# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

(A Pension Trust Fund of Milwaukee Public Schools)

FINANCIAL STATEMENTS AND SCHEDULES

Including Independent Auditors' Report

June 30, 2011 and 2010

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (the Plan), a pension trust fund of the Milwaukee Public Schools (the District), as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended which collectively comprise the Plan's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements present only the plan net assets and changes in the plan net assets of the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan and do not purport to, and do not, present fairly the financial position of the Milwaukee Public Schools as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan as of June 30, 2011 and 2010 and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 - 6, and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 24 - 25 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2011 and 2010 information 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.

Milwaukee, Wisconsin
December 12, 2011

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2011 AND 2010

Milwaukee Public Schools' Management's review of the changes in pension plan assets and actuarial liabilities for the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (Plan) for the fiscal years ended on June 30, 2011 and 2010 is presented below. This information is intended to supplement the financial statements in this report.

**Overview of the Financial Statements of the Plan**

The two basic financial statements of the Plan are the *Statements of Plan Net Assets* and the *Statements of Changes in Plan Net Assets.* Statements are shown for the most recent and previous fiscal years for comparison and analysis of changes in individual line items. The statements are prepared in conformity with accounting principles generally accepted in the United States.

The *Statements of Plan Net Assets* are a measure of the plan assets and liabilities at the close of the fiscal year. Total assets less liabilities equal net assets held in trust for future benefits.

The *Statements of Changes in Plan Net Assets* show additions (investment income and contributions) and deductions (benefits and expenses) for the fiscal year. The net increase (or decrease) is the change in net assets available for benefits since the end of the previous fiscal year.

The *Notes to Financial Statements* are a fundamental part of the financial statements and provide important information to augment the figures in the financial statements. The notes provide information pertaining to the plan provisions, a summary of significant accounting policies, contributions, and investments of the Plan. Supplementary disclosures of selected financial data are included in the notes.

In addition to the basic financial statements and footnotes, a *Schedule of Funding Progress* and a *Schedule of Employer Contributions* are included as required supplementary information. These schedules emphasize the long-term nature of the Plan and show progress of the Plan in accumulating sufficient assets to pay benefits when due.

The *Schedule of Funding Progress* shows actuarial trend information for the past six years. It includes the ratio of actuarial value of assets to actuarial accrued liability (funded ratio). The funded ratio increases or decreases over time depending upon the relationships between contributions, investment performance, benefit changes, and actuarial assumption changes based upon participant information and characteristics. The *Schedule of Funding Progress* also shows the unfunded actuarial accrued liability as a percentage of covered payroll.

The *Schedule of Employer Contributions* shows the amount of required employer and employee contributions determined in accordance with parameters established by Governmental Accounting Standards Board Statement 25 and the percentage actually contributed.

**Analysis of Plan Net Assets and Actuarial Liabilities**

The Plan's assets are reported at fair market value. A summary of the plan's net assets as of June 30, 2011, 2010, and 2009 is as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Assets | | | |
| Investments | $ 46,837,843 | $ 36,007,969 | $ 35,299,843 |
| Accrued interest, contributions and investments receivables | 12,960 | 27,261 | 38,771 |
| Total assets | 46,850,803 | 36,035,230 | 35,338,614 |
| Liabilities (primarily benefits payable) | 406,188 | 403,625 | 425,352 |
| Plan net assets available for benefits | $ 46,444,615 | $ 35,631,605 | $ 34,913,262 |

Plan net assets increased by approximately $10.8 million during the fiscal year ending on June 30, 2011. The increase was due to a net investment gain of $8.6 million plus contributions of $7.2 million that were greater than benefit payments and expenses of $5.0 million. Plan net assets increased by approximately $0.7 million during the fiscal year ending on June 30, 2010. As more fully described in the analysis of changes in plan net assets below, the increase is due to a net investment gain of $4.7 million and contributions of $0.8 million that were greater than benefit payments and expenses of $4.8 million.

It is also helpful to analyze the plan's net assets in relation to the estimated actuarial accrued liability for plan benefits to evaluate the funding progress of the Plan. An actuarial valuation is performed as of the beginning (July 1) of each year using various assumptions including an 8% future return on investments. Additionally, for this purpose, investments are valued using a 5-year smoothed (average) market value method. The funding progress as of July 1, 2010, 2009, and 2008 is as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Actuarial value of plan assets | $ 42,306,659 | $ 43,207,285 | $ 44,570,940 |
| Actuarial accrued liability | 52,695,253 | 53,727,359 | 53,278,752 |
| Unfunded actuarial accrued liability | $ 10,388,594 | $ 10,520,074 | $ 8,707,812 |
| Funded ratio | 80.3% | 80.4% | 83.7% |

**Analysis of Changes in Plan Net Assets**

A summary of the changes in plan net assets for the years ended June 30, 2011, 2010, and 2009 is as follows:

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Additions: | | | |
| Net investment income (loss) | $ 8,570,567 | $ 4,704,281 | $ (7,641,930) |
| Participant and employer contributions | 7,196,396 | 763,048 | 2,680,878 |
| Total additions (loss) | 15,766,963 | 5,467,329 | (4,961,052) |
| Deductions: | | | |
| Benefit and refund payments | 4,903,262 | 4,694,371 | 4,740,388 |
| Administrative expenses | 50,691 | 54,615 | 64,744 |
| Total deductions | 4,953,953 | 4,748,986 | 4,805,132 |
| Net increase (decrease) in plan assets | $ 10,813,010 | $ 718,343 | $ (9,766,184) |

The net investment income (loss) for the years ended June 30, 2011 and 2010 is the result of returns on investments of 22.9% and 13.8% for the years ended June 30, 2011 and 2010, respectively.

It is the District's practice to fund the Plan based on the actuarially determined recommended contributions which were approximately $3.6 million, $3.2 million, and $2.5 million, respectively, for the years ended June 30, 2011, 2010, and 2009. However, the District made prepayments during the year ended June 30, 2011 and 2009 toward the past service liability portion of the subsequent years' recommended contribution which resulted in a difference in the actual amounts contributed during the respective years. As of June 30, 2011, 2010, and 2009, the District had cumulative credits (prepayments) of $3.6 million, $0, and $2.5 million, respectively, for the subsequent years' contribution.

***Observations***

- For the year ended on June 30, 2011, the Plan's investment return of 22.9% was 2.6% above its benchmark return of 20.3% and 18.7% above inflation. Over the five years ended on June 30, 2011, the Plan's investment return of 5.4% was 0.5% above its benchmark index return of 4.9% and 3.1% above inflation. For the year ended on June 30, 2010, the Plan's investment return of 13.8% was 1.4% above its benchmark return of 12.4% and 12.5% above inflation.
- The Plan's assets were invested 85% in the SWIB Core Fund, 9% in the SWIB Variable Fund and 6% in various bond funds on June 30, 2011. The Plan's assets were invested approximately 32% in U.S. Stocks, 31% in Fixed Income, 24% in International Stocks, 4% in Real Estate, and 9% in Alternative Investments on June 30, 2011. Relative to the allocation on June 30, 2010, there was a 1% increase in the allocation to U.S. Stocks, a 1% decrease in the allocation to Fixed Income, a 1% decrease in the allocation to International Stocks, and a 1% increase in the allocation to Real Estate.
- SWIB's Core and Variable Funds included derivative investments in futures contracts, foreign exchange forward and spot contracts, and options in 2011 and in 2010.

- Actuarial accrued liabilities for retired participants, terminated vested participants and active participants represented 70%, 2%, and 28%, respectively, of total accrued liabilities on July 1, 2010 and 67%, 2%, and 31% of total accrued liabilities on July 1, 2009.
- The funded ratio (the actuarial value of the Plan's assets divided by the actuarial value of the liabilities) equaled 83.7%, 80.4% and 80.3% on July 1, 2008, July 1, 2009, and July 1, 2010, respectively. The funded ratio decreased by 3.4% during the two years through July 1, 2010.
- The plan's actuary's annual recommended contribution increased by approximately $400,000 for the fiscal year ended on June 30, 2011. The increase due to the recognition of investment losses is approximately $800,000, which is partially offset by favorable salary and demographic experience and a change in the salary increase assumption to reflect no bargained salary increases through 2013. The plan's actuary's annual recommended contribution increased by approximately $800,000 for the fiscal year ended June 30, 2010. The recommended contribution increased by approximately $600,000 due to the recognition of investment losses. The additional increase is due to unfavorable demographic experience, partially offset by gains due to less than expected salary increases.

**Investment Performance**

The returns versus benchmarks were as follows for the one and five-year periods through June 30, 2011:

| | 1 Year | 5 Years |
|---|---|---|
| SWIB Core Fund | 22.9% | 5.2% |
| *Benchmark Index Return* | *19.8%* | *5.4%* |
| SWIB Variable Fund | 32.1% | 3.5% |
| *Benchmark Index Return* | *31.2%* | *3.0%* |
| Employer Benefit Payment Fund | 4.5% | 5.7% |
| *Benchmark Index Return* | *3.8%* | *6.1%* |
| Employee Contribution Fund | 5.8% | 7.7% |
| *Benchmark Index Return* | *3.8%* | *6.1%* |
| Total Portfolio | 22.9% | 5.4% |
| *Benchmark Index* | *20.3%* | *4.9%* |

The benchmark indices for each fund were as follows:

| Funds | Index Benchmarks |
|---|---|
| SWIB Core Fund | 39% Russell 3000<br>18% Morgan Stanley All World ex U.S.<br>34% Barclays Aggregate Bond Index<br>4% NCREIF<br>5% "15%" Rate of Return |
| SWIB Variable Fund | 80% Russell 3000<br>20% Morgan Stanley All World ex U.S. |
| Employer Benefit Payment Fund and Employee Contribution Fund | Barclays Intermediate Government/Credit Bond Index |
| Total Portfolio | 35% S&P 500<br>10% Russell 2000<br>15% EAFE<br>40% Barclays Aggregate Bond Index |

