MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

(A Pension Trust Fund of Milwaukee Public Schools)

FINANCIAL STATEMENTS AND SCHEDULES

Including Independent Auditors' Report

June 30, 2011 and 2010

MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

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INDEPENDENT AUDITORS' REPORT

To the Milwaukee Board of School Directors
Supplemental Early Retirement Plan for Teachers:

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

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

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

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

The Management's Discussion and Analysis on pages 2 - 6, and the Schedule of Funding Progress and Schedule of Employer Contributions on pages 22 - 23 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the 2011 and 2010 information which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Milwaukee, Wisconsin
December 12, 2011

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

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

Overview of the Financial Statements of the Plan

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

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

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

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

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

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

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

Analysis of Plan Net Assets and Actuarial Liabilities

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

	2011	2010	2009
Assets:			
Investments	$ 124,837,032	$ 88,707,648	$ 86,198,804
Accrued interest receivable	21,756	30,077	19,704
Total assets	124,858,788	88,737,725	86,218,508
Liabilities (primarily benefits payable)	1,199,011	1,234,099	1,187,732
Plan net assets available for benefits	$ 123,659,777	$ 87,503,626	$ 85,030,776

Plan assets increased by approximately $36.2 million during the fiscal year ending on June 30, 2011. The increase is due to a net investment gain of $22.5 million and contributions of $27.4 million that exceeded benefit payments and expenses of $13.7 million. Plan assets increased by approximately $2.5 million during the fiscal year ending on June 30, 2010. The increase is due to a net investment gain of $11.6 million and contributions of $4.4 million that exceeded benefit payments and expenses of $13.5 million

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

	2010	2009	2008
Actuarial value of plan assets	$ 102,968,116	$ 99,077,126	$ 94,204,651
Actuarial accrued liability	228,417,032	225,134,052	217,642,068
Unfunded actuarial accrued liability	$ 125,448,916	$ 126,056,926	$ 123,437,417
Funded ratio	45.1%	44.0%	43.3%

Analysis of Changes in Plan Net Assets

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

	2011	2010	2009
Additions:			
Net investment income (loss)	$ 22,517,315	$ 11,610,204	$ (18,733,946)
Employer contributions	27,366,748	4,365,123	11,400,000
Total additions (loss)	49,884,063	15,975,327	(7,333,946)
Deductions:			
Benefit and refund payments	13,608,816	13,380,262	12,465,709
Administrative expenses	119,096	122,215	134,105
Total deductions	13,727,912	13,502,477	12,599,814
Net increase (decrease) in plan assets	$ 36,156,151	$ 2,472,850	$ (19,933,760)

The net investment gains for the years ended June 30, 2011 and June 30, 2010 are the result of returns on investments of 23.1% and 13.9% for the years ended June 30, 2011 and 2010, respectively.

It is the District's practice to fund the Plan based on the actuarially determined recommended contributions which were approximately $15.6 million, $15.6 million, and $15.2 million for the years ended June 30, 2011, 2010, and 2009, respectively. However, the District made prepayments during the years ended June 30, 2011, 2010 and 2009 toward the past service liability portion of the subsequent years' recommended contribution which resulted in a difference in the actual amounts contributed during the respective years. As of June 30, 2011, 2010, and 2009, the District had cumulative credits (prepayments) of $12.0 million, $0.2 million, and $11.4 million, respectively, for the subsequent years' contribution.

