MILWAUKEE PUBLIC SCHOOLS

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent
Auditors' Report

As of and for the Year
Ended June 30, 2011

BAKER TILLY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milwaukee Public Schools
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public Schools ("District") as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District adopted the provisions of Governmental Accounting Standard Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Milwaukee Public Schools

The management's discussion and analysis, budgetary comparison information and schedules of funding progress and schedule of employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
December 14, 2011

MILWAUKEE PUBLIC SCHOOLS

TABLE OF CONTENTS

JUNE 30, 2011

INTRODUCTION

This discussion and analysis of the financial performance of Milwaukee Public Schools (MPS or the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. The intent of the management discussion and analysis is to look at the financial performance of MPS as a whole. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

2. **Basic Financial Statements**

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

3. **Required Supplementary Information (RSI)**

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

The **Management's Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2011. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

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

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

Table 1

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

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire MPS entity (not including fiduciary funds)	Activities that are not proprietary or fiduciary; e.g. school operations, capital projects, and debt service	Activities where MPS acts as trustee or agent for another; e.g. employee retirement plans
Required financial statements	- Statement of net assets - Statement of activities	- Balance sheet - Statement of revenues, expenditures, and changes in fund balance	- Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

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

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

Required supplementary information (RSI) includes a budget-to-actual comparison that provides readers with information about the accuracy with which management was able to project the District's revenue and expenditure categories. In addition, RSI includes information concerning MPS' employee pension plan costs and OPEB. Two pension-related schedules are included. One schedule shows the District's progress toward funding its *past* service liability. The other is a schedule of employer contributions that focuses on payment of *current* pension fund costs.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets

Total net assets decreased from the prior year by $105.2 million. This decrease is largely the result of a $131.4 million increase in the District's Other Post-Employment Benefit (OPEB) liability. The Government Accounting Standards Board Statement 45 requires MPS to report its OPEB liability beginning with the 2008 fiscal year. The District's OPEB obligation at June 30, 2011 was $520.6 million. This amount reflects the unfunded portion of the fiscal year 2011 cost of healthcare benefits owed to current and future MPS retirees. The District's total OPEB liability as actuarially determined at July 1, 2009 is $2.398 billion.

MPS ended its fiscal year with net assets of ($126.1 million), of which $499.8 million was invested in capital assets (net of related debt), $11.2 million was restricted for debt service, and ($637.1) million was an unrestricted deficit. The unrestricted deficit is the result of the OPEB liability noted above as well as the District's pension liability. In November 2003, the MPS Board of School Directors took action to refinance the pension liability which at that time was owed to the Wisconsin Retirement System. The District issued pension bonds in the amount of $168.1 million to fully fund future employee pension benefits granted through collective bargaining. At June 30, 2011 the balance of the outstanding pension debt grew to $179.2 million due to the fact the pension financing includes capital appreciation securities which accrete over time.

MILWAUKEE PUBLIC SCHOOLS

Table 2

Condensed Statement of Net Assets

(in thousands)

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

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

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

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

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

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

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

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

Statement of Activities

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

MILWAUKEE PUBLIC SCHOOLS

Table 3

Schedule of Revenues and Expenses

(in thousands)

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

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

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

Capital Assets

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

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

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

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

Long-term Debt

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

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

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

The District reduced TEACH loans outstanding in the 2011 fiscal year by $809,282. The TEACH wiring loan program is sponsored by the state of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is immediately forgiven by the state. MPS has entered into two TEACH loan agreements with the state totaling $15,144,033.

The NSI debt is part of a state of Wisconsin-sponsored program intended to increase the capacity and improve the quality of Milwaukee's neighborhood schools. The outstanding debt is in the form of revenue bonds issued by the Redevelopment Authority of the City of Milwaukee on behalf of MPS, and is secured through bond insurance and a moral obligation pledge by the state of Wisconsin. A total of $112,040,000 of NSI debt was issued, with the first tranche issued in February 2002 (Series 2002A) in the amount of $33,300,000, and the second tranche sold on November 5, 2003 (Series 2003A) in the amount of $78,740,000. On February 1, 2007 MPS completed an advance refunding of $29,260,000 of the second tranche (Series 2003A) and also retired $5.1 million of bonds from that same tranche. Approximately $4.1 million of NSI debt was retired in fiscal year 2011.

The Qualified Zone Academy Bond (QZAB) debt is in the form of lease-purchase agreements collateralized by the assets purchased with the proceeds. The QZAB program is sponsored by the Internal Revenue Service (IRS) and provides interest-free capital for the purpose of promoting academic programs in partnership with the business community. QZAB debt has been used to support the purchase of furniture and equipment, and to make building improvements at several MPS schools. Interest on the debt is paid by the IRS via tax credits to the lender. QZAB debt decreased by $1.1 million in fiscal year 2011.

