,385,814	5,461,370	—	—	6,847,184
Accrued salaries and wages	17,833,577	—	—	—	17,833,577
Deferred Revenue (note 1(j))	6,528,780	—	—	22,500	6,551,280
Accrued claims for self-insurance (note 9)	35,729,871	—	—	—	35,729,871
Accrued pension payable (note 10)	4,569,601	—	—	—	4,569,601
Other accrued expenditures	117,054	—	—	—	117,054
Due to other funds (note 4)	—	8,698,850	10,955,347	6,745,499	26,399,696
Total liabilities	76,305,129	14,160,220	11,166,561	6,987,076	108,618,986
Fund balances:					
Reserved for:					
Encumbrances	28,377,479	32,798,010	—	—	61,175,489
Inventories	707,411	—	—	—	707,411
Noncurrent receivables, self-insurance deposits and prepaid expenditures	37,133,768	—	—	—	37,133,768
School Nutrition	7,159,808	—	—	—	7,159,808
Unreserved:					
Designated by board for subsequent year's expenditures (note 8)	35,971,431	—	—	—	35,971,431
Undesignated, reported in:					
Capital projects fund	—	(1,417,829)	—	—	(1,417,829)
Special revenues funds	—	—	(7,159,808)	3,126,624	(4,033,184)
Total fund balances	109,349,897	31,380,181	(7,159,808)	3,126,624	136,696,894
Total liabilities and fund balances	\$ 185,655,026	45,540,401	4,006,753	10,113,700	245,315,880

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, 2006

Total fund balances—governmental funds		\$ 136,696,894
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		2,792,999
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	\$ 1,019,749,332	
Accumulated depreciation	<u>(385,854,802)</u>	
Net capital assets		633,894,530
Grant receivables that are not collected within 90 days after year-end are not considered to be available to pay for the current period's expenditures and, therefore, are deferred in the funds		6,669,962
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	(425,143,111)	
Bonds premium	(1,057,469)	
Discount on capital appreciation bonds	112,301,558	
Capital leases payable	(39,565,000)	
Accrued bond interest payable	(3,135,040)	
Compensated absences payable (vacation and sick leave)	(30,008,346)	
Workers' compensation claims payable	(4,310,578)	
Self-insurance claims payable	(626,930)	
Life insurance benefits and other long-term liabilities	<u>(2,269,288)</u>	
Total long-term debt liabilities		<u>(393,814,204)</u>
Total net assets—government activities		<u>\$ 386,240,181</u>

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, 2006

	<u>General</u>	<u>Construction</u>	<u>School Nutrition Services</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
<b>Revenues:</b>					
Property tax levy	\$ 191,722,666	13,237,640	—	8,843,502	213,803,808
Lunchroom sales	—	—	4,391,811	—	4,391,811
Other local sources	14,427,256	107,271	—	121,770	14,656,297
State aid:					
Equalization aid	586,498,521	—	—	—	586,498,521
Special classes	39,188,603	—	—	—	39,188,603
Integration	43,660,426	—	—	—	43,660,426
Other state aid	52,184,246	—	660,657	914,379	53,759,282
Federal aid:					
Education Consolidation Improvement Act	72,246,390	—	—	—	72,246,390
School nutrition services	—	—	25,961,118	—	25,961,118
Other federal aid	52,825,041	—	—	26,309,076	79,134,117
Intergovernmental aid from the City of Milwaukee	—	9,240,442	—	—	9,240,442
Interest and investment earnings	2,311,332	512,018	—	—	2,823,350
Total revenues	<u>1,055,064,481</u>	<u>23,097,371</u>	<u>31,013,586</u>	<u>36,188,727</u>	<u>1,145,364,165</u>
<b>Expenditures:</b>					
Instructional services:					
Undifferentiated curriculum	430,564,038	—	—	—	430,564,038
Regular and other curriculum	105,796,528	—	—	—	105,796,528
Special curriculum	108,748,090	—	—	4,622,080	113,370,170
Total instructional services	645,108,656	—	—	4,622,080	649,730,736
Community services					
Pupil and staff services	23,127,716	—	—	—	23,127,716
General and school building administration	93,314,147	—	—	21,808,766	115,122,913
Business services	111,227,914	—	—	—	111,227,914
School nutrition services	151,129,644	46,591,605	—	—	197,721,249
Debt service:	—	—	32,210,593	—	32,210,593
Principal	12,002,475	—	—	6,823,926	18,826,401
Interest	9,104,965	1,693,601	—	3,848,334	14,646,900
Other	799,375	—	—	—	799,375
Total expenditures	<u>1,045,814,892</u>	<u>48,285,206</u>	<u>32,210,593</u>	<u>37,103,106</u>	<u>1,163,413,797</u>
Excess of revenues over (under) expenditures	<u>9,249,589</u>	<u>(25,187,835)</u>	<u>(1,197,007)</u>	<u>(914,379)</u>	<u>(18,049,632)</u>
<b>Other financing sources (uses) (note 7):</b>					
Proceeds from qualified zone academy bonds	—	2,021,000	—	—	2,021,000
Proceeds from capital leases	—	12,415,000	—	—	12,415,000
Total other financing sources (uses), net	<u>—</u>	<u>14,436,000</u>	<u>—</u>	<u>—</u>	<u>14,436,000</u>
Net change in fund balances	9,249,589	(10,751,835)	(1,197,007)	(914,379)	(3,613,632)
<b>Fund balances:</b>					
Beginning of year	100,100,308	42,132,016	(5,962,801)	4,041,003	140,310,526
End of year	<u>\$ 109,349,897</u>	<u>31,380,181</u>	<u>(7,159,808)</u>	<u>3,126,624</u>	<u>136,696,894</u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**  
Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures, and Changes in Fund Balances to the Statement of Activities  
Year ended June 30, 2006

Net change in fund balances—total governmental funds	\$	(3,613,632)
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	\$	48,550,793
Depreciation expense reported in the statement of activities:		<u>(22,524,108)</u>
Amount by which capital outlays are greater than depreciation in the current period		26,026,685
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets		(406,046)
Because some grants will not be collected for several months after the District's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds		776,726
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.		
Debt issued:		
Bonds and notes		(14,436,000)
Repayments:		
Bonds and notes		<u>18,826,401</u>
Net adjustment		4,390,401
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		(1,192,949)
Accretion of interest on capital appreciation bonds		(4,273,229)
Amortization of bond premium		99,884
Amortization of bond issuance costs		(163,105)
Net increase in compensated absences payable (vacation and sick pay)		(173,056)
Net increase in workers' compensation claims payable		(2,423,756)
Net decrease in general insurance claims payable		113,377
Net decrease in life insurance benefits payable		<u>243,086</u>
Net adjustment		<u>(7,769,748)</u>
Change in net assets of governmental activities	\$	<u><u>19,404,386</u></u>

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Fiduciary Net Assets

June 30, 2006

<b>Assets</b>	<b>Pension trusts</b>	<b>Private purpose trust</b>	<b>Agency</b>
	<hr/>	<hr/>	<hr/>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	605,798	5,196,667
Investments (note 2)	130,476,225	1,412,640	—
Receivables	140,322	—	—
	<hr/>	<hr/>	<hr/>
Total assets	130,616,547	2,018,438	5,196,667
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Accounts payable	1,287,474	—	—
Due to student organizations	—	—	5,196,667
	<hr/>	<hr/>	<hr/>
Total liabilities	1,287,474	—	5,196,667
	<hr/>	<hr/>	<hr/>
<b>Net Assets</b>			
Held in trust for:			
Supplemental pension benefits	129,329,073	—	—
Endowments	—	2,018,438	—
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 129,329,073	2,018,438	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS**

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2006

	<b>Pension trusts</b>	<b>Private purpose trust</b>
Additions:		
Employer contributions	\$ 20,288,863	—
Participants contributions	291	—
Private donations	—	457,246
Interest income	—	21,106
Investment income, net of expenses	12,087,880	—
Total additions	32,377,034	478,352
Deductions:		
Benefits paid to participant's or beneficiaries	15,165,328	—
Distribution of participant contribution accounts	514,270	—
Administrative expenses	230,051	—
Scholarships and awards	—	313,074
Total deductions	15,909,649	313,074
Changes in net assets	16,467,385	165,278
Net assets—beginning of year	112,861,688	1,853,160
Net assets—end of year	\$ 129,329,073	2,018,438

See accompanying notes to the basic financial statements.