**Asset Allocation by Fund and by Asset Class**

The asset allocations by Fund as of June 30, 2011, 2010, and 2009 were as follows:

| | June 30 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| SWIB Core Fund | 85% | 77% | 72% |
| SWIB Variable Fund | 9% | 15% | 20% |
| Employer Benefit Payment Fund at M&I | 5% | 5% | 4% |
| Employee Contribution Fund at M&I | 1% | 3% | 4% |

On June 30, 2011, the SWIB Core Fund was broadly diversified into U.S. stocks, fixed income, international stocks, real estate, and alternative investments; the SWIB Variable Fund was invested in U.S. stocks and international stocks; and the other four portfolios were invested in fixed income. The Total Portfolio allocations by asset class were approximately as follows:

| Asset Class | Percentage Allocation on June 30: | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| U.S. Stocks | 32% | 31% | 35% |
| Fixed Income | 31% | 32% | 28% |
| International Stocks | 24% | 25% | 25% |
| Real Estate | 4% | 3% | 4% |
| Alternative Investment | 9% | 9% | 8% |

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## STATEMENTS OF PLAN NET ASSETS
## JUNE 30, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| ***ASSETS*** | | |
| Investments, at fair value | | |
| Money market accounts | $ 1,228,351 | $ 468,761 |
| U.S. Treasury and agency securities | 114,879 | 1,125,763 |
| Municipal bonds | 25,986 | 25,157 |
| Mortgage-backed securities | 58,820 | 121,642 |
| Nongovernmental obligations | 1,281,814 | 1,586,261 |
| Investment in the state of Wisconsin: | | |
| Core retirement investment trust fund | 39,654,190 | 27,392,495 |
| Variable retirement investment trust fund | 4,473,803 | 5,287,890 |
| Total investments | 46,837,843 | 36,007,969 |
| Accrued interest and contributions receivable | 12,960 | 27,261 |
| Total assets | 46,850,803 | 36,035,230 |
| ***LIABILITIES*** | | |
| Benefits payable | 393,601 | 375,961 |
| Investment purchases payable | - | 19,746 |
| Accrued administrative expenses | 12,587 | 7,918 |
| Total liabilities | 406,188 | 403,625 |
| **PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS** | $ 46,444,615 | $ 35,631,605 |
| Plan net assets held in trust for pension benefits attributable to: | | |
| Nondedicated fund | $ 45,437,171 | $ 34,624,161 |
| Participant contributions fund | 1,007,444 | 1,007,444 |
| | $ 46,444,615 | $ 35,631,605 |

(A schedule of funding and a schedule of employer contributions are included in this report)
The accompanying notes are an integral part of the basic financial statements.

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## STATEMENTS OF CHANGES IN PLAN NET ASSETS
## YEARS ENDED JUNE 30, 2011 AND 2010

| | 2011 | 2010 |
|---|---|---|
| **ADDITIONS** | | |
| Investment income: | | |
| Net investment income from the state of Wisconsin: | | |
| Core retirement investment trust fund | $ 6,761,695 | $ 3,334,227 |
| Variable retirement investment trust fund | 1,685,912 | 1,111,516 |
| Investment income from other investments | 128,411 | 264,719 |
| Total investment income | 8,576,018 | 4,710,462 |
| Less: investment expenses | (5,451) | (6,181) |
| Net investment income | 8,570,567 | 4,704,281 |
| Employer contributions | 7,196,396 | 763,048 |
| Total additions | 15,766,963 | 5,467,329 |
| **DEDUCTIONS** | | |
| Benefits paid to participants or beneficiaries | 4,683,943 | 4,558,211 |
| Distribution of participant contribution accounts | 219,319 | 136,160 |
| Administrative expenses | 50,691 | 54,615 |
| Total deductions | 4,953,953 | 4,748,986 |
| Net increase in plan net assets held in trust for pension benefits | 10,813,010 | 718,343 |
| **PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS-** | | |
| Beginning of year | 35,631,605 | 34,913,262 |
| End of year | $ 46,444,615 | $ 35,631,605 |

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

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

### 1. DESCRIPTION OF THE PLAN

The Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (the "Plan") is a single-employer defined benefit pension plan for certain employees of the Milwaukee Board of School Directors (MBSD). The Plan is administered by an administrative committee under the direction of the MBSD. The following brief description is provided for general information purposes only. Participants should refer to the plan document for more complete information.

a. *General* - The Plan is a defined benefit pension plan established to provide benefits after early retirement, which will supplement the pension benefits provided by the Wisconsin Retirement Systems (WRS) and the Employees' Retirement System of the City of Milwaukee (ERSCM). A participant must be an administrative, supervisory, or professional staff employee of the Milwaukee Public Schools (the District or MPS) who is in the collective bargaining unit represented by the Administrators and Supervisors Council, Inc. (the ASC), be an exempt employee excluded by the ASC bargaining contract, or any other employee who is identified as a covered employee by the MBSD through an employment contract between such employee and the MBSD. 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. Certain classified participants represented by the ASC or any exempt employee excluded by the ASC bargaining contract and covered by the ERSCM and certain psychologists who elected to remain in the Plan after June 30, 1980 are also eligible for participation.