Observations

- For the year ended June 30, 2011, the Plan's investment return of 23.1% was 2.8% above its benchmark return of 20.3% and 18.9% above inflation. Over the five years ending on June 30, 2011, the Plan's investment return of 5.5% was 0.6% above its benchmark index return of 4.9% and 3.2% above inflation. For the year ended June 30, 2010, the Plan's investment return of 13.9% was 1.5% above its benchmark return of 12.4% and 12.6% above inflation.
- The Plan's assets were invested approximately 88% in the SWIB Core Fund, 10% in the SWIB Variable Fund and 2% in various bond funds and money market funds on June 30, 2011. The Plan's assets were invested approximately 33% in U.S. Stocks, 28% in Fixed Income, 25% in International Stocks, 4% in Real Estate, and 10% in Alternative Investments on June 30, 2011. Relative to the allocation on June 30, 2010, this represents a 2% increase in the allocation to U.S. Stocks, a 3% decrease in the allocation to Fixed Income and a 1% increase in the allocation to Real Estate.
- SWIB's Core and Variable Funds included derivative investments in futures contracts, foreign exchange forward and spot contracts, and options in 2011 and 2010.
- Actuarial liabilities for retired participants, terminated vested participants and active participants represented 51%, 11% and 38%, respectively, of total accrued liabilities on July 1, 2010 and 52%, 10% and 38%, respectively, of total accrued liabilities on July 1, 2009.

- The funded ratio (the actuarial value of the Plan's assets divided by the actuarial value of the liabilities) increased by 1.1% from 44.0% on July 1, 2009 to 45.1% on July 1, 2010. It increased by 0.7% from 43.3% on July 1, 2008 to 44.0% on July 1, 2009.

- The plan's actuary's annual recommended contribution remained approximately the same for the fiscal year ended June 30, 2011. This was due to the recognition of investment losses of approximately $600,000, which was mostly offset by a reduction in the contribution due to gains from lower than expected salary increases and favorable demographic experience. The plan's actuary's annual recommended pension contribution increased by approximately $400,000 for the fiscal year ended June 30, 2010. The increase due to the recognition of investment losses that totaled approximately $550,000 was partially offset by the reduction due to lower than expected salary increases and favorable demographic experience.

Investment Performance

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

	1 year	5 years
SWIB Core Fund	22.9%	5.2%
Benchmark Index Return	*19.8%*	*5.4%*
SWIB Variable Fund	32.1%	3.5%
Benchmark Index Return	*31.2%*	*3.0%*
Employer Benefit Payment Fund	3.5%	5.4%
Benchmark Index Return	*3.8%*	*6.1%*
Total Portfolio	23.1%	5.5%
Benchmark Index Return	*20.3%*	*4.9%*

The benchmark indices for each fund were as follows:

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

Asset Allocations by Fund and by Asset Class

The asset allocations by Fund on June 30, 2011, 2010, and 2009 was as follows:

	2011	2010	2009
SWIB Core Fund	88%	83%	84%
SWIB Variable Fund	10%	12%	14%
Employer Benefit Payment Fund at M&I	2%	5%	2%

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

Asset Class	Percentage Allocation on June 30:		
	2011	2010	2009
U.S. Stock	33%	31%	34%
Fixed Income	28%	31%	26%
International Stocks	25%	25%	26%
Real Estate	4%	3%	5%
Alternative Investments	10%	10%	9%

MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

STATEMENTS OF PLAN NET ASSETS JUNE 30, 2011 AND 2010

ASSETS

	2011	2010
Investments, at fair value		
Money market accounts	$ 1,432,558	$ 1,337,744
U.S. Treasury and agency securities	413,807	2,184,891
Municipal bonds	4,918	20,048
Mortgage-backed securities	6,028	16,362
Nongovernmental obligations	2,190,283	1,709,281
Investment in the state of Wisconsin:		
Core retirement investment trust fund	109,173,076	73,115,433
Variable retirement investment trust fund	11,616,362	10,323,889
Total investments	124,837,032	88,707,648
Accrued interest receivable	21,756	30,077
Total assets	124,858,788	88,737,725
LIABILITIES		
Benefits payable	1,169,055	1,135,128
Accrued administrative expenses	29,956	23,781
Investments payable	-	75,190
Total liabilities	1,199,011	1,234,099
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$123,659,777	$ 87,503,626
Plan net assets held in trust for pension benefits attributable to:		
Nondedicated fund	$123,659,777	$ 87,503,626