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

### (1) Summary of Significant Accounting Policies

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

#### (a) Reporting Entity

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

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

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

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

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

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



# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

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

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

**(b) Basis of Presentation**

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

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor governmental funds:

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

TEACH Wisconsin Programs

Categorically Aided Programs

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

Additionally, the District reports the following fund types:

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

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

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

(c) ***Measurement Focus and Basis of Accounting***

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

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

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

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

**(d) *Restricted Cash and Investments***

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

**(e) *Receivables***

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

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

**(f) *Investments***

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

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

**(g) *Inventories and Prepaid Items***

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

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

**(h) Capital Assets**

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

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

**(i) Property Taxes**

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

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

**(j) Deferred Revenue**

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

**(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 \$3,080,846 at June 30, 2006 to provide for payment of future claims.

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

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

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

**(n) *Net Assets***

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

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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

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

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

**(o) *Fund Balance Reservations and Designations***

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

- Reserve—The fund balance indicates the portion of the fund balance that has been legally segregated for specific purposes.
- Unreserved—The designated fund balance indicates the portion of the fund balance for which the District has made tentative plans.
- Unreserved—The undesignated fund balance indicates the portion of the fund balance that is available for use in future periods.

**(p) *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses/expenditures for the reporting period. Actual results could differ from those estimates.

**(q) *New Accounting Pronouncements***

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 44 which establishes guidance for the reporting of the statistical section of a government’s comprehensive annual financial report (CAFR). Standards that previously addressed the contents of a government’s statistical section were in place since 1980 without significant change or modification. The new standards are intended to improve consistency and comparability in reporting, to reflect the significant changes that have taken place in government finance, including GASB Statement No. 34 and to provide clear guidance regarding the applicability of the standards for the statistical section among all types of governmental entities. The requirements of this statement have been implemented for the statistical section of the District’s 2006 CAFR.

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

The District is currently analyzing the impact of adopting this new standard. The District will implement Statement No. 45 during the year ended June 30, 2008.

**(2) Deposits and Investments**

**District's Deposits and Investments, Exclusive of Pension Trusts**

	Carrying Value	Bank Balance
Cash at the City	\$ 58,954,346	\$ 58,954,346
Demand deposits	7,308,980	6,113,391
Repurchase Agreement	3,000,000	21,893,938
Money market funds	39,490,170	41,856,951
U.S. Treasury Notes	10,598,655	12,666,978
U.S. Treasury Strips	2,395,951	2,395,951
Mortgage-backed securities	592,715	592,715
Certificate of Deposit	20,000	20,000
Total Cash and Investments	\$ 122,360,817	\$ 144,494,270
Reconciliation to financial statements		
Per statement of net assets		
Unrestricted cash and investments	\$ 63,382,671	
Restricted cash and investments	51,763,041	
Per statement of net assets – Fiduciary Funds		
Private purpose trust	2,018,438	
Agency	5,196,667	
Total Cash and Investments	\$ 122,360,817	

**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.



**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

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

The District has funds invested in overnight repurchase agreements, money market funds, U.S. Treasury notes, U.S. Treasury strips, mortgage-backed securities, and certificates of deposit. The overnight repurchase agreements have underlying securities of U.S. agency instruments with an implied triple-A credit rating. Of the \$41,856,951 invested in money market funds, \$24,136,428 is invested in U.S. Treasury securities with an implied triple-A credit rating, while the remaining \$17,720,523 is invested in an institutional money market fund also with a triple-A rating. The District's \$2,395,951 investment in U.S. Treasury strips has an implied triple-A credit rating. The \$592,715 invested in mortgage-backed securities is rated triple-A.

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

As of June 30, 2006 the District had the following investments, shown with their maturities.

	<b>Maturities (in Years)</b>			
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>
Repurchase Agreement	\$ 21,893,938	\$ 21,893,938		
Money market funds	41,856,951	41,856,951		
U.S. Treasuries	12,666,978	11,930,609	736,369	
U.S. Treasury strips	2,395,951	215,592	580,242	1,600,116
Mortgage-backed securities	592,715	49,631	543,084	
	<u>\$ 79,406,533</u>			

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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was \$28,007,329, of which \$21,893,938 was invested in overnight repurchase agreements. Of the \$28,007,329 bank balance, \$5,954,746 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit Guarantee Fund, \$21,393,938 was uninsured and collateralized at 125% by the bank, and \$658,645 was uninsured and uncollateralized and outside of the District's collateralization policy.

Funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund. Per Common Council the City Treasurer shall require collateralization of certificates of time deposit (excluding interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of \$500,000. Milwaukee Public schools exposure to custodial credit risk due to its deposits with the City Treasurer for investments that are neither insured nor collateralized is approximately \$2,000 on June 30, 2006.

#### **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 Core Income, with the remainder of the portfolio allocated to the SWIB Core Fund.

The Policy target for Core Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; (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 2006, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp (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

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

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, 2006.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	37% of the combined SWIB funds are invested in the fixed income by investment type with durations ranging from 0.11 to 9.6 years. Additional detail on the SWIB fixed income investments is included below.	\$ 37,225,037
Money market accounts	41 days	\$ 1,049,556
U.S. Treasury notes, agency securities and Government Bonds	5.21 years	\$ 4,049,539
Mortgage-backed securities	3.71 years	\$ 204,860
Non-government obligations	4.79 years	\$ 2,176,923

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

<u>SWIB Investments</u>	<u>Modified Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	3.3	\$161 Million
Asset Backed Securities	N/A	\$ 5 Million
Certificate of Deposit	0.4	\$451 Million
Certificate of Deposit	N/A	\$ 10 Million
Commerical Paper	0.1	\$1,997 Million
Commerical Paper	N/A	\$11 Million
Corporate Bonds	3.6	\$3,341 Million
Corporate Bonds	N/A	\$ 2 Million
Government Agency	3.2	\$697 Million
Mortgages	2.6	\$344 Million
Municipalities	9.6	\$4 Million
Pooled Investments	30 days to 6.7 years	\$11,896 Million
Private Debt	3.7	\$616 Million
Private Debt	N/A	\$ 1 Million
Repurchase Agreements	0.008	\$ 894 Million
Sovereign Debt	5.5	\$ 3,373 Million
Sovereign Debt	N/A	\$ 6 Million
United States Treasuries	7.8	\$3,765 Million

Note: On June 30, 2006, SWIB's Core Fund and Variable Fund had \$68.8 billion and \$6.4 billion in assets, respectively. The Plan had a smaller percentage of its assets in the SWIB Core Fund than SWIB had in its Core Fund as a percentage of the combined SWIB funds. Consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted above. As of June 30, 2006, the Plan's assets were invested 59% in the SWIB Core Fund, 24% in the SWIB Variable Fund, and 17% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

#### **B. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I Investment Management Corp on June 30, 2006. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	9%	14%
AAA	40%	59%
AA	9%	8%
A	21%	12%
BBB	3%	6%
BB	2%	1%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	15%	0%

\*As defined by Moody's Bond Ratings

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

#### **C. Custodial Credit Risk**

The retirement funds do not have a deposit or investment policy specifically related to custodial credit risk.