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

b. *Retirement, Disability, and Death Benefits* - Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. For Plan years, effective July 1, 2003, vesting under the Plan is modified to be three years of service as a covered employee and eight or more years of vesting service. The Plan provides for unreduced benefits on or after age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the ERSCM 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 ERSCM or WRS, of 70% of average monthly compensation. The benefit paid under this plan for participants whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the Plan by decreasing the benefits paid and increasing the funded status of the Plan.

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

   - Transfer the benefit formula under the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (Teachers Plan) to the 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 Teachers or Plan benefit formula.

## 1. DESCRIPTION OF THE PLAN (cont)

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

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

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

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

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

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

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

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

The Plan does not provide for any postretirement increases.

1. **DESCRIPTION OF THE PLAN** (cont)

c. *Member Contribution Accounts* - 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 participant's 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.

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

e. *Plan Membership* - Plan membership consisted of the following:

| | July 1 | |
|---|---|---|
| | **2010** | **2009** |
| Retirees and beneficiaries currently receiving benefits: | | |
| Dedicated | 0 | 0 |
| Nondedicated | 712 | 696 |
| | 712 | 696 |
| Current employees: | | |
| Active certificated | 271 | 296 |
| Active classified | 83 | 89 |
| | 354 | 385 |

Terminated employees entitled to benefits but not yet receiving them totaled 92 and 99 at July 1, 2010 and 2009, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Plan have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

a. *Reporting Entity* - As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Based upon required criteria, the Plan has no component units. However, the Plan is included in the financial statements of the Milwaukee Public Schools as a pension trust fund.

b *Basis of Accounting* - The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

c. *Investment Valuation and Income Recognition* - Investments are reported at fair value. Short-term investments include money market accounts, and are reported at cost, which approximates fair value. The specific identification basis is used in the determination of realized gains and losses on sales of securities, excluding the investments in the State of Wisconsin Core Retirement Investment Trust Fund and the State of Wisconsin Variable Retirement Investment Trust Fund. Purchases and sales of securities are recorded on a trade-date basis.

   The plan's investments in the State of Wisconsin Core Retirement Investment Trust Fund and the State of Wisconsin Variable Retirement Investment Trust Fund (the Trusts) are stated at fair value. Quoted market prices are used to value investments in the Trusts. Net investment income in the Trusts consists of realized and unrealized gains and losses and investment income (net of fund investment fees).

d. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions of plan net assets during the reporting period. Actual results could differ from those estimates.

## 3. PLAN TERMINATION

Although the District has expressed no intent to terminate the plan agreement, it may do so at any time, subject to the provisions of any collective bargaining agreement in effect at the time. In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by the Plan provisions, generally to provide the following benefits in the order indicated:

1. To provide a refund of participant contributions and accumulated investment income as reflected in the separate Member Contribution Account balances.

## 3. PLAN TERMINATION (cont)

2. To provide pensions for those persons who are receiving benefits under the Plan on the date of termination.

3. To provide pensions for participants who have attained age 60 prior to the date of termination.

4. To provide pensions for participants who have attained age 55 prior to the date of termination.

5. To provide benefits for participants who have completed eight years of service and who are eligible for a deferred vested pension.

6. To provide benefits for all other participants according to the respective actuarial values of their accrued pension benefits as of the date of termination.

## 4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the projected unit credit actuarial funding method. Effective July 1, 2003, the employer pays 100% of required plan contributions.

The recommended contribution for the year ended June 30, 2011 of $3,595,479 to the Plan is an actuarially determined contribution requirement determined through an actuarial valuation performed at July 1, 2010. The recommended contribution for the year ended June 30, 2011 consisted of $691,282 normal cost and $2,904,197 amortization of the unfunded actuarial accrued liability, assuming a funding date of July 1, 2010.

The recommended contribution for the year ended June 30, 2010 of $3,242,746 to the Plan is an actuarially determined contribution requirement determined through an actuarial valuation performed at July 1, 2009. The recommended contribution for the year ended June 30, 2010 consisted of $803,097 normal cost and $2,439,649 amortization of the unfunded actuarial accrued liability, assuming a funding date of July 1, 2009.

The District actually contributed $7,196,396 in the year ended June 30, 2011 (including net interest of $23,062). Certain employees elected to continue to participate on a self-pay basis and paid the estimated required employer contribution of $9,615. As of June 30, 2011, the District has a cumulative credit (prepayment) of $3,614,364 (including net interest of $23,062) to be used for the subsequent year's recommended contributions.