In December 2003, the city of Milwaukee, in connection with an intergovernmental cooperation agreement, issued $168,051,136 in bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling $165,505,293. In June 2006, MPS spent $5.9 million to retire $8.5 million of face value pension-related capital appreciation notes. The fiscal year 2011 ending balance is greater than the beginning balance given a portion of the District's pension debt is in the form of capital appreciation securities which appreciate each year.

MPS has entered into capital leases for the purpose of making major modifications to five school facilities. The five include the Milwaukee Education Center (MEC), Grand Avenue School, Congress School, Craig Montessori School, and Fratney Street School. The financing vehicle for all capital leases is lease revenue bonds. In fiscal year 2010, MPS through an intergovernmental cooperation with the city of Milwaukee, issued general obligation bonds (GO bonds) sufficient to retire the lease revenue bonds associated with the capital leases for MEC and Grand Avenue School. These GO bonds have the same maturity as the refunded debt and will be retired in fiscal year 2014. The Congress, Craig, and Fratney debt will be retired in 2026. The amount outstanding at year end 2011 was $10.8 million, down $515,000 from the previous year.

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

FUND FINANCIAL STATEMENTS

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

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

NOTES TO BASIC FINANCIAL STATEMENTS

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

BUDGETARY HIGHLIGHTS

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

In June 2010, the MPS Board of School Directors (the Board) adopted the District's fiscal 2011 budget (July 1, 2010 – June 30, 2011). The adopted budget by necessity used a *projection* of the fiscal 2011 student enrollment. In October 2010, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2010, as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state general aids and property taxes, are predicated on actual MPS enrollment.

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

In October 2010, the Board approved a revised fiscal year 2011 (FY11) General Fund expenditure budget in the amount of $1,255,763,476. This amount included prior year encumbrances and carryover authority.

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

Current Economic Facts and Next Year's Budget

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

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

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

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

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

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

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

REQUESTS FOR INFORMATION

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

Milwaukee Public Schools
Department of Finance
5225 West Vliet Street
Milwaukee, WI 53208
Or visit our website at: www.milwaukee.k12.wi.us

MILWAUKEE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2011

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

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Activities

Year ended June 30, 2011

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

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

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2011

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

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2011

Total fund balances—governmental funds			$	133,954,214
Amounts reported for governmental activities in the statement of net assets are different because:				
Bond costs of issuance are capitalized at the government-wide level and amortized over the life of the related bonds				2,852,681
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:				
Cost of capital assets	$	1,082,675,369		
Accumulated depreciation		(457,256,725)		
Net capital assets				625,418,644
Intangible assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:				
Cost of intangible assets	$	42,174,864		
Accumulated depreciation		(29,189,967)		
Net capital assets				12,984,897
Net Pension assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds				15,576,085
Grant and other receivables that are not collected within 90 days after year-end are not considered to be available to pay for the current period's expenditures and, therefore, are deferred in the funds				5,741,778
Long-term liabilities (including bonds payable) are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:				
Bonds and notes payable		(448,129,102)		
Bonds premium and discounts		1,445,736		
Discount on capital appreciation bonds		99,506,888		
Capital leases payable		(10,929,713)		
Accrued bond interest payable		(4,571,062)		
Compensated absences payable (vacation and sick leave)		(29,863,484)		
OPEB liability		(520,600,193)		
Workers' compensation claims payable		(6,031,995)		
Self-insurance claims payable		(876,378)		
Life insurance benefits and other long-term liabilities		(2,615,924)		
Total long-term debt liabilities				(922,665,227)
Total net assets—government activities			$	(126,136,928)

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2011

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

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2011

Net change in fund balances—total governmental funds		$ (2,935,574)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlay reported in governmental fund statements	$ 21,847,799	
Depreciation and amortization expense reported in the statement of activities	(23,265,141)	
Amount by which capital outlays are less than depreciation and amortization in the current period		(1,417,342)
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets		(4,174)
Some revenues will not be collected for several months after the District's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds		3,210,759
Some expenses reported in the statement of activities require the use of current financial resources and, therefore, are reported as expenditures in the government funds.		15,576,085
Bond, note, and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Repayments:		
Bonds and notes		14,099,135
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		
Net increase in accrued interest payable	(514,084)	
Accretion of interest on capital appreciation bonds	(2,882,882)	
Amortization of bond premium and discount	13,942	
Amortization of bond issuance costs	(256,062)	
Net decrease in compensated absences payable (vacation and sick pay)	2,145,307	
Net increase in workers' compensation claims payable	(452,050)	
Net increase in OPEB liability	(131,449,543)	
Net increase in general insurance claims payable	56,432	
Net decrease in life insurance benefits payable	(390,409)	
Net adjustment		(133,729,349)
Change in net assets of governmental activities		$ (105,200,460)

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

June 30, 2011

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

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Changes in Fiduciary Net Assets

Year ended June 30, 2011

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

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Reporting Entity

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

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

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

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

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

This report includes all of the funds of the District. The reporting entity for the District consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

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

(b) Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes, equalized aid, and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues rather than program revenues.