*Deposits* - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2006, SWIB had uninsured and uncollateralized deposits totaling \$98.2 million that were held in foreign currencies in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$259.7 million, all of which were uncollateralized and uninsured. In total, these deposits represented 0.5% of the combined assets of the SWIB Core and Variable Funds.

*Investments* - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of an investment or collateral securities that are in the possession of a third party. As of June 30, 2006, SWIB held 13 tri-party repurchase agreements totaling \$894.2 million. SWIB's securities lending collateral account and cash management account participate in repurchase

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

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 1.2% of the combined assets of the SWIB Core and Variable Funds.

#### **D. Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a fund's investment in a single issuer. SWIB limits concentrations of credit risk by establishing investment guidelines for individual portfolios or groups of portfolios 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, 2006, \$10.4 billion of the SWIB Core and Variable Funds' \$76.2 billion in currency exposure was denominated in foreign currency. For the other separately managed portfolios, there was no foreign currency exposure.

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

#### **Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

The Trustees of the Plan have adopted a Statement of Investment Policy (the "Policy"). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds ("SWIB funds"), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments 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, 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 2006, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the "Fund") has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I Investment Management Corp (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, 2006.

<u>Investment</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	37% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.11 to 9.6 years. Additional detail on the SWIB fixed income investments is included below.	\$ 78,829,947
Money market accounts	41 days	\$ 3,363,559
U.S. Treasury notes, agency securities and Government Bonds	3.63 years	\$ 2,249,569
Mortgage-backed securities	1.61 years	\$ 115,719
Non-government obligations	3.04 years	\$ 1,211,514

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

<u>SWIB Investments</u>	<u>Modified Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	3.3	\$161 Million
Asset Backed Securities	N/A	\$ 5 Million
Certificate of Deposit	0.4	\$451 Million
Certificate of Deposit	N/A	\$ 10 Million
Commerical Paper	0.1	\$1,997 Million
Commerical Paper	N/A	\$11 Million
Corporate Bonds	3.6	\$3,341 Million
Corporate Bonds	N/A	\$2 Million
Government Agency	3.2	\$697 Million
Mortgages	2.6	\$344 Million
Municipalities	9.6	\$4 Million
Pooled Investments	30 days to 6.7 years	\$11,896 Million
Private Debt	3.7	\$616 Million
Private Debt	N/A	\$ 1 Million
Repurchase Agreements	0.008	\$ 894 Million
Sovereign Debt	5.5	\$ 3,373 Million
Sovereign Debt	N/A	\$ 6 Million

Note: On June 30, 2006, SWIB's Core Fund and Variable Fund had \$68.8 billion and \$6.4 billion in assets, respectively. The Plan had a smaller percentage of its assets in the SWIB Core Fund than SWIB had in its Core Fund as a percentage of the combined SWIB funds. Consequently, its percentage of SWIB Funds in fixed income is lower than the percentage noted above. As of June 30, 2006, the Plan's assets were invested 80% in the SWIB Core Fund, 12% in the SWIB Variable Fund, and 8% in portfolios managed by M&I Investment Management Corp (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 Investment Management Corp (M&I) on June 30, 2006. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.



## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

<u>Ratings*</u>	<u>SWIB</u>	<u>M&amp;I</u>
P-1	9%	48%
AAA	40%	33%
AA	9%	11%
A	21%	6%
BBB	3%	2%
BB	2%	0%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Not-Rated	15%	0%

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

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*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 an investment or collateral securities that are in the possession of a third party. As of June 30, 2006, SWIB held 13 tri-party repurchase agreements totaling \$894.2 million. 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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

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 1.2% of the combined assets of the SWIB Core and Variable Funds.

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#### **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, 2006, \$10.4 billion of the SWIB Core and Variable Funds' \$76.2 billion in currency exposure was denominated in foreign currency. For the other separately managed portfolios, there was no foreign currency exposure.

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

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Notes to Basic Financial Statements

June 30, 2006

**(3) Receivables**

Receivables as of June 30, 2006 for the District’s individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General fund</u>	<u>School Nutrition Services fund</u>	<u>Nonmajor fund</u>	<u>Total</u>
Receivables:				
Accounts	\$ 10,923,996	—	—	10,923,996
Intergovernmental-federal	37,787,677	4,006,753	6,987,076	48,781,506
Intergovernmental-state	<u>11,348,022</u>	<u>—</u>	<u>—</u>	<u>11,348,022</u>
Gross receivables	60,059,695	4,006,753	6,987,076	71,053,524
Less allowance for uncollect	<u>(124,231)</u>	<u>—</u>	<u>—</u>	<u>(124,231)</u>
Total receivables, net	<u>\$ 59,935,464</u>	<u>4,006,753</u>	<u>6,987,076</u>	<u>70,929,293</u>

**(4) Interfund Transactions**

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

The following balances as of June 30, 2006 represent due to/from balances among all funds:

	<u>Due from other funds</u>			
	<u>General fund</u>	<u>Construction fund</u>	<u>Nonmajor fund</u>	<u>Total</u>
Due to other funds:				
Construction fund	\$ 8,698,850	—	—	8,698,850
Nutrition fund	10,955,347	—	—	10,955,347
Nonmajor funds	<u>6,745,499</u>	<u>—</u>	3,126,624	<u>9,872,123</u>
Total	<u>\$ 26,399,696</u>	<u>—</u>	<u>3,126,624</u>	<u>29,526,320</u>

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005 (Restated)</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 31,460,885	—	—	31,460,885
Construction in progress	<u>50,372,420</u>	<u>46,712,036</u>	<u>44,836,892</u>	<u>52,247,564</u>
Total capital assets, not being depreciated	<u>81,833,305</u>	<u>46,712,036</u>	<u>44,836,892</u>	<u>83,708,449</u>
Capital assets, being depreciated:				
Buildings	811,338,280	44,836,892	—	856,175,172
Leasehold improvements	5,409,819	673,033	—	6,082,852
Furniture and equipment	54,268,562	385,954	6,849,122	47,805,394
Software	<u>25,197,695</u>	<u>779,770</u>	<u>—</u>	<u>25,977,465</u>
Total capital assets, being depreciated	<u>896,214,356</u>	<u>46,675,649</u>	<u>6,849,122</u>	<u>936,040,883</u>
Less accumulated depreciation for:				
Buildings	(306,555,634)	(17,070,787)	—	(323,626,421)
Leasehold improvements	(465,495)	(254,880)	—	(720,375)
Furniture and equipment	(48,185,941)	(1,412,457)	(6,443,076)	(43,155,322)
Software	<u>(14,566,700)</u>	<u>(3,785,984)</u>	<u>—</u>	<u>(18,352,684)</u>
Total accumulated depreciation	<u>(369,773,770)</u>	<u>(22,524,108)</u>	<u>(6,443,076)</u>	<u>(385,854,802)</u>
Total capital assets, being depreciated	<u>526,440,586</u>	<u>24,151,541</u>	<u>406,046</u>	<u>550,186,081</u>
Capital assets, net	<u>\$ 608,273,891</u>	<u>70,863,577</u>	<u>45,242,938</u>	<u>633,894,530</u>

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

The balances as of July 1, 2005 have been restated to properly reflect fully depreciated furniture and equipment figures that were previously excluded.