The District actually contributed $763,048 in the year ended June 30, 2010 (including net interest of $14,144). Certain employees elected to continue to participate on a self-pay basis and paid the estimated required employer contribution of $6,158. As of June 30, 2010, the District had no cumulative credit (prepayment) to be used for the subsequent year's recommended contributions, which was based on estimates provided by the Plan's actuary.

## 4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (cont)

As of July 1, 2010, the most recent actuarial valuation date, the plan was 80.29% funded on an actuarial basis. The actuarial accrued liability for benefits was $52,695,253, and the actuarial value of assets was $42,306,659, resulting in an unfunded actuarial liability (UAAL) of $10,388,594. The covered payroll (annual payroll of active employees covered by the plan) was $26,473,931, and the ratio of the UAAL to the covered payroll was 39.24%.

As of July 1, 2009, the plan was 80.42% funded on an actuarial basis. The actuarial accrued liability for benefits was $53,727,359, and the actuarial value of assets was $43,207,285, resulting in an unfunded actuarial liability (UAAL) of $10,520,074. The covered payroll (annual payroll of active employees covered by the plan) was $28,690,983, and the ratio of the UAAL to the covered payroll was 36.67%.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation date | July 1, 2010 |
| Actuarial cost method | Projected Unit Credit |
| Asset valuation method | Five – year smoothed market |
| Amortization method | 5-year closed period, level dollar |
| Actuarial Assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases | Certificated participants: Wage inflation 3.0% per year with additional service-based increases of up to 3.5% per year<br>Classified participants: 4.0% per year |
| Cost of living increases | 0.0% per year |
| Mortality table | 1994 GAM, sex distinct |

Significant actuarial assumption changes made effective for the plan year ended June 30, 2008 are:

1. Change retirement rates for certificated employees to better reflect peaks in rates at ages 57 and 60 and for classified employees to better reflect a peak in rates at age 60.

2. Change termination rates to reflect more terminations at younger ages and less at older ages.

3. Change mortality rates from 1983 Group Annuity Mortality table (GAM) to 1994 GAM, sex distinct.

4. Decrease disability rates.

5. Increase wage inflation component of salary increase assumption to 3.0 percent and additional service-based increases for certificated employees.

6. Change discount rate for liabilities for 1989 bond-dedicated participants from 9.25 to 8.0 percent.

7. Change to market value to value bond-dedicated assets.

## 4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (cont)

8. Eliminate individual amortization bases and consolidate into one amortization base. Amortize unfunded actuarial accrued liability over a seven-year closed period commencing July 1, 2007.

## 5. INVESTMENTS

The following table presents a summarization of the fair values of the Plan's investments at June 30, 2011 and 2010. All categorized investments are unregistered and are held by the counterparty or by its trust department or agent but not in the Plan's name for the facilitation of trading by the Plan's investment managers. Money market accounts and investments in State of Wisconsin Core Retirement Investment Trust Fund and Variable Retirement Investment Trust Fund are not categorized because the relationship between the Trusts and the investment agent is a direct contractual relationship, and a transferable instrument that evidences ownership or creditorship does not support the investments.

| | June 30 | |
|---|---|---|
| | 2011 | 2010 |
| Categorized: | | |
| U.S. Treasury and agency securities | $ 114,879 | $ 1,125,763 |
| Mortgage-backed securities | 58,820 | 121,642 |
| Nongovernment obligations | 1,281,814 | 1,586,261 |
| Municipal bonds | 25,986 | 25,157 |
| Noncategorized: | | |
| Money market accounts | 1,228,351 | 468,761 |
| Investment in the State of Wisconsin | | |
| Core retirement investment trust fund | 39,654,190 | 27,392,495 |
| Variable retirement investment trust fund | 4,473,803 | 5,287,890 |
| Total Investments | $ 46,837,843 | $ 36,007,969 |

With the enactment of 2005 Wisconsin Act 153, the Wisconsin Retirement System's Fixed Trust Fund became known as the Core Trust Fund on April 5, 2006.

The Plan's investments in the State of Wisconsin Core Retirement Investment Trust Fund (the Core Trust) and the State of Wisconsin Variable Retirement Investment Trust Fund (the Variable Trust) (collectively, the Trusts) were established for the investment of assets of the Plan and several other governmental sponsored retirement plans. Each participating retirement plan has undivided interest in the Trusts. The assets of the Trusts are held by the State of Wisconsin Department of Employee Trust Funds (Trustee) and exceed 5% of the plan net assets held in trust for the benefits.

At June 30, 2011 and 2010, the Plan's interest in the plan net assets of the Core Trust was approximately 0.052% and 0.042%, respectively, and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.078% and 0.117% respectively. Investment income and administrative expenses relating to the Trusts are allocated to the individual plans based upon average monthly balances invested by each plan. The Core Trust invests primarily in equity and fixed income securities, while the Variable Trust invests primarily in equity securities.