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

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor governmental funds:

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

Categorically Aided Programs

Debt Service Fund: used to account and report financial resources that are restricted, committed or assigned to expenditures for the payment of general long-term debt principal, interest and related costs.

Additionally, the District reports the following fund types:

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

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

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

1) Donations that are received pursuant to a trust agreement that restricts the use of the donations to the extent of the interest or other earnings of the fund. These trusts are maintained by the District for the purpose of scholarships for students.

2) Donations that are received pursuant to a trust agreement that restricts the use of the donation to a specified purpose but allows for the principal and interest to be

expended. These trusts are maintained by the District to include scholarships, donations toward specified activities within schools, and trusts to support extracurricular programs.

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

(c) *Measurement Focus and Basis of Accounting*

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

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

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after the end of the fiscal year except for property taxes, which must be collected within 60 days after year-end and for federal and state grant revenues which is at the most 180 days. Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants, and charges for services. Other revenue is recorded when received. Expenditures are recorded when the fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences that are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

(d) Restricted Cash and Investments

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

(e) Receivables

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

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

(f) Investments

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

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

(g) Inventories and Prepaid Items

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

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

(h) Capital Assets and Intangible Assets

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

	Capitalization threshold	Estimated useful life
Buildings	$ 5,000	50 years
Furniture and equipment	5,000	5 – 20 years
Vehicles	5,000	5 – 15 years
Computers and related equipment	5,000	5 years
Major computer	50,000	7 years
Intangible assets	50,000	7 years

(i) Property Taxes

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

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

(j) Deferred Revenue

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

(k) Compensated Absences

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

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

(l) Insurance Deposits

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating $3,723,449 at June 30, 2011 to provide for payment of future claims.

(m) Bond Premiums, Discounts, and Issuance Costs

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

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

(n) Claims and Judgments

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

(o) *Net Assets*

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

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

Restricted—This consists of net assets with constraints placed on their use by 1) external groups such as creditors, grantors, contributors, or 2) law through constitutional provisions or enabling legislation.

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

(p) *Fund Balance*

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

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

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

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

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

(q) Use of Estimates

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

(r) New Accounting Pronouncements

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

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

(2) Deposits and Investments

District's Deposits and Investments, Exclusive of Pension Trusts

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

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

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

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

baseball park district, or the University of Wisconsin Hospitals and Clinics Authority, or the Wisconsin Aerospace Authority.

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

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

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

As of June 30, 2011 the District had the following investments, shown with their maturities.

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

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

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was $40,707,366, of which $31,770,203 was invested in overnight repurchase agreements. Of the $40,707,366 bank balance, $7,330,005 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit

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

Funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund. Per Common Council the City Treasurer shall require collateralization of certificates of time deposit (excluding interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of $650,000. Milwaukee Public Schools' deposits with the City Treasurer for investments are all insured or collateralized on June 30, 2011.

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

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

A. Interest Rate Risk

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

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

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

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

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

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I on June 30, 2011. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations.

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

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

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

C. Custodial Credit Risk

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

Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. SWIB had uninsured and uncollateralized deposits totaling

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

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

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

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

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

F. Derivative Investments

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

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

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

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

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

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

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

A. Interest Rate Risk

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

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

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

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

Note: On June 30, 2011, SWIB's Core Fund and Variable Fund had $76.7 billion and $5.8 billion in assets, respectively. As of June 30, 2011, the Plan's assets were invested 88.3% in the SWIB Core Fund, 9.4% in the SWIB Variable Fund, and 2.3% in portfolios managed by M&I. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration. For the bond portfolio for the payment of benefits and expenses, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I on June 30, 2011. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations.

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

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

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

C. Custodial Credit Risk

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

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

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

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

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

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

F. Derivative Investments

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

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

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

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

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

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

(3) Receivables

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

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

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

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

(4) Interfund Transactions

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

The following balances as of June 30, 2011 represent due to/from balances among all funds:

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

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

The following balances as of June 30, 2011 represent transfer in/out balances among all funds:

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

(5) Capital Assets

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

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

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

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

(5A) Intangible Assets

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

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

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

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

(6) Short-term Borrowings

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

(7) Long-term Obligations

The City school bonds, notes and capital lease obligations outstanding at June 30, 2011 totaled $415,112,308. Of this total, $57,006,117 represents school bonds and notes that will be repaid by the City using the City's property tax levy. As the District does not have an obligation to repay these bonds and notes from its own property tax levy, the debt is not reflected in the District's long-term obligations. The remaining balance of $358,106,191 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

Long-term obligations of the District are as follows:

	Original amount	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee:						
American with Disabilities Act loans:						
4.75% – 5.375%, due in annual installments to June 2014	$ 300,000	80,000	—	20,000	60,000	20,000
4.74% – 5.625%, due in annual installments to September 2015	2,000,000	799,816	—	133,304	666,512	133,304
3.59%, due in annual installments to September 2016	3,095,000	1,031,270	—	206,254	825,016	206,254
3.74%, due in annual installments to March 2017	1,205,000	160,404	—	80,205	80,199	80,199
4.0 – 5.0%, due in annual installments to September 2017	660,000	307,754	—	44,042	263,712	43,952
4.0 – 5.0%, due in annual installments to February 2019	335,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	268,000	—	67,000	201,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	4,582,676	—	—	4,582,676	—
2.5 – 3.0%, due in annual installments to Februrary 2019	2,700,000	2,430,000	—	270,000	2,160,000	270,000
5.0%, due in installments to Februrary 2024	1,350,000	1,350,000	—	—	1,350,000	—
General Obligation Bonds:						
1.5 – 3.0%, due in May 2014	11,020,000	11,020,000	—	3,470,000	7,550,000	3,585,000
Plus: Premium on issuance	334,110	172,802	—	110,490	62,312	—
Qualified School Construction Bonds:						
1.18%, due in December 2025	12,000,000	12,000,000	—	—	12,000,000	—
Less: Discount on issuance	(450,000)	(421,875)	—	(28,125)	(393,750)	—
5.25%, due August 15th, 2014 to Februrary 2027	37,300,000	37,300,000	—	—	37,300,000	—
TEACH loan, 5.0%, due in annual installments to March 2012	15,144,033	1,659,026	—	809,282	849,744	849,744
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to August 2023	143,905,000	100,790,000		4,195,000	96,595,000	4,555,000
Plus: Premium on issuance	1,357,121	323,996	—	58,767	265,229	—
Less: Discount on 2007A issuance	(338,503)	(253,030)	—	(21,360)	(231,670)	—
Less: Deferred amount of refunding	(1,677,174)	(1,253,687)	—	(105,830)	(1,147,857)	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	19,318,100	5,668,324	—	1,108,081	4,560,243	879,205
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	37,375,000	—	—	37,375,000	—
Less: Discount	(25,232,986)	(15,501,027)	—	(1,357,239)	(14,143,788)	—
Capital appreciation bonds, due in annual installments beginning April 1, 2026 through April 1, 2041	110,525,000	110,525,000	—	—	110,525,000	—
Less: Discount	(94,805,878)	(86,888,743)	—	(1,525,643)	(85,363,100)	—
Pension bonds, variable interest rate "index-linked", interest due in semi-annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Capital leases-Microsoft and other leases	11,504,297	3,335,679	—	3,180,966	154,713	154,713
Capital lease—MEC/Grand Avenue & CCF	46,890,000	11,290,000	—	515,000	10,775,000	530,000
Total intergovernmental cooperation agreement debt		$ 369,336,385	—	11,230,194	358,106,191	11,374,371

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

Estimated payments of compensated absences, other post employment benefits, and insurance claims are not included in the debt service requirement schedules. The compensated absences, OPEB, and insurance claims liabilities attributable to governmental activities will be liquidated primarily by the general fund.

The District has recognized workers' compensation claims liability in the governmental funds of approximately $2,230,320 as of June 30, 2011. Accordingly, the total liability for workers' compensation claims was approximately $8.3 million.

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

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

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

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

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

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

The maximum allowable amount of City debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City (Wisconsin State Statute Chapter 67.03). Wisconsin State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City for calendar year 2011 was $27,936,389,500 and the 5% debt limit was $1,396,819,475. No referendum-approved debt is outstanding at June 30, 2011.

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

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

Neighborhood Schools Initiative Bonds

Amounts Outstanding

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

Prior-Year Defeasance of Debt

In prior years, the District defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2011, $29.3 million of bonds outstanding are considered defeased. The bonds are callable on August 1, 2013.

Derivative Instruments - Interest Rate Swap Agreements

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

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

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

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

Objective and Terms of Hedging Derivative Instruments

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

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

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

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

Fair Value. The fair values of the interest rate swaps were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Risks of Derivative Instruments

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

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

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

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

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

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

Swap payments and associated debt – Using rates as June 30, 2011, debt service requirements of the variable-rate index-linked bonds and net swap payments, assuming current interest rates remain the same for their term, were as follows (as rates vary, variable rate interest payments and net swap payments will vary):

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

(8) Fund Balance

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

The formula established by this action, and the application thereof as of June 30, 2011, is as follows:

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

(9) Risk Management

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

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

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

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

The only significant change in the insurance coverage from coverage provided in the prior year for the above described risks effective July 1, 2011 was a reduction in flood and earthquake coverage due to the District's flood losses and insurance market conditions. The per occurrence and annual aggregate limits for flood and earthquake decreased from $100 million to $25 million, the deductible increased from $50,000 to $250,000 and flood coverage at Riverside University High School is excluded effective July 1, 2011, until flood mitigation work is completed at this site. After mitigation work is completed, which is anticipated to be before November 1, 2011, flood coverage at this site will be reinstated at $5 million annual aggregate and $1 million deductible. To fill this $1 million deductible, the District has purchased federal flood insurance ($.5 million contents and $.5 million building). Settled claims from insured losses have not exceeded commercial insurance coverage for each of the past three years.