Depreciation expense for governmental activities for the year ended June 30, 2006 was charged to functions/programs as follows:

Governmental activities:		
Instruction	\$	14,271,856
Community services		390,842
Pupil and staff services		2,550,688
General, administration and central services		1,520,192
Business services		3,109,760
School nutrition		596,397
Other		84,373
		<hr/>
Total depreciation	\$	<u>22,524,108</u>

**(6) Short-term Borrowings**

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$182,000,000 in August 2005. These notes were issued with interest rates of 5%, priced to yield 2.97%. The notes matured September 2006. The debt was repaid during June 2006 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, 2006 totaled \$450,490,823. Of this total, \$97,026,801 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 \$353,464,022 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
Refinancing for state trust loans, 4.5% to 5.75%, due in annual installments through March 2006	\$ 15,000,000	700,199	—	700,199	—	—
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual install- ments to December 2007	2,000,000	690,000	—	220,000	470,000	230,000
3.5% – 4.25%, due in annual install- ments to December 2008	605,000	272,250	—	63,525	208,725	66,550
4.75% – 5.375%, due in annual install- ments to June 2009	300,000	180,000	—	20,000	160,000	20,000
4.74% – 5.625%, due in annual install- ments to September 2015	2,000,000	1,466,336	—	133,304	1,333,032	133,304
3.59%, due in annual installments to September 2016	3,095,000	2,063,016	—	206,492	1,856,524	206,492
3.74%, due in annual installments to March 2017	1,205,000	562,637	—	80,446	482,191	80,446
4.0 – 5.0%, due in annual installments to September 2017	660,000	527,964	—	44,042	483,922	44,042
4.0 – 5.0%, due in annual installments to February 2019	350,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	603,000	—	67,000	536,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	4,582,676	—	—	4,582,676	—
TEACH loan, 5.0%, due in annual install- ments to March 2012	15,144,033	10,236,484	—	1,828,758	8,407,726	1,896,260
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to August 2023	112,040,000	112,040,000	—	—	112,040,000	—
Plus: Premium on issuance	1,357,121	1,157,353	—	99,884	1,057,469	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	18,240,000	11,356,780	2,021,000	2,129,354	11,248,426	2,428,943
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to September 2008	8,000,000	5,057,420	—	1,330,806	3,726,614	1,330,806
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	45,895,000	—	8,520,000	37,375,000	—
Less: Discount	(25,232,986)	(23,338,237)	—	(3,157,330)	(20,180,907)	—
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)	(93,236,550)	—	(1,115,899)	(92,120,651)	—
Pension bonds, variable interest rate “index-linked”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Other intergovernmental notes	4,437,000	1,004,750	—	482,475	522,275	232,450
Capital lease—MEC/Grand Avenue & CCF	46,890,000	30,150,000	12,415,000	3,000,000	39,565,000	3,095,000
Total intergovernmental cooperation agreement debt		\$ 353,681,078	14,436,000	14,653,056	353,464,022	9,831,293

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2006</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 353,681,078	14,436,000	14,653,056	353,464,022	9,831,293
Accrued compensated absences	29,835,290	7,675,004	7,501,948	30,008,346	1,993,152
Workers' compensation claims	1,886,822	5,409,067	2,985,311	4,310,578	1,835,730
General insurance claims	740,307	525,612	638,989	626,930	46,456
Life insurance benefits	2,227,323	—	243,086	1,984,237	324,528
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	<u>\$ 388,655,871</u>	<u>28,045,683</u>	<u>26,022,390</u>	<u>390,679,164</u>	<u>14,031,159</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the general fund.

The District has recognized a liability of approximately \$1.8 million as of June 30, 2006. Accordingly, the total liability for workers' compensation claims was approximately \$6.1 million.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2007	\$ 6,736,291	13,086,476	19,822,767
2008	7,632,897	12,920,132	20,553,029
2009	8,030,532	12,714,830	20,745,362
2010	6,568,455	12,508,828	19,077,283
2011	6,547,189	12,327,972	18,875,161
2012 – 2016	40,988,118	58,300,100	99,288,218
2017 – 2021	64,744,631	50,353,049	115,097,680
2022 – 2026	62,880,000	38,029,489	100,909,489
2027 – 2031	49,780,001	27,624,575	77,404,576
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	<u>\$ 425,143,115</u>	<u>268,577,396</u>	<u>693,720,511</u>

Interest on the \$130,850,000 variable rate pension debt (index-linked bonds) included in the schedule of future payments on the previous page is based upon the one-month LIBOR rate (the London Interbank Offered Rate) plus 25 basis points (.25%) and is adjusted monthly. The interest rate was 5.36% as of June 30, 2006.

The District leases land and buildings with a historical cost and accumulated amortization of \$41,472,061 and \$2,990,167, respectively, under capital lease arrangements. The District is also holding approximately \$7.0 million of restricted cash and investments under capital lease

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

arrangements. Future minimum lease payments under these capital leases at June 30, 2006 are as follows:

Fiscal year ended June 30:		
2007	\$	4,435,134
2008		4,575,872
2009		4,900,110
2010		4,896,685
2011		4,899,679
2012 – 2016		16,659,512
2017 – 2021		4,921,512
2022 – 2026		4,878,017
Total minimum lease payments		50,166,521
Less amount representing interest		<u>(10,601,521)</u>
Present value of minimum lease payments	\$	<u><u>39,565,000</u></u>

The maximum allowable amount of City debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City (Wisconsin State Statute Chapter 67.03). Wisconsin State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City for calendar year 2006 was \$30,206,877,901 and the 5% debt limit was \$1,510,343,895. No referendum-approved debt is outstanding at June 30, 2006.

***Debt***

On July 7, 2005, the District converted its \$130,850,000 of variable rate pension debt from auction rate securities to index-linked bonds. The conversion results in the interest rates being reset once a month to 1-Month LIBOR plus 0.25% (25 basis points) compared to being reset at auction every 35 days. The primary purpose of the conversion was to enable the District to eliminate Basis Risk. The conversion also enables the District to achieve an estimated savings of \$5.3 million (present value \$3.5 million) by eliminating a 25 basis point broker fee for the auctions of the auction rate securities.

Projected cash flow for old debt with auction rate securities	\$ 504,150,285
Projected cash flow for new debt with index-linked bonds	<u>498,874,731</u>
Projected net savings from conversion	<u><u>\$ 5,275,554</u></u>



# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

June 30, 2006

### *Interest Rate Swap Agreement*

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

*Terms.* The bonds and the related swap agreements mature on October 1, 2043 and the swap's aggregate notional amount of \$130,850,000 matches the \$130,850,000 par amount of variable-rate bonds. The swaps were entered into at the same time the bonds were issued in December 2003, and continue to remain in effect after the conversion to index-linked bonds on July 7, 2005. Starting in fiscal year 2024, the notional value of the swap and the principal amount of the bonds decline until the debt is completely retired. Under the swap agreements, the District pays the counterparty a fixed payment of 5.56% and receives a variable payment computed as the London Interbank Offered Rate (LIBOR) plus 20 basis points (0.20%). Conversely, the District pays the bond's index-linked coupon rate of LIBOR plus 25 basis points (0.25%).