## 5. INVESTMENTS (cont)

In accordance with the Plan's investment policy, the Plan invests in mortgage-backed securities (0.13% and 0.34% of plan assets as of June 30, 2011 and June 30, 2010 respectively). These securities are reported at fair value in the statements of plan net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to repayments by mortgages that may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby repaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The Plan invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

Also in accordance with the Plan's investment policy, the Plan invests in nongovernment obligations (2.74% and 4.40% of plan assets in 2011 and 2010, respectively). These securities are reported at fair value in the statements of plan net assets.

## 6. DEPOSIT AND INVESTMENT RISK

The Trustees of the Plan have adopted a Statement of Investment Policy (the Policy). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds (SWIB funds), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp. (M&I), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the employee contribution account and payments from the 1989 bond dedication program, plus six months administrative expense; and (3) assets relating to employee contributions. The portfolio is rebalanced toward the Policy targets quarterly. For 2011 and 2010, the SWIB Core Fund asset-mix policy targets were 28% to U.S. Stocks, 33% to Fixed Income, 25% to International Stocks, 6% to Real Estate, and 12% to Alternative Investments. The target allocations total 104%, reflecting the possibility of introducing leverage into the portfolio. For 2011 and 2010, the SWIB Variable Fund asset-mix policy targets were 69% to U.S. Stocks, 30% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 4% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the Fund) has two investment managers: the State of Wisconsin Investment Board (SWIB) and M&I. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Plan portfolios in accordance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

## 6. DEPOSIT AND INVESTMENT RISK (cont)

A. Interest Rate Risk

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

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

| Investment | Duration (Years) | Fair Value |
|---|---|---|
| SWIB Core and Variable Funds | 26% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 11.0 years. Additional detail on the SWIB fixed income investments is included below. | $44,127,993 |
| Money market accounts | 0.1 | $1,228,351 |
| U.S. Treasuries, Agencies, and Government Bonds | 5.2 | $ 114.879 |
| Municipal Bonds | 3.2 | $ 25,986 |
| Mortgage-backed Securities | 1.2 | $ 58,820 |
| Non-government Obligations | 3.0 | $1,099,504 |
| Mutual Funds | 5.6 | $ 182,310 |

| SWIB Investments | Duration (Years) | Fair Value |
|---|---|---|
| Asset Backed Securities | 3.5 | $ 30 Million |
| Asset Backed Securities | N/A | $ 2 Million |
| Certificates of Deposit | 0.2 | $ 15 Million |
| Commercial Paper | 0.2 | $ 94 Million |
| Corporate Bonds and Private Placements | 4.9 | $ 5,058 Million |
| Corporate Bonds and Private Placements | N/A | $ 79 Million |
| Futures Contracts | 6.5 | $ 142 Million |
| Futures Contracts | N/A | $ ( 6 Million ) |

## 6. DEPOSIT AND INVESTMENT RISK (cont)

| SWIB Investments (cont) | Duration (Years) | Fair Value |
|---|---|---|
| Government Agency | 2.6 | $ 595 Million |
| Government Agency | N/A | $ 7 Million |
| Commercial Mortgages | N/A | $ 23 Million |
| Municipal Bonds | 11.0 | $ 94 Million |
| Pooled Investments | 0.0 to 6.8 | $ 14,074 Million |
| Repurchase Agreements | 0.1 | $ 1 Million |
| Foreign Gov't/Agency Bonds | 6.9 | $ 3,751 Million |
| Foreign Gov't/Agency Bonds | N/A | $ 3 Million |
| United States Treasuries | 7.3 | $ 4,526 Million |

Note: On June 30, 2011, SWIB's Core Fund and Variable Fund had $76.7 billion and $5.8 billion in assets, respectively. As of June 30, 2011, the Plan's assets were invested 85% in the SWIB Core Fund, 9% in the SWIB Variable Fund, and 6% in portfolios managed by M&I. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2010.

| Investment | Duration (Years) | Fair Value |
|---|---|---|
| SWIB Core and Variable Funds | 33% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 13.0 years. Additional detail on the SWIB fixed income investments is included below. | $32,680,385 |
| Money market accounts | 0.1 | $ 468,761 |
| U.S. Treasuries, Agencies, and Government Bonds | 6.2 | $1,125,763 |
| Municipal Bonds | 3.4 | $ 25,157 |
| Mortgage-backed Securities | 26.9 | $ 121,642 |
| Non-government Obligations | 3.6 | $1,586,261 |

| SWIB Investments | Duration (Years) | Fair Value |
|---|---|---|
| Asset Backed Securities | 3.3 | $ 51 Million |
| Asset Backed Securities | N/A | $ 12 Million |
| Certificates of Deposit | 0.1 | $ 5 Million |
| Commercial Paper | 0.2 | $ 77 Million |
| Corporate Bonds and Private Placements | 4.9 | $ 4,921 Million |
| Corporate Bonds and Private Placements | N/A | $ 31 Million |
| Futures Contracts | 6.7 | $ (545) Million |
| Futures Contracts | N/A | $ 3 Million |
| Government Agency | 2.9 | $ 486 Million |