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

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

	Year ended June 30	
	2011	2010
Beginning of year liability	$ 44,013,910	44,925,890
Current year claims and changes in estimate	247,346,348	246,279,551
Claim payments	(243,766,106)	(247,191,531)
End of year liability	$ 47,594,152	44,013,910

The District has recognized the liability for health and dental benefits, which totaled $35,839,535 and $34,297,226 as of June 30, 2011 and 2010, respectively, in the general fund. The District has also recognized a liability of $2,230,320 and $978,414 as of June 30, 2011 and 2010, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. Accrued claims also include $5.8 million of other insurance related liabilities. All other claims liabilities are considered to be long-term liabilities and are recognized in the government-wide financial statements.

(10) Retirement Plans

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

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

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

The payroll for the District's employees covered by the WRS for the year ended December 31, 2010 was approximately $421,773,000; the District's total payroll was $551,317,000. The total required contribution for the year ended December 31, 2010 was approximately $46,395,000, which consisted of $20,245,000, or 4.8% of payroll, from the District and $26,150,000, or 6.2% of payroll, from the District on behalf of the employees. The District issued bonds in the amount of $168.051 million through the Redevelopment Authority of the City and the City to fund the pension-related debt to the WRS for the unfunded accrued liability for pension service, which reduced the WRS contribution rate effective January 1, 2004 by 2%. The amount contributed equaled the required contribution. Total contributions for years ending December 31, 2009 and 2008 were $43,886,000 and $43,822,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 are entitled to receive retirement benefits. Employees may retire at age 55 and receive actuarially reduced benefits. For employees actively enrolled in WRS as of January 1, 2000 or after, retirement benefits are calculated as 1.765% of final average earnings for each year of creditable service prior to January 1, 2000 and 1.6% for creditable service after December 31, 1999. Final average earnings are the average of the employee's three highest years of earnings. Employees terminating covered employment before becoming eligible for retirement benefits may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested. The WRS also provides death and disability benefits for employees. Eligibility for, and the amount of all benefits, is determined under Chapter 40 and 50 of the Wisconsin State Statutes.

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

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

Employees' Retirement System of the City of Milwaukee—All eligible District employees (classified employees, principally non-teachers) participate in the Employees' Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 800 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,600 hours for 10-month school year teachers) are eligible to participate in the System.

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

Due to the global pension settlement, employees eligible for enrollment on or after January 1, 2000 may consent to the global pension settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Effective August 29, 2011, the Common Council of the City of Milwaukee eliminated the 1.6% employee contribution for the COLA effective (get date) for classified employees who are also paying the 5.5% employee required contribution. Also, employees enrolled as of January 1, 2000 have the option to object to global pension settlement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates. Based on actuarial valuation dated January 1, 2010, the District is not required to make any employer contributions on January 1, 2011.

The payroll for the District's employees covered by the System for the year ended December 31, 2010 was $111,733,245; the District's total payroll was $551,317,000. The total required contribution including retroactive adjustments for the year ended December 31, 2010 was $14,139,000 or 12.7% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2009 and 2008 were $7,017,000 and $6,509,000, respectively, equal to the required contributions for each year.

Employees who retire at or after age 60, or who retire at age 55 and have completed 30 years of creditable service, are entitled to receive a retirement benefit. The System provides a service retirement benefit equal to 2% of the member's final average salary times the total number of years of all creditable service, limited to 70% of final average salary. Benefits are fully vested upon completion of four years of service. All active employees as of January 1, 2000 shall receive a one-time 5% bonus payable in a single lump sum upon retirement or death to employee's beneficiary. Active employees enrolled between January 1, 2000 and June 27, 2000 and who consent to the global pension settlement or enrolled on or after June 28, 2000 shall make a biweekly employee contribution of 1.6% of their pensionable earnings to pay for their cost of living adjustment (COLA) improvement upon completion of the first eight years of employment. As previously mentioned, the Common Council of the City of Milwaukee eliminated the 1.6% employee contribution for the COLA effective August 29, 2011 for classified employees who are also paying the 5.5% employee required contribution. The COLA shall be 1.5% annually beginning after the 2nd, 3rd, and 4th anniversary after retirement and 2% after the 6th year of the employee's retirement or death. Upon completion of eight years of service, employees terminating covered employment may withdraw their funds and forfeit all rights to any subsequent benefit. The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits are determined under Chapter 36 of the City charter.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 789 North Water Street, Suite 300, Milwaukee, WI 53202.