	<u>Terms</u>	<u>Rates</u>
Interest rate swap (as of 6/30/2006):		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	<u>(5.31)%</u>
Net interest rate swap payments		0.25%
Index-linked bond coupon payments	LIBOR + 25 bps	<u>5.36%</u>
Synthetic interest rate on bonds		<u>5.61%</u>

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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*Fair value.* As of June 30, 2006, the swaps had an aggregate positive fair value of \$6,976,865 because interest rates have increased since execution of the swaps. The swap's positive fair value may be countered by increases in total interest payments required on the index-linked bonds. Because the coupons on the index-linked bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

*Credit risk.* As of June 30, 2006, the District had \$6,976,865 of credit risk exposure because the swaps had a positive fair value. The swap counterparties were rated Aa3/A+/AA- and A1/A+/A+ by Moody's Investor Service, Standard & Poor's, and Fitch Ratings, respectively. To mitigate the potential for credit risk, if the Aa3/A+/AA- counterparty's credit quality falls below Aa3 by Moody's Investor Service, AA- by Standard & Poor's, and AA- by Fitch Ratings, the fair value of the swap above \$100,000 will be fully collateralized by the counterparty. The obligation of the A1/A+/A+ counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

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

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

*Swap payments and associated debt.* Using rates as of June 30, 2006, 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 bond interest payments and net swap payments will vary.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

	<b>Variable-rate bonds</b>		<b>Interest rate swaps, net</b>	<b>Total</b>
	<b>Principal</b>	<b>Interest</b>		
Fiscal year ended June 30:				
2007	\$ —	7,012,330	328,355	7,340,685
2008	—	7,012,330	328,355	7,340,685
2009	—	7,012,330	328,355	7,340,685
2010	—	7,012,330	328,355	7,340,685
2011	—	7,012,330	328,355	7,340,685
2012 – 2016	—	35,061,650	1,641,775	36,703,425
2017 – 2021	—	35,061,650	1,641,775	36,703,425
2022 – 2026	18,825,000	33,716,526	1,578,789	54,120,315
2027 – 2031	31,250,000	26,109,787	1,222,601	58,582,388
2032 – 2036	31,250,000	17,736,256	830,507	49,816,763
2037 – 2041	31,000,000	9,393,986	439,877	40,833,863
2042 – 2045	18,525,000	1,486,469	69,604	20,081,073
Totals	\$ <u>130,850,000</u>	<u>193,627,974</u>	<u>9,066,703</u>	<u>333,544,677</u>

**(8) Fund Balance**

**Designated for Subsequent Year's Expenditures**—The unreserved fund balance of the general fund is \$35,971,431 at June 30, 2006. This unreserved balance includes \$82,866,391 designated to partially fund school operating expenditures during the period July 1 through December 31, 2006.

Based on recent operating experience, management anticipates that approximately \$447,117,000 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2006. In addition to the fund balance designated for subsequent year's expenditures, approximately \$315,922,000 of state aids will be used to fund operating expenditures through December 31, 2006.

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

The formula established by this action, and the application thereof as of June 30, 2006, is as follows:

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

General fund unreserved fund balance	\$ 35,971,431
Amount required to fund six months of the subsequent year's property tax levy:	
Current year's school operations tax levy (\$197,300,931) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (75) to total calendar school year days (180)	<u>82,866,391</u>
General fund undesignated fund balance deficiency	\$ <u><u>(46,894,960)</u></u>

**(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 exclusive provider organization (EPO) plan. The District purchases stop-loss insurance for its self-insured exclusive provide 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, and excess liability insurance. The District assumes a \$250,000 self-insured retention for any one loss or occurrence under its self-insured general liability program. The District purchases excess liability insurance for its general liability that provides per-occurrence and aggregate protection. The District is fully self-insured for environmental-related liabilities and purchases no excess environmental liability insurance.

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

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

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

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Beginning of year liability	\$ 38,074,244	41,601,617
Current year claims and changes in estimate	199,328,770	184,190,756
Claim payments	(196,037,800)	(187,718,129)
End of year liability	\$ 41,365,214	38,074,244

The District has recognized the liability for health and dental insurance, which totaled \$32,322,688 and \$32,060,496 as of June 30, 2006 and 2005, respectively, in the general fund. The District has also recognized a liability of \$1,835,730 and \$874,245 as of June 30, 2006 and 2005, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. 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 employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.8% of their salaries to the plan for calendar year 2005. The District pays all employer and principally all employee (with the exception of some substitute teachers) required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2005 was \$386,929,000; the District's total payroll was \$535,292,000. The total required contribution for the year ended December 31, 2005 was \$39,467,000, which consisted of \$17,025,000, or 4.4% of payroll, from the District and \$22,442,000, or 5.8% 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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

contribution. Total contributions for the years ending December 31, 2004 and 2003 were \$38,718,000 and \$44,561,000, respectively, equal to the required contributions for each year.

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

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

The WRS uses the "frozen initial liability actuarial valuation method" in establishing employer contribution rates. Under this method, the unfunded actuarial accrued liability (pension-related debt) is affected only by the monthly amortization payments, compounded interest, the added liability created by new employer units, and any liabilities caused by changes in benefit provisions. All actuarial gains and losses arising from the difference between actual and assumed experience are reflected in the determination of the normal cost. Employer's pension-related debt for prior service cost was being amortized over a 40-year period beginning January 1, 1990. As per WRS's annual financial report—GASB Statement No. 27 note disclosure for the year ended December 31, 2003, the District's pension-related debt to the WRS for the unfunded accrued actuarial liability for prior service has been paid in full. The payoff resulted from issuance of \$168.051 million pension bonds by the District through the Redevelopment Authority of the City and the City.

**Employees' Retirement System of the City of Milwaukee**—All eligible District employees (classified employees, principally non-teachers) participate in the Employees' Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City charter. Due

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Basic Financial Statements

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to the global pension settlement, employees eligible for enrollment on or after January 1, 2000 may consent to the global pension settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the global pension settlement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District's employees covered by the System for the year ended December 31, 2005 was \$108,807,331; the District's total payroll was \$535,292,000. The total required contribution including retroactive adjustments for the year ended December 31, 2005 was \$6,089,000, or 5.6% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2004 and 2003 were \$6,316,000 and \$6,512,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 60, or who retire at age 55 and have completed 30 years of creditable service, are entitled to receive a retirement benefit. The System provides a service retirement benefit equal to 2% of the member's final average salary times the total number of years of all creditable service, limited to 70% of final average salary. Benefits are fully vested upon completion of four years of service. All active employees as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement or death to employee's beneficiary. Active employees enrolled between January 1, 2000 and June 27, 2000 and who consent to the global pension settlement or enrolled on or after June 28, 2000 shall make a biweekly employee contribution of 1.6% of their pensionable earnings to pay for their cost of living adjustment (COLA) improvement upon completion of the first eight years of employment. The COLA shall be 1.5% annually beginning after the 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> anniversary after retirement and 2% after the 6<sup>th</sup> 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 City, City Hall, 200 East Wells Street, Room 603, Milwaukee, WI 53202-3567.

### *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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

Administrators and Supervisors Council, Inc. (ASC). Eligibility for, and the amount of all benefits, is determined under the provisions of the plan document. The plan is administered by an administrative committee under the direction of the Milwaukee Board of School Directors (MBSD).

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

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. For Plan years, effectively July 1, 2003, vesting under the Plan is modified to be three years of service as a covered employee and eight or more years of vesting service. The plan provides for unreduced benefits at age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to 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. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the plan's actuary was \$6,326,664, of which a \$937,750 gain was allocated in fiscal years 2006 and 2005. In the meantime, benefits continue to be paid by the plan and adjusted (reduced) to reflect Wisconsin Act 11. The total actuarial gain allocated was \$4,688,750 as of June 30, 2006.

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

- 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.



## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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- Eliminate employee contributions to the ASC plan.
- Close the ASC plan to anyone who is not a covered employee as of June 30, 2003 and previous employees that are rehired after June 30, 2003.
- Eliminate the suspension of benefits provision in the ASC plan and replace it with a new provision that suspends benefits paid from the ASC plan if the retired annuitant is rehired as a covered employee and elects to participate as an active employee under the WRS.