## 6. DEPOSIT AND INVESTMENT RISK (cont)

| SWIB Investments (cont) | Duration (Years) | Fair Value |
|---|---|---|
| Commercial Mortgages | 2.2 | $ 45 Million |
| Municipal Bonds | 13.0 | $ 47 Million |
| Pooled Investments | 0.0 to 8.0 | $ 15,211 Million |
| Repurchase Agreements | 0.0 | $ 50 Million |
| Sovereign Debt | 7.1 | $ 3,054 Million |
| United States Treasuries | 7.3 | $ 4,061 Million |

Note: On June 30, 2010, SWIB's Core Fund and Variable Fund had $64.6 billion and $4.5 billion in assets, respectively. As of June 30, 2010, the Plan's assets were invested 77% in the SWIB Core Fund, 15% in the SWIB Variable Fund, and 8% in portfolios managed by M&I. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I on June 30, 2011 and 2010. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. For 2010, obligations of the United States and obligations explicitly guaranteed by the U.S. government were included in the AAA rating below although they were considered to be without risk.

| | SWIB | | M&I | |
|---|---|---|---|---|
| Rating* | 2011 | 2010 | 2011 | 2010 |
| P-1 or A-1 | 2% | 9% | 45% | 14%** |
| UST | 16% | N/A*** | 2% | N/A*** |
| AGY | 2% | N/A*** | 2% | N/A*** |
| AAA | 6% | 23% | 2% | 38% |
| AA | 11% | 8% | 11% | 10% |
| A | 6% | 9% | 15% | 17% |
| BBB | 6% | 5% | 15% | 21% |
| BB | 2% | 2% | 0% | 0% |
| B | 2% | 2% | 0% | 0% |
| CCC | 1% | 1% | 0% | 0% |
| CC | 0% | 0% | 0% | 0% |
| C | 0% | 0% | 0% | 0% |
| D | 0% | 0% | 0% | 0% |
| Collective Trust or Mutual Funds | 36% | 36% | 7% | N/A |
| Not-Rated | 10% | 5% | 1% | 0% |

*As defined by Moody's Bond Ratings or Standard and Poor's
**And S&P1
***Included in AAA

## 6. DEPOSIT AND INVESTMENT RISK (cont)

SWIB's Core Fund's Government/Credit Portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. Securities sold to SWIB under Rule 144A may not exceed 20% of the portfolios market value. Financial futures, options, and swaps are permitted for purposes of adjusting duration, taking or modifying credit positions, or investing anticipated cash flows, subject to SWIB's guidelines. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities may not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of countries in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolio's market value. Securities rated "BB+" or lower but no lower than "CCC-/Caa3" may not exceed 5% of the portfolio's market value.

C. Custodial Credit Risk

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

*Deposits* - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. SWIB had uninsured and uncollateralized deposits totaling $203.4 million and $410.6 million on June 30, 2011 and June 30, 2010, respectively, that were held in foreign currencies in SWIB's custodian's nominee name or in uninsured margin accounts. In addition, SWIB held time deposits with foreign financial institutions with a fair value of $28.8 million and $330.7 million on June 30, 2011 and June 30, 2010, respectively, all of which were uncollateralized and uninsured. In total, these deposits represented 0.3% and 1.1% of the combined assets of the SWIB Core and Variable Funds, on June 30, 2011 and 20010, respectively.

*Investments* - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of investments that are in the possession of an outside party. SWIB's Retirement Funds held 10 and 18 tri-party repurchase agreements totaling $1,582 million and $787 million on June 30, 2011 and June 30, 2010 respectively. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of the repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent. These agreements represented 1.9% and 1.1% of the combined assets of the SWIB Core and Variable Funds on June 30, 2011 and June 30, 2010, respectively.

## 6. DEPOSIT AND INVESTMENT RISK (cont)

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2011, $19.9 billion of the SWIB Core and Variable Funds' $82.5 billion in currency exposure was denominated in foreign currency. As of June 30, 2010, $12.8 billion of the SWIB Core and Variable Funds' $69.1 billion in currency exposure was denominated in foreign currency. For the M&I managed portfolios, there was no foreign currency exposure.