Supplemental Retirement Plans

(a) Plan Descriptions and Funding Policies

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

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

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

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

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. For Plan years, effective July 1, 2003, vesting under the Plan is modified to be three years of service as a covered employee and eight or more years of vesting service. The plan provides for unreduced benefits on or after age 60 and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit for this plan and either the System or WRS of 70% of average monthly compensation. The benefit paid under this plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the plan by decreasing the benefits paid and increasing the funded status of the plan.

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

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

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

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

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

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

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

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

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

The Plan does not provide for any post retirement increases.

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

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

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

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

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the plan on the later of the effective date of the Plan or the date they become a participant in the WRS. Employees who first became participants before July 1, 1998, are vested upon participation. Employees who first became participants on or after July 1, 1998, are vested after being employed by the District for at least 15 years after July 1, 1998, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55^{th} birthday.

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

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

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

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

(b) Annual Pension Costs and Actuarial Assumptions Used

The District's annual pension costs for the year ended June 30, 2011 and related actuarial assumptions used for the current year and related information for each plan is as follows:

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

The funded status of the plans of July 1, 2010, the most recent actuarial valuations date, was as follows:

		Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial accrued liability(AAL)	$	52,695,253	228,417,032
Actuarial value of plans assets		42,306,659	102,968,116
Unfunded Actuarial Accrued Liability	$	10,388,594	125,448,916
Funded ratio (actuarial value of plan assets/AAL)		80.29%	45.08%
Covered payroll (active plan members)	$	26,473,931	342,784,884
UAAL as a percentage of covered payroll		39.24%	36.60%

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

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	July 1, 2010	July 1, 2010
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	5- year closed, level dollar	The loss at July 1, 2006, due to the valuation of deferred vested temporary benefits is amortized over a 15-year closed period commencing July 1, 2006, on a level dollar basis. Unfunded liabilities not attributable to the loss due to valuation of deferred vested temporary benefits are amortized using a 25-year closed period, level-dollar amortization commencing July 1, 2007. The resulting amortization period is 21.18 and is in accordance with GASB 25 and 27 requirements.
Actuarial Valuation Method	5-year smoothed market	5-year smoothed market
Investment rate of return	8.0%	8.0%

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Projected salary increases:		
Certificated participants	Wage inflation of 3.0% per year with additional service-based increases of up to 3.5% per year.	Wage inflation of 3.0% per year plus additional service-based increases of up to 4.80%
Classified participants	4.0% per year	N/A
Cost of Living Increases	0.0% per year	0.0% per year
Mortality Table	1994 GAM, sex distinct	1994 GAM, sex distinct

(c) Three-Year Trend Information

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

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

		Annual required contribution	% of annual pension cost contributed		Net pension prepayment
Fiscal year beginning July 1:					
2010	$	3,595,476	100%	$	(3,614,364)
2009		3,242,746	100%		-
2008		2,482,200	100%		(2,500,000)

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

		Annual required contribution	% of annual pension cost contributed		Net pension prepayment
Fiscal year beginning July 1:					
2010	$	15,645,398	100%	$	(11,961,721)
2009		15,641,408	100%		(187,428)
2008		15,235,493	100%		(11,447,452)

(11) Post-Employment Life and Healthcare Insurance Benefits

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

Employee and retiree contribution requirements are established through collective bargaining agreements and Board policy. Contributions may be amended only through negotiations between the District and the union in the case of represented employees and by Board policy, as may be amended by action of the governing body, in the case of non-represented employees. 2011 Wisconsin Acts 10 and 32 stipulate that once existing collective bargaining agreements expire, or are terminated, extended, modified or renewed, such benefit provisions are a prohibited subject of bargaining and therefore such benefits including contributions are established through Board policy as may be amended by action of the governing body.

An employee with 70 percent or more of the maximum accumulated sick leave at the time of retirement, in accordance with collective bargaining agreements and Board policy, will receive a monthly Board subsidy at the Board's share of the PPO/Indemnity active single plan or family plan premium rate in effect as of the employee's date of retirement. (Certain bargaining units and certain non-represented employees who submit a retirement notice by either March 1 or April 1 will receive the greater of the June 30th or July 1st premium rate as their monthly Board subsidy in accordance with their collective bargaining agreement and Board policy.) A special one-time provision providing the higher PPO/Indemnity active single plan or family plan premium rate of March 31, 2011 or July 1, 2011 was extended to certain bargaining units and non-represented employees who gave their retirement notice by April 1, 2011 and retired by the end of their regular work year in June, 2011. Generally, the Board subsidy for health insurance remains fixed for the lifetime of the retiree while the retiree continues enrollment in an MPS health plan. MPS will reimburse the retiree for the retiree's Medicare Part B premium in an amount not to exceed the Board subsidy. Employees who meet all other eligibility retirements, but do not meet the 70 percent maximum accumulated eligibility requirement for the Board subsidy, may continue coverage in an MPS health plan as a retiree on a self-paid basis at the group premium rate. There are also disability retirement provisions that provide for lifetime health coverage for the disabled retiree and eligible dependents. The surviving spouse coverage provisions for death of an employee in active service or after retirement for certain collective bargaining units and non-represented employees provide lifetime health coverage for the surviving spouse and limited coverage for eligible dependents at the established Board subsidy rate.