The amendments to the ASC plan have been incorporated into 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 and an increase to the fiscal years 2006 and 2005 required District (employer) contributions of \$737,000 per year.

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.

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

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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

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

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

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

Two separate portfolios of U.S. Government obligations were purchased at an average yield rate of 13% and 9.25% to be used to closely match and fund the expected vested benefit payments to certain retired participants receiving benefits as of July 1, 1984 and July 1, 1989, respectively. Effective July 1, 2003, the 1984 Dedicated Fund was unwound and the assets were transferred to the Non-Dedicated Fund. All benefits under the 1984 Dedicated Fund shall be paid from the Non-Dedicated Fund. The liability for the actuarial present value of the future plan benefits for the July 1, 1989 group of participants reflects the 9.25% interest rate and is matched to the assets dedicated to pay these future plan benefits. As of June 30, 2006, all 1984 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

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

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

who first became participants before July 1, 1997, are vested upon participation. Employees who first became participants on or after July 1, 1997, are vested after being employed by the District for at least 15 years after July 1, 1997, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55<sup>th</sup> 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).

During the year ended June 30, 2004, the District implemented a negotiated settlement of changes to the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (the ASC Plan). Accordingly, the MBSD adopted the restated ASC Plan at its June 2004 regular meeting. The restated ASC Plan includes amendments that transfer the Plan benefits to be paid from the ASC Plan for those covered employees who have prior MPS teaching service and are eligible to receive a benefit from the Plan. At the time of retirement, these individuals elect to receive either the Plan benefit or the ASC Plan benefit payable from the ASC Plan. The District does not anticipate any significant cost impact to the Plan as a function of the negotiated changes to the ASC Plan.

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 PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

**(b) Annual Pension Costs and Actuarial Assumptions Used**

The District's annual pension costs for the year ended June 30, 2006 and related actuarial assumptions used for the current year and related information for each plan is as follows:

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
	<u>Plan</u>	<u>Teachers</u>	<u>Total</u>
Contribution rates as a percentage of payroll:			
District	7.556%	4.184%	
Plan participants	—	—	
Annual required contribution	\$ 2,814,526	13,440,927	16,255,453
Interest on net pension obligation	—	—	—
Adjustment to annual required contribution	—	—	—
	<u>2,814,526</u>	<u>13,440,927</u>	<u>16,255,453</u>
Annual pension cost	2,814,526	13,440,927	16,255,453
Contributions made	<u>3,550,892</u>	<u>16,723,465</u>	<u>20,274,357</u>
	<u>(736,366)</u>	<u>(3,282,538)</u>	<u>(4,018,904)</u>
Increase (decrease) in net pension obligation	(736,366)	(3,282,538)	(4,018,904)
Net pension obligation (prepayment), beginning of year	<u>(2,168,000)</u>	<u>(10,207,000)</u>	<u>(12,375,000)</u>
Net pension obligation (prepayment), end of year	\$ <u><u>(2,904,366)</u></u>	<u><u>(13,489,538)</u></u>	<u><u>(16,393,904)</u></u>

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

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

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	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>
Actuarial valuation date	July 1, 2005	July 1, 2005
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	Annual gains and losses, plan changes, and assumption changes are amortized individually over the average expected future working lifetime of active participants. Base established on July 1, 2005, is amortized over an eight year period.	Annual gains and losses, plan changes and assumption changes are amortized individually over a 30 year closed period.
Remaining amortization period	Varies from 3 to 19 years.	Varies from 7 to 30 years.
Asset valuation method	Non-Dedicated: Five-year smoothed market.  Dedicated: PV of cash flows from bond dedication.	Non-Dedicated: Five-year smoothed market.  Dedicated: PV of cash flows from bond dedication.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Inflation	Included in projected salary increase.	Included in projected salary increase.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>
Projected salary increases:		
Certificated participants	1.8% plus an additional merit raise of 4.5% for each of the next six years of service for certificated participants 4.0% for classified participants.	3%
Classified participants	4.0%	N/A
Mortality	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.

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

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

Effective July 1, 2003, the 1984 Dedicated Fund was unwound and the assets were transferred to the Non-Dedicated fund. All benefits under the 1984 Dedicated fund shall be paid from the Non-Dedicated fund. As of June 30, 2006, all 1984 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

**(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**

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning July 1:			
2005	\$ 2,814,526	126%	\$ 2,904,366
2004	2,715,306	105%	2,168,000
2003	2,378,932	100%	—

**Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning July 1:			
2005	\$ 13,440,927	124%	\$ 13,489,538
2004	12,794,314	106%	10,207,000
2003	12,585,622	100%	—

**(11) Post-Retirement Life and Healthcare Insurance Benefits**

All post-retirement benefits are provided by the District in accordance with union contracts. District employees who take an immediate annuity at age 55 or over, with 15 or more years of service, may retain full life insurance coverage by paying the premium for such coverage until age 65. Employees taking an immediate annuity at age 55 or over, with 30 or more years of service, continue in the group life insurance program with the same coverage and with the District paying the premium in accordance with the union contract under which the employee retired. For retirees who have attained age 65, the life insurance coverage is reduced by 25% of the original coverage for each year following their 65<sup>th</sup> birthday. Coverage cannot be reduced below 25% of the original coverage. The original coverage is equal to the employee's annual earnings raised to the next even thousand dollars.

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service, by paying the premium for such coverage. In the event such employees

## MILWAUKEE PUBLIC SCHOOLS

### Notes to Basic Financial Statements

June 30, 2006

have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement are paid by the retiree. The District's costs for retiree health insurance is recorded in current operating expenditures as paid. The District has available a self-insured indemnity/PPO health plan and a self-insured exclusive provider organization (EPO) plan. These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

Expenditures for post-retirement life and health insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$35,950,754 for the year ended June 30, 2006. Approximately 5,890 retired participants are currently eligible to receive post-retirement life insurance benefits and approximately 5,516 retired participants are receiving post-retirement healthcare benefits.

For certain employees who pay an employee contribution on or after July 1, 1992, the District will pay an amount towards the health insurance premium equal to the premium less the employee contribution for that employee at the time of retirement.

#### **(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, 2006, the District met its revenue limitation.

#### **(13) School Nutrition Deficit**

The school nutrition services fund had a deficit of \$7,159,808. The deficit is anticipated to be funded through future operations or operating transfers from the general fund for which the reserve has been made.



**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

**(14) Excess Expenditures Over Appropriations**

The following individual funds had an excess of actual expenditures over appropriations for the year ended June 30, 2006:

Fund	Excess Expenditures
General Fund:	
Pupil and staff services	\$ 15,267,666
General and school building administration	28,961,613
Business services	18,316,331
Debt Service	9,253,372
Other	799,283
 School Nutrition Services Fund	 2,278,941

The General Fund's actual 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 collectibility of any related receivable at June 30, 2006 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**MILWAUKEE PUBLIC SCHOOLS**

Notes to Basic Financial Statements

June 30, 2006

**(b) Operating Leases**

The District leases certain computer equipment with a carrying value of approximately \$1,982,544. For fiscal year 2006, total operating lease expense of the District was \$1,267,207. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2006 and thereafter for the computers and property are as follows:

Fiscal years:		
2007	\$	1,076,750
2008		905,794
		<hr/>
Total	\$	1,982,544
		<hr/> <hr/>

**(c) Contractual Commitments**

The District has \$61.2 million of contractual commitments outstanding as of June 30, 2006.