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

## 7. DERIVATIVE INVESTMENTS

The Plan holds investments in SWIB Funds, which may enter into a variety of financial contracts, including futures and options, primarily to enhance performance, reduce volatility of the portfolio, and aid in cash flow management. SWIB also enters into foreign exchange positions, such as forward and spot contracts, to obtain or hedge foreign currency exposure. The financial contracts are included in SWIB Variable and Core Investments on the Statement of Plan Net Assets. At June 30, 2011 and 2010, the Plan's interest in the plan net assets of the Core Trust was approximately 0.052% and 0.042%, respectively, and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.078% and 0.117%, respectively. The SWIB Funds are exposed to credit risk in the event of non-performance by counterparties to financial instruments. Exposure to market risk, the risk that future changes in market conditions may make an instrument less valuable, is managed in accordance with risk limits through buying or selling instruments or entering into offsetting positions.

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

## 7. DERIVATIVE INVESTMENTS (cont)

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

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

The following table summarizes the aggregate notional or contractual amounts for SWIB's derivative financial instruments at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Future contracts | $1,370,136 | $1,684,869 |
| Foreign exchange forward and spot contracts – sold | 2,698,940 | 3,995,059 |
| Foreign exchange forward and spot contracts – purchased | (2,687,946) | (3,995,722) |
| Options – puts | (67,802) | (3,939) |
| Options – calls | (3,048) | 36 |

## 8. TAX STATUS

The Plan received tax determination letters dated April 11, 1980, August 26, 1991, and June 15, 2004 from the Internal Revenue Service (the IRS) indicating that the Plan qualifies under the applicable provisions of the Internal Revenue Code (the IRC) and the related trust is exempt from Federal income taxes. With respect to the August 26, 1991 determination letter, the IRS did not determine whether the Plan's provisions complied with the Tax Reform Act of 1986 and subsequent applicable legislation. The Plan was amended to comply with the Tax Reform Act of 1986 and subsequent legislation and filed timely with the IRS on June 19, 2002 for an updated favorable determination letter. The determination letter was received on June 15, 2004 and was conditional upon adoption of the proposed restated Plan. Subsequently, MBSD adopted the restated Plan. The determination letter also acknowledges receipt of provisions intended to satisfy the requirements of Section 401(a) of the Code, as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001. The MBSD's management believes that the plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been reflected in the accompanying basic financial statements. On January 29, 2009, the District has requested an updated determination letter from Internal Revenue Service.

# REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 1)

# MILWAUKEE BOARD OF SCHOOL DIRECTORS EARLY RETIREMENT SUPPLEMENT AND BENEFIT IMPROVEMENT PLAN

## Required Supplementary Information
## SCHEDULE OF FUNDING PROGRESS
Last Six Fiscal Years

| Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) - unit credit | (c) Underfunded AAL (UAAL) (b) - (a) | (d) Funded Ratios (a) / (b) | (e) Annual Covered Certificated only Payroll | (f) UAAL as a Percentage of Covered Payroll (c) / (e) |
|---|---|---|---|---|---|---|
| 7/1/2010 | $ 42,306,659 | $ 52,695,253 | $ 10,388,594 | 80.29 % | $ 26,473,931 | 39.24 % |
| 7/1/2009 | 43,207,285 | 53,727,359 | 10,520,074 | 80.42 % | 28,690,983 | 36.67 % |
| 7/1/2008 | 44,570,940 | 53,278,752 | 8,707,812 | 83.66 % | 30,534,301 | 28.52 % |
| 7/1/2007 | 42,807,076 | 52,832,971 * | 10,025,895 | 81.00 % | 32,942,251 | 30.40 % |
| 7/1/2006 | 40,082,362 | 50,604,106 | 10,521,744 | 79.21 % | 34,756,344 | 30.27 % |
| 7/1/2005 | 39,409,013 | 49,456,069 | 10,047,056 | 79.68 % | 37,250,400 | 26.97 % |

* There were significant actuarial assumption changes made effective July 1, 2007. See Note 4

See accompanying independent auditors' report and required supplementary information.

| Year Ended June 30 | (a) Annual Required Contribution * | (b) Employer Contribtuions (net of interest) | (c) Prior Year Contribution Credit Applied/(Available) | (d) Contribution Credit Available for Next Year | (e) Total Employer Contributions (b)+(c)+(d) | (f) Percentage Contributed (e)/(a) |
|---|---|---|---|---|---|---|
| 2011 | $ 3,595,479 | $ 7,209,843 | $ 0 | $ (3,614,364) | $ 3,595,479 | 100 % |
| 2010 | 3,242,746 | 742,746 | 2,500,000 | 0 | 3,242,746 | 100 % |
| 2009 | 2,482,200 | 2,662,961 | 2,319,239 | (2,500,000) | 2,482,200 | 100 % |
| 2008 | 2,576,104 | 2,362,519 | 2,532,824 | (2,319,239) | 2,576,104 | 100 % |
| 2007 | 3,094,247 | 2,726,550 | 2,900,521 | (2,532,824) | 3,094,247 | 100 % |
| 2006 | 2,814,526 | 3,547,047 | 2,168,000 | (2,900,521) | 2,814,526 | 100 % |

* There were significant actuarial assumption changes made effective July 1, 2007. See Note 4

See accompanying independent auditors' report and required supplementary information.