Effective August 1, 2011, all active employees pay premium contributions for health insurance based on either a percentage of the active premium rate or a percentage of salary in accordance with their collective bargaining agreement and Board Policy. This is as a result of settlement of all union contracts in late 2010 and early 2011. Prior to this, there was no employee premium contribution for most active employees. Certain non-represented employees paid 5 percent of their health plan premium. Board members pay any premium difference between the health plan they selected and the lowest cost health plan. The conditional employee premium contribution of 2.5 percent for those enrolled in the PPO/Indemnity Health Plan if the premium for this plan increases greater than 17 percent was eliminated August 1, 2011. This conditional premium share was never triggered.

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

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

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

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year ending June 30, 2011, the amount actually contributed to plan, and changes in the district's net OPEB obligation to the Retiree Health Plan:

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2011 and the two preceding years was as follows:

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

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

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

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

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

The District's OPEB financial disclosure information for fiscal year ending, June 30, 2011 was based on the assumptions and methods in the July 1, 2009 actuarial valuation. The health benefit and eligibility changes that became effective on April 1, 2011 in accordance with the 2010/2011 union contract settlements and Board policy for non-represented employees are not expected to significantly impact the Annual Required Contribution for fiscal year end on June 30, 2011 and the impact of such changes will be measured in the subsequent valuation as of July 1, 2011. The entry age normal actuarial cost method was used. The District established an IRC Section 115 trust to contribute 105 percent of actual retiree healthcare claims to the trust beginning July 1, 2010. The actuarial assumptions include a 4.55 percent investment rate of return that reflects the District's prefunding policy and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after 10 years. Both rates include a 3 percent inflation assumption. The Retiree Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. In accordance with the GASB No. 45 standard, the unfunded actuarial liability is amortized over a 30 year period with an open amortization method. Financial statements of the Other Post Employment Benefits Trust are included on pages 92 and 93.

(12) Limitation on District Revenues

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

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

For the fiscal year ended June 30, 2011, the District met its revenue limitation.

(13) School Nutrition Deficit

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

(14) Excess Expenditures Over Appropriations

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

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

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

(15) Commitments and Contingencies

(a) Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2011 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

(b) ***Contractual Commitments***

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

(c) ***Litigation***

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

(d) ***Class Action Litigation***

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

(e) ***Interest Rate Swap Agreement***

In December 2003, Milwaukee Public Schools (MPS), in cooperation with the City of Milwaukee (City) and the Redevelopment Authority of the City of Milwaukee (RACM), issued $168,051,135 of debt instruments to fully fund its previously unfunded actuarial accrued liability for employee pensions owed to the Wisconsin Retirement System. Of this amount, $130,850,000 was issued in the form of variable rate debt. To fix the interest rate relative to this variable rate debt, the City, acting as agent for MPS, entered into agreements with the firms of Lehman Brothers Special Financing, Inc. and Morgan Stanley in the amounts of $70,850,000 and $60,000,000 respectively. Each of the agreements expires October 1, 2043, when the last of the variable rate debt is retired.

On September 15, 2008, Lehman Brothers Holdings Inc., parent company of Lehman Brothers Special Financing, declared bankruptcy. On the weekend of October 5, 2008, Lehman Brothers Special Financing declared bankruptcy. The declaration of bankruptcy by these organizations necessitates the replacement of the agreements between the City / MPS and Lehman Brothers Special Financing with similar agreements with another firm or firms.

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

(f) FCC Channels

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

(16) Subsequent Events

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

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REQUIRED SUPPLEMENTARY INFORMATION