**(d) Litigation**

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

**(16) Subsequent Events**

On August 10, 2006 the City issued \$175,000,000 of School Revenue Anticipation Notes, Series 2006 M7, for the purpose of financing MPS's general operating expenses pending receipt of state school aid payments. The maturity of this issue is August 30, 2007. Interest is payable at maturity.

On October 24, 2006 the Milwaukee Board of School Directors (MBSD or the District) adopted its fiscal year 2007 budget and certified its tax levy in the amount of \$230,345,991 and transmitted it to the City of Milwaukee. The City of Milwaukee is required by state statute to levy the transmitted amount on behalf of the District by the issuance of property tax bills to City of Milwaukee residents. Tax bills prepared and issued in December 2006 for collection during year 2007 resulted in a levy for Milwaukee Public Schools that is \$9,137,066 less than the amount certified by the MBSD. The City and the District are pursuing resolution of the shortfall and the District believes it will receive funding equal to the full amount of the certified tax levy. As of December 21, 2006 a resolution had not been reached

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2006

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
<b>Revenues:</b>			
Property tax levy	\$ 187,012,886	191,486,466	191,722,666
Other local sources	9,770,320	11,300,529	14,427,256
<b>State aid:</b>			
Equalization aid	588,193,919	586,506,804	586,498,521
Special classes	37,967,972	37,967,972	39,188,603
Integration	43,971,121	43,660,426	43,660,426
Other state aid	50,732,708	50,018,932	52,184,246
<b>Federal aid:</b>			
Education Consolidation Improvement Act	77,038,990	77,038,990	72,246,390
Other federal aid	68,733,637	68,733,637	52,993,325
Interest	200,000	200,000	2,311,332
<b>Total revenues</b>	<b>1,063,621,553</b>	<b>1,066,913,756</b>	<b>1,055,232,765</b>
<b>Expenditures:</b>			
<b>Current operating:</b>			
<b>Instructional services:</b>			
Undifferentiated curriculum	380,664,246	392,856,941	430,564,038
Regular and other curriculum	165,054,190	165,749,969	105,796,528
Special curriculum	128,728,774	128,550,393	108,748,090
<b>Total instructional services</b>	<b>674,447,210</b>	<b>687,157,303</b>	<b>645,108,656</b>
Community services	17,393,696	28,759,696	23,127,716
Pupil and staff services	106,898,731	112,561,370	93,482,431
General and school building administration	116,771,682	118,474,721	111,227,914
Business services	158,091,979	159,730,008	151,129,644
Debt service	11,854,068	11,854,068	21,107,440
Other	—	92	799,375
<b>Total expenditures</b>	<b>1,085,457,366</b>	<b>1,118,537,258</b>	<b>1,045,983,176</b>
Excess of revenues over (under) expenditures	\$ (21,835,813)	(51,623,502)	9,249,589
Fund balance—beginning of year			100,100,308
Fund balance—end of year			\$ 109,349,897

**MILWAUKEE PUBLIC SCHOOLS**  
 Required Supplementary Information  
 Budgetary Comparison Schedule for the Nutrition Fund  
 Year ended June 30, 2006

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
Revenues:			
Lunchroom sales	\$ 4,693,625	4,693,625	4,391,811
State aid:			
School nutrition aid	693,373	693,373	660,657
Federal aid:			
School nutrition aid	<u>24,544,654</u>	<u>24,544,654</u>	<u>25,961,118</u>
Total revenues	<u>29,931,652</u>	<u>29,931,652</u>	<u>31,013,586</u>
Expenditures:			
Current operating:			
School nutrition services	<u>29,931,652</u>	<u>29,931,652</u>	<u>32,210,593</u>
Total expenditures	<u>29,931,652</u>	<u>29,931,652</u>	<u>32,210,593</u>
Net change in fund deficit	<u>\$ —</u>	<u>—</u>	(1,197,007)
Fund deficit—beginning of year			<u>(5,962,801)</u>
Fund deficit—end of year			<u>\$ (7,159,808)</u>

**MILWAUKEE PUBLIC SCHOOLS**

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2006

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

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Total underfunded AAL</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>Underfunded AAL as a percentage of covered payroll</u>
7/1/05	\$ 39,409,013	49,456,069	(10,047,056)	79.70 %	\$ 37,250,400	(26.97) %
7/1/04	40,282,290	50,085,520	(9,803,230)	80.43	39,461,550	(24.84)
7/1/03	39,808,674	49,453,070	(9,644,396)	80.50	42,014,246	(22.96)

**Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers**

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Total underfunded AAL</u>	<u>Funded ratio</u>	<u>Annual covered payroll</u>	<u>Underfunded AAL as a percentage of covered payroll</u>
7/1/05	\$ 60,596,308	174,359,298	(113,762,990)	34.75 %	\$ 321,226,581	(35.42) %
7/1/04	55,203,992	166,080,049	(110,876,057)	33.24	312,805,388	(35.45)
7/1/03	49,570,891	157,875,834	(108,304,943)	31.40	315,368,449	(34.34)

# MILWAUKEE PUBLIC SCHOOLS

## Notes to Required Supplementary Information

Year ended June 30, 2006

### (1) **Budgeting**

Annual appropriated budgets are adopted for the general, special revenue and debt service funds by June 30<sup>th</sup> 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; 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%; deficits incurred automatically reduce the subsequent year's budget appropriations; and, with school board approval, appropriations for special projects or planned purchases can be carried into the subsequent year.

The budget and actual schedules included herein are not intended to demonstrate compliance at the legal level of budgetary control. Such information is included in the Milwaukee Board of School Directors' separately issued Official Notice of Public Hearing on Proposed Budget for Fiscal Year. A copy of the notice may be obtained from:

Milwaukee Public Schools  
Finance Department  
5225 West Vliet St.  
Milwaukee, WI 53208

**COMBINING AND INDIVIDUAL  
FUND STATEMENTS  
AND SCHEDULES**



## MILWAUKEE PUBLIC SCHOOLS

### Nonmajor Governmental Funds

#### **Special Revenue Funds**

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

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

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

#### **Debt Service Fund**

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

**MILWAUKEE PUBLIC SCHOOLS**

Combining Balance Sheet—Nonmajor Governmental Funds

June 30, 2006

	<u>Special Revenue</u>			
Assets	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>Debt Service</u>	<u>Total</u>
Receivables due from other governmental units	\$ —	6,987,076	—	6,987,076
Due from other funds	3,126,624	—	—	3,126,624
Total assets	<u>\$ 3,126,624</u>	<u>6,987,076</u>	<u>—</u>	<u>10,113,700</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ —	219,077	—	219,077
Deferred Revenue	—	22,500	—	22,500
Due to other funds	—	6,745,499	—	6,745,499
Total liabilities	<u>—</u>	<u>6,987,076</u>	<u>—</u>	<u>6,987,076</u>
Fund balances (deficit):				
Unreserved and undesignated	3,126,624	—	—	3,126,624
Total fund balances	<u>3,126,624</u>	<u>—</u>	<u>—</u>	<u>3,126,624</u>
Total liabilities and fund balances	<u>\$ 3,126,624</u>	<u>6,987,076</u>	<u>—</u>	<u>10,113,700</u>