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

MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

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

	2011	2010
ADDITIONS		
Investment income:		
Net investment income from the state of Wisconsin:		
Core retirement investment trust fund	$ 19,057,643	$ 9,471,616
Variable retirement investment trust fund	3,292,473	1,851,336
Investment income from other investments	176,883	297,537
Total investment income	22,526,999	11,620,489
Less: investment expenses	(9,684)	(10,285)
Net investment income	22,517,315	11,610,204
Employer contributions	27,366,748	4,365,123
Total additions	49,884,063	15,975,327
DEDUCTIONS		
Benefits paid to participants or beneficiaries	13,608,816	13,380,262
Administrative expenses	119,096	122,215
Total deductions	13,727,912	13,502,477
Net increase in plan net assets held in trust for pension benefits	36,156,151	2,472,850
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS-		
Beginning of year	87,503,626	85,030,776
End of year	$123,659,777	$ 87,503,626

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

1. DESCRIPTION OF THE PLAN

The Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers (the Plan) is a single-employer defined benefit pension plan for certain employees of the Milwaukee Board of School Directors (MBSD). The Plan is administered by the MBSD. Participants should refer to the plan document for more complete information.

a. *General* - The Plan is a defined benefit pension plan established to provide benefits after early retirement, which will supplement the pension benefits provided by the Wisconsin Retirement System (WRS). To be eligible for participation, an employee must be a teacher of the Milwaukee Public Schools (the District or MPS) who is in the collective bargaining unit represented by the Milwaukee Teachers' Education Association (MTEA) and who is participating as an active employee in the WRS. Such employees shall become participants in the Plan on the later of the effective date of the Plan or the date they become a participant in the WRS. Employees who first became participants before July 1, 1998, are vested upon participation. Employees who first became participants on or after July 1, 1998, are vested after being employed by the District for at least 15 years after July 1, 1998, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55th birthday.

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

b. *Retirement Benefits*- The Plan provides for early reduced retirement benefits to participants who are eligible and commence their WRS benefit 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 postretirement increases.

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

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

d. *Plan Membership* – Plan membership consisted of the following:

	July 1	
	2010	**2009**
Retirees and beneficiaries currently receiving benefits:		
Dedicated	0	0
Nondedicated	4,056	4,028
	4,056	4,028
Active employees	5,507	5,823

The above plan membership totals do not include terminated employees entitled to benefits but not yet receiving them. Terminated employees entitled to benefits but not yet receiving them are estimated to be 3,769 and 3,762 at July 1, 2010 and 2009, respectively.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont)

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

3. PLAN TERMINATION

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

1. To provide pensions for those persons who are receiving benefits under the Plan on the date of termination;
2. To provide pensions for participants who have attained age 62 prior to the date of termination;
3. To provide pensions for participants who have attained age 55 prior to the date of termination;
4. To provide benefits for all other participants according to the respective actuarial values of their accrued pension benefits as of the date of termination.

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the entry age normal actuarial funding method.

The recommended contribution for the year ended June 30, 2011 of $15,645,398 to the Plan is an actuarially determined contribution requirement determined through an actuarial valuation performed at July 1, 2010. The recommended contributions for the year ended June 30, 2011 consisted of $4,090,669 normal cost and $11,554,729 amortization of the unfunded actuarial accrued liability, assuming a funding date of July 1, 2010.

The recommended contribution for the year ended June 30, 2010 of $15,641,408 to the Plan is an actuarially determined contribution requirement determined through an actuarial valuation performed at July 1, 2009. The recommended contributions for the year ended June 30, 2010 consisted of $4,234,366 normal cost and $11,407,042 amortization of the unfunded actuarial accrued liability, assuming a funding date of July 1, 2009.

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (cont)

The District actually contributed $27,366,748 in the year ended June 30, 2011. As of June 30, 2011, the District has a cumulative credit (prepayment) of $11,961,721 (including net interest of $52,943) to be used for the subsequent year's recommended contributions, which are based on estimates provided by the Plan's actuary.