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2011

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

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

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2011

	Budgeted amounts		Actual	Variance with Revised Budget
	Adopted	Revised	(GAAP basis)	
INDIRECT & SUPPORT SERVICES				
Board of School Directors	$ 415,455	$ 623,383	$ 417,270	$ 206,113
Office of Board Governance	8,036,404	3,859,102	2,487,196	1,371,906
Office of Accountability and Efficiency	-	1,791,237	1,323,902	467,335
Office of Superintendent	4,556,169	3,171,574	2,746,847	424,727
Office of School Administration	-	2,177,858	2,437,100	(259,242)
Office of Academic Support	3,015,443	4,175,221	3,439,456	735,765
Office of Chief Financial Officer	-	5,023,529	4,212,579	810,950
Office of Family Services	2,902,062	2,962,802	2,913,746	49,056
Dept. of Special Services	5,148,105	4,386,240	3,945,696	440,544
Office of Planning & Operations	55,655,291	62,260,466	50,398,833	11,861,633
Dept. of Human Resources	5,245,661	6,187,723	5,244,511	943,212
TOTAL - INDIRECT & SUPPORT	84,974,590	96,619,135	79,567,136	17,051,999
OTHER ACCOUNTS				
Textbook Adoptions	5,727,848	5,842,800	6,310,857	(468,057)
Partnership Academy	56,296	142,939	85,036	57,903
Safety Supplement	2,355,350	2,822,814	2,489,993	332,821
Technology Licenses	3,724,859	3,951,501	3,247,638	703,863
Music Festival	-	4,043	5,415	(1,372)
Transportation	54,465,366	55,135,312	57,651,295	(2,515,983)
School District Insurances	10,565,781	10,273,425	10,066,988	206,437
Debt Service (includes NSI)	-	653,031	5,043,079	(4,390,048)
Utilities & Leases	26,824,605	26,936,224	26,648,452	287,772
Special & Contingent Funds	807,017	17,941,915	19,994,731	(2,052,816)
TOTAL - OTHER ACCOUNTS	104,527,122	123,704,004	131,543,484	(7,839,480)
DIVISION OF RECREATION AND COMMUNITY SERVICES				
Playgrounds & Recreation Centers	8,480,620	8,999,416	7,351,197	1,648,219
Earn to Learn	60,000	101,037	39,294	61,743
Summer School Wrap-around	2,553,623	3,539,037	1,094,102	2,444,935
Summer Read Program	-	100,000	79,866	20,134
Community Arts Program	1,193,960	1,848,665	1,019,365	829,300
Partnership for Humanities	0	500,000	80,595	419,405
District Insurances	338,196	338,196	296,645	41,551
Other	-	2,508,184	2,508,184	-
Special & Contingent Fund	528,841	835,212	191,973	643,239
TOTAL DIVISION OF RECREATION AND COMMUNITY SERVICES	13,155,240	18,769,747	12,661,221	6,108,526
OFFSET FOR CHARGES TO SCHOOLS AND OTHER ADJUSTMENTS TOTAL - CHARGES	(12,482,259)	(15,362,043)	(15,514,346)	152,303
SCHOOL OPERATIONS & EXT. FUND	947,993,543	979,636,853	937,867,547	(878,824,639)
CAMP	-	-	3,364,681	(3,364,681)
GRANTS	226,847,624	276,126,623	226,367,145	49,759,473
Total Expenditures	1,174,841,167	1,255,763,476	1,167,599,373	(832,429,847)
Excess of revenues over (under) expenditures	16,377,154	(14,018,487)	19,736,802	(886,838,656)
Transfer In (Out)	(16,377,154)	(12,531,385)	(20,168,630)	(7,637,245)
Proceeds from sale	-	-	18,128	18,128
Change in Fund Balance	$ -	$ (26,549,872)	(413,700)	$ 26,136,172
Fund balance-beginning of year			92,014,574	
Fund balance-end of year			$ 91,600,874	

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

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Budgetary Comparison Schedule for the School Nutrition Services Fund

Year ended June 30, 2011

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

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Year ended June 30, 2011

Schedules of Funding Progress

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

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/2010	$ 42,306,659	$ 52,695,253	$ 10,388,594	80.29 %	$ 26,473,931	39.24 %
7/1/2009	43,207,285	53,727,359	10,520,074	80.42	28,690,983	36.67
7/1/2008	44,570,940	53,278,752	8,707,812	83.70	30,534,301	28.52
7/1/2007	42,807,076	52,832,971	10,025,895	81.02	32,942,251	30.43
7/1/2006	40,082,362	50,604,106	10,521,744	79.21	34,756,344	30.27
7/1/2005	39,409,013	49,456,069	10,047,056	79.68	37,250,400	26.97

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/2010	$ 102,968,116	$ 228,417,032	$ 125,448,916	45.08 %	$ 342,784,884	36.60 %
7/1/2009	99,077,126	225,134,052	126,056,926	44.01	353,723,230	35.64
7/1/2008	94,204,651	217,642,068	123,437,417	43.28	350,580,446	35.21
7/1/2007	82,256,327	210,656,973	128,400,646	39.05	341,271,505	37.62
7/1/2006	70,897,370	188,159,912	117,262,542	37.68	320,407,690	36.60
7/1/2005	60,596,308	174,359,298	113,762,990	34.75	321,226,581	35.42

SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

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

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

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

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

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

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Postemployment Health Care Plan

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

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

See Independent Auditors Report and accompanying Notes to Required Supplementary Information

(1) Budgeting

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

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

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

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

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