**MILWAUKEE PUBLIC SCHOOLS**

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

Year ended June 30, 2006

	<u>Special Revenue</u>			
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:				
Property taxes	\$ —	—	8,843,502	8,843,502
Other local sources	—	121,770	—	121,770
Lunchroom sales	—	—	—	—
State aid—other	914,379	—	—	914,379
Federal aid:				
School nutrition services	—	—	—	—
Other federal aid	—	26,309,076	—	26,309,076
Total revenues	<u>914,379</u>	<u>26,430,846</u>	<u>8,843,502</u>	<u>36,188,727</u>
Expenditures:				
Instructional services—				
special curriculum	—	4,622,080	—	4,622,080
Pupil and staff services	—	21,808,766	—	21,808,766
School nutrition services	—	—	—	—
Debt service:				
Principal	1,828,758	—	4,995,168	6,823,926
Interest	—	—	3,848,334	3,848,334
Total expenditures	<u>1,828,758</u>	<u>26,430,846</u>	<u>8,843,502</u>	<u>37,103,106</u>
Excess of revenues over (under) expenditures	(914,379)	—	—	(914,379)
Other financing sources (uses):				
Issuance of Teach Loan	—	—	—	—
Total other financing sources (uses), net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net changes in fund balances	(914,379)	—	—	(914,379)
Fund balances (deficit):				
Beginning of year	4,041,003	—	—	4,041,003
End of year	\$ <u><u>3,126,624</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>3,126,624</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

TEACH Wisconsin Programs Fund

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

Year ended June 30, 2006

	<b>Budgeted amounts</b>		<b>Actual</b>
	<b>Adopted</b>	<b>Revised</b>	<b>(GAAP basis)</b>
Revenues:			
State aid:			
Other state aid	\$ —	—	914,379
Total revenues	—	—	914,379
Expenditures:			
Current operating:			
Debt service	1,828,758	1,828,758	1,828,758
Total expenditures	1,828,758	1,828,758	1,828,758
Net change in fund balance	\$ (1,828,758)	(1,828,758)	(914,379)
Fund balance—beginning of year			4,041,003
Fund balance—end of year			\$ 3,126,624

**MILWAUKEE PUBLIC SCHOOLS**

Categorically Aided Programs Fund

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

Year ended June 30, 2006

	<b>Budgeted amounts</b>		<b>Actual (GAAP basis)</b>
	<b>Adopted</b>	<b>Revised</b>	
Revenues:			
Other local sources	\$ —	—	121,770
Federal aid:			
Other federal aid	28,872,720	29,020,110	26,309,076
Total revenues	<u>28,872,720</u>	<u>29,020,110</u>	<u>26,430,846</u>
Expenditures:			
Current operating:			
Special curriculum	4,119,694	4,622,080	4,622,080
Pupil and staff services	24,753,026	24,398,030	21,808,766
Total expenditures	<u>28,872,720</u>	<u>29,020,110</u>	<u>26,430,846</u>
Net change in fund balance	\$ <u>—</u>	<u>—</u>	—
Fund balance—beginning of year			<u>—</u>
Fund balance—end of year			\$ <u><u>—</u></u>

**MILWAUKEE PUBLIC SCHOOLS**

Debt Service Fund

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

Year ended June 30, 2006

	<b>Budgeted amounts</b>		<b>Actual</b>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
Revenues:			
Property taxes	\$ 9,079,702	9,079,702	8,843,502
Total revenues	<u>9,079,702</u>	<u>9,079,702</u>	<u>8,843,502</u>
Expenditures:			
Current operating:			
Debt service	<u>9,079,702</u>	<u>9,079,702</u>	<u>8,843,502</u>
Total expenditures	<u>9,079,702</u>	<u>9,079,702</u>	<u>8,843,502</u>
Excess of revenues over (under) expenditures	\$ <u>—</u>	<u>—</u>	<u>—</u>
Net change in fund balance			—
Fund balance—beginning of year			<u>—</u>
Fund balance—end of year			\$ <u><u>—</u></u>

## MILWAUKEE PUBLIC SCHOOLS

### Fiduciary Funds

#### **Pension Trust Funds**

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

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

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

#### **Agency Fund**

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

**MILWAUKEE PUBLIC SCHOOLS**

Combining Statement of Net Assets—Pension Trust Funds

June 30, 2006

	<b>Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan</b>	<b>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</b>	<b>Total</b>
<b>Assets</b>			
Investments	\$ 44,705,916	85,770,309	130,476,225
Receivables	85,948	54,374	140,322
Total assets	44,791,864	85,824,683	130,616,547
<b>Liabilities</b>			
Liabilities:			
Accounts payable and accrued expenses	344,387	943,087	1,287,474
Total liabilities	344,387	943,087	1,287,474
<b>Net Assets</b>			
Held in trust for supplemental pension benefits	\$ 44,447,477	84,881,596	129,329,073





**MILWAUKEE PUBLIC SCHOOLS**  
Agency Fund  
Schedule of Changes in Assets and Liabilities  
Year ended June 30, 2006

<b>Assets</b>	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2006</b>
Cash and cash equivalents	\$ 5,022,679	19,546,410	(19,372,422)	5,196,667
Total assets	<u>\$ 5,022,679</u>	<u>19,546,410</u>	<u>(19,372,422)</u>	<u>5,196,667</u>
<b>Liabilities</b>				
Liabilities:				
Due to student organizations	\$ 5,022,679	19,546,410	(19,372,422)	5,196,667
Total liabilities	<u>\$ 5,022,679</u>	<u>19,546,410</u>	<u>(19,372,422)</u>	<u>5,196,667</u>

**APPENDIX B**

**Draft Form of Legal Opinion**

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September 6, 2007

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 \$188,000,000 aggregate principal amount of School Revenue Anticipation Notes, Series 2007 M6 (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 June 19, 2007.

The Notes constitute an issue of "revenue anticipation notes" under Section 67.12(1) of the Wisconsin Statutes and are issuable in fully registered form in the denominations of \$5,000 or any integral multiple thereof. The Notes are dated September 6, 2007, mature (without option of prior redemption) on September 4, 2008 and bear interest from their date at the rate of four and one-half percentum (4.50%) 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 2007-2008 fiscal year that are due and not yet paid to the City and which are not otherwise pledged or applied through June 30, 2008; 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

## **APPENDIX C**

### **Form of Continuing Disclosure Certificate**

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## MASTER CONTINUING DISCLOSURE CERTIFICATE

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

### ARTICLE I - Definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ARTICLE II - The Undertaking

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

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

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

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

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

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

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

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

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

#### ARTICLE III - Operating Rules

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

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

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

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

#### ARTICLE IV - Termination, Amendment and Enforcement

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

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

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

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

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

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

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

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

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

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

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

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

## **ADDENDUM DESCRIBING NRMSIRs**

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

### **Repositories and Contact Information**

Pursuant to the Securities and Exchange Commission interpretive letter to the Texas Municipal Advisory Council (the "MAC") dated September 7, 2004, the Issuer elects to transmit filings to the MAC as provided at <http://www.disclosureusa.org> for submission to the NRMSIRs and any applicable SID.

Disclosure USA  
[www.disclosureusa.org](http://www.disclosureusa.org)

IN WITNESS WHEREOF, I have hereunto executed this Addendum this 1<sup>st</sup> day of March, 2005.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

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

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

Content of Annual Financial Information for Issuer:

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

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

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller

## SUPPLEMENTAL CERTIFICATE

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

Name of Obligations:

\$188,000,000 School Revenue Anticipation Notes, Series 2007 M6

Addendum Describing Annual Report:

ADDENDUM DESCRIBING ANNUAL REPORT  
FOR SHORT-TERM OBLIGATIONS

Date of Issue(s):

September 6, 2007

IN WITNESS WHEREOF, I have caused this Supplemental Certificate to be executed this 6<sup>th</sup> day of September, 2007.

CITY OF MILWAUKEE, WISCONSIN

By: \_\_\_\_\_  
Comptroller