The District actually contributed $4,365,123 in the year ended June 30, 2010. As of June 30, 2010, the District has a cumulative credit (prepayment) of $187,428 (including net interest of $16,261) to be used for the subsequent year's recommended contributions, which are based on estimates provided by the Plan's actuary.

The unfunded actuarial liability, for the year ended June 30, 2011 and June 30, 2010 is being amortized over 25 years, except for the Additional Deferred Vested Liability, which is amortized over 15 years. The annual amortization is included in the recommended contributions.

As of July 1, 2010, the most recent actuarial valuation date, the plan was 45.1% funded on an actuarial basis. The actuarial accrued liability for benefits was $228,417,032, and the actuarial value of assets was $102,968,116, resulting in an unfunded actuarial liability (UAAL) of $125,448,916. The covered payroll (annual payroll of active employees covered by the plan) was $342,784,884, and the ratio of the UAAL to the covered payroll was 36.60%.

As of July 1, 2009, the plan was 44.0% funded on an actuarial basis. The actuarial accrued liability for benefits was $225,134,052, and the actuarial value of assets was $99,077,126, resulting in an unfunded actuarial liability (UAAL) of $126,056,926. The covered payroll (annual payroll of active employees covered by the plan) was $353,723,230, and the ratio of the UAAL to the covered payroll was 35.64%.

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

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (cont)

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2010
Actuarial cost method	Entry age normal
Asset valuation method	Five – year smoothed market
Amortization method	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 Assumptions:	
Investment rate of return	8.0%
Projected salary increases	Wage inflation of 3.0% per year plus additional service-based increases of up to 4.80%
Cost of living increases	0.0% per year
Mortality table	1994 GAM, sex distinct

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

1. Change retirement rate to age and service-based rates with higher rates as age and service increase

2. Increase age-based terminations

3. Change mortality rates from 1983 Group Annuity Mortality table (GAM) for males, with a six-year set back for females, to 1994 GAM, sex distinct

4. Decrease disability rates

5. Add additional service-based salary increases for first 16 years of service

6. Project pay for benefit purposes by comparing the base pay rate and actual pay paid during the prior year

7. Change discount rate to value bond-dedicated liabilities from 9.25 to 8.0 percent

8. Change valuation of bond-dedicated assets to market value assets

4. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE (cont)

9. Consolidate individual amortization bases into one amortization base, and amortize unfunded actuarial accrued liability using a 25-year closed level dollar amortization period commencing July 1, 2007 except for Additional Deferred Vested Liability, which is amortized over 15 years.

5. INVESTMENTS

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

	June 30,	
	2011	2010
Categorized:		
U.S. Treasury and agency securities	$ 413,807	$ 2,184,891
Mortgage-backed securities	6,028	16,362
Municipal bonds	4,918	20,048
Nongovernmental obligations	2,190,283	1,709,281
Non-categorized:		
Money market accounts	1,432,558	1,337,744
Investment in the State of Wisconsin		
Core retirement investment trust fund	109,173,076	73,115,433
Variable retirement investment trust fund	11,616,362	10,323,889
Total Investments	$ 124,837,032	$ 88,707,648

The Plans investments in the State of Wisconsin Core Retirement Investment Trust Fund (the Core Trust) and the State of Wisconsin Variable Retirement Investment Trust Fund (the Variable Trust) (collectively, the Trusts) were established for the investment of assets of the Plan and several other governmental-sponsored retirement plans. Each participating retirement plan has an undivided interest in the Trusts. The assets of the Trusts are held by the State of Wisconsin (the Trustee) and exceed 5% of the plan net assets held in trust for plan benefits. At June 30, 2011 and 2010, the Plan's interest in the plan net assets of the Core Trust was approximately 0.142% and 0.113% respectively, and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.202% and 0.228% respectively. Investment income and administrative expenses relating to the Trusts are allocated to the individual plans based upon average monthly balances invested by each plan. The Core Trust invests primarily in equity and fixed income securities, while the Variable Trust invests primarily in equity securities.

5. INVESTMENTS (cont)

In accordance with the Plan's investment policy, the Plan invests in mortgage-backed securities (0.01% and 0.02% of plan assets in 2011 and 2010, respectively). These securities are reported at fair value in the statements of plan net assets and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to repayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby repaying the mortgages underlying these securities, the cash flow from interest payments is reduced and the value of these securities declines. Likewise, if homeowners pay on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated. The Plan invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

Also in accordance with the Plan's investment policy, the Plan invests in nongovernmental obligations (1.75% and 1.93% of plan assets in 2011 and 2010, respectively). These securities are reported at fair value in the statements of plan net assets.

6. DEPOSIT AND INVESTMENT RISK

The Trustees of the Plan have adopted a Statement of Investment Policy (the Policy). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds (SWIB funds), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp. (M&I), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the 1989 bond dedication program, plus six months administrative expense. The portfolio is rebalanced toward the Policy targets quarterly. For 2011 and 2010, 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 and 2010, 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.

6. DEPOSIT AND INVESTMENT RISK (cont)

A. Interest Rate Risk

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

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

Investment	Duration (Years)	Fair Value
SWIB Core and Variable Funds	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	$ 6,028
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
Certificates of Deposit	0.2	$ 15 Million
Commercial Paper	0.2	$ 94 Million
Corporate Bonds and Private Placements	4.9	$ 5,058 Million
Corporate Bonds and Private Placements	N/A	$ 79 Million
Futures Contracts	6.5	$ 142 Million
Futures Contracts	N/A	$ (6 Million)
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

6. DEPOSIT AND INVESTMENT RISK (cont)

SWIB Investments	Duration (Years)	Fair Value
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.

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

Investment	Duration (Years)	Fair Value
SWIB Core and Variable Funds	33% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.0 to 13.0 years. Additional detail on the SWIB fixed income investments is included below.	$83,439,322
Money market accounts	0.1	$1,337,744
U.S. Treasuries, Agencies, and Government Bonds	5.2	$2,184,891
Municipal Bonds	0.4	$ 20,048
Mortgage-backed Securities	29.0	$ 16,362
Non-government Obligations	3.4	$1,709,281

SWIB Investments	Duration (Years)	Fair Value
Asset Backed Securities	3.3	$ 51 Million
Asset Backed Securities	N/A	$ 12 Million
Certificates of Deposit	0.1	$ 5 Million
Commercial Paper	0.2	$ 77 Million
Corporate Bonds and Private Placements	4.9	$ 4,921 Million
Corporate Bonds and Private Placements	N/A	$ 31 Million
Futures Contracts	6.7	$ (545) Million
Futures Contracts	N/A	$ 3 Million
Government Agency	2.9	$ 486 Million
Commercial Mortgages	2.2	$ 45 Million
Municipal Bonds	13.0	$ 47 Million
Pooled Investments	0.0 to 8.0	$ 15,211 Million
Repurchase Agreements	0.0	$ 50 Million
Sovereign Debt	7.1	$ 3,054 Million
United States Treasuries	7.3	$ 4,061 Million

6. DEPOSIT AND INVESTMENT RISK (cont)

Note: On June 30, 2010, SWIB's Core Fund and Variable Fund had $64.6 billion and $4.5 billion in assets, respectively. As of June 30, 2010, the Plan's assets were invested 83.6% in the SWIB Core Fund, 11.8% in the SWIB Variable Fund, and 4.6% 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 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 and 2010. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. For 2010, obligations of the United States and obligations explicitly guaranteed by the U.S. government were included in the AAA rating below although they were considered to be without risk.

	SWIB		M&I	
Rating*	2011	2010	2011	2010
P-1 or A-1	2%	9%	35%	24%
UST	16%	N/A**	10%	N/A**
AGY	2%	N/A**	0%	N/A**
AAA	6%	23%	1%	47%
AA	11%	8%	10%	7%
A	6%	9%	16%	13%
BBB	6%	5%	12%	9%
BB	2%	2%	0%	0%
B	2%	2%	0%	0%
CCC	1%	1%	0%	0%
CC	0%	0%	0%	0%
C	0%	0%	0%	0%
D	0%	0%	0%	0%
Collective Trusts & Mutual Funds	36%	36%	15%	N/A
Not-Rated	10%	5%	1%	0%

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

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

6. DEPOSIT AND INVESTMENT RISK (cont)

C. Custodial Credit Risk

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

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

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

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

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

6. DEPOSIT AND INVESTMENT RISK (cont)

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

7. DERIVATIVE INVESTMENTS

The Plan holds investments in SWIB Funds, which may enter into a variety of financial contracts, including futures and options, primarily to enhance performance, reduce volatility of the portfolio, and aid in cash flow management. SWIB also enters into foreign exchange positions, such as forward and spot contracts, to obtain or hedge foreign currency exposure. The financial contracts are included in SWIB Variable and Core Investments on the Statement of Plan Net Assets. At June 30, 2011 and 2010, the Plan's interest in the plan net assets of the Core Trust was approximately 0.142% and 0.113%, respectively, and the Plan's interest in the plan net assets of the Variable Trust was approximately 0.202% and 0.228%, respectively. The SWIB Funds are exposed to credit risk in the event of non-performance by counterparties to financial instruments. Exposure to market risk, the risk that future changes in market conditions may make an instrument less valuable, is managed in accordance with risk limits through buying or selling instruments or entering into offsetting positions.

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

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.

7. DERIVATIVE INVESTMENTS (cont.)

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

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

8. TAX STATUS

The District has received a tax determination letter dated June 2, 2004 from the Internal Revenue Service, which indicates that the Plan qualifies under Internal Revenue Code Section 401(a) and the related trust is exempt from Federal income taxes under Section 501(a) as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001. On January 29, 2009, the District requested an updated determination letter from Internal Revenue Service.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring through <TBD>. The date the financial statements were available to be issued for events requiring recording or disclosure in the Plan's financial statements. Management feels that no material events occurred that would require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

(See Independent Auditors' Report on Page 1)

MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS
Last Six Fiscal Years

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) - unit credit	(c) Underfunded AAL (UAAL) (b) - (a)	(d) Funded Ratios (a) / (b)	(e) Annual Covered Payroll	(f) UAAL as a Percentage of Covered Payroll (c) / (e)
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 %

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

See accompanying independent auditors' report and required supplementary information.

MILWAUKEE BOARD OF SCHOOL DIRECTORS SUPPLEMENTAL EARLY RETIREMENT PLAN FOR TEACHERS

Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last Six Fiscal Years

Year Ended June 30	(a) Annual Required Contribution *	(b) Employer Contribtuions (net of interest)	(c) Prior Year Contribution Credit Applied/(Available)	(d) Contribution Credit Available for Next Year	(e) Total Employer Contributions (b)+(c)+(d)	(f) Percentage Contributed (e) / (a)
2011	$ 15,645,398	$ 27,419,691	$ 187,428	$ (11,961,721)	$ 15,645,398	100 %
2010	15,641,408	4,381,384	11,447,452	(187,428)	15,641,408	100 %
2009	15,235,493	11,406,727	15,276,218	(11,447,452)	15,235,493	100 %
2008	15,408,267	15,308,946	15,375,539	(15,276,218)	15,408,267	100 %
2007	14,113,631	18,988,434	10,500,736	(15,375,539)	14,113,631	100 %
2006	13,440,927	13,734,663 **	10,207,000	(10,500,736)	13,440,927	100 %

* Annual required contribution includes normal cost and amortization of the unfunded actuarial accrued liability as of July 1 (the beginning of the plan year).

** For the year ended June 30, 2006, an additional contribution of $2,988,802 was made on June 30, 2006 for an additional deferred vested liability for Special Supplemental benefits.