



MILWAUKEE PUBLIC SCHOOLS

Milwaukee, Wisconsin

Comprehensive
2003 **Annual**
Financial
Report

For the Year Ended June 30, 2003
144th EDITION

144th Edition

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

of the

BOARD OF SCHOOL DIRECTORS

MILWAUKEE PUBLIC SCHOOLS

5225 West Vliet Street

Milwaukee, Wisconsin 53208-2698

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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INTRODUCTORY SECTION

January 8, 2004

Milwaukee Board of School Directors:

We submit to you the Comprehensive Annual Financial Report of the Milwaukee Public Schools ("MPS"), Milwaukee, Wisconsin, for the fiscal year ended June 30, 2003. The Comprehensive Annual Financial Report is management's financial report to taxpayers, governing board, oversight bodies, voters, employees, and intergovernmental grantors. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the District ("District"). To the best of our knowledge and belief, the information presented is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of MPS. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - This section contains this letter of transmittal, the District's organizational chart, and a list of principal officials.

Financial Section - This section contains the basic financial statements providing management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, combining non-major fund financial statements, and independent auditors' report.

Statistical Section - This section contains tables presenting various financial, economic, social, and demographic data about the District.

REPORTING ENTITY

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

The City is located 70 miles north of the city of Chicago on the western shores of Lake Michigan. The City has a population of approximately 596,000. The District operates more than 160 sites and services over 103,500 students with over 12,000 educators, administrators, and staff. The Superintendent, appointed by the Board, is the senior official representing Milwaukee Public Schools.

The Milwaukee Public School District was established on February 3, 1846, and is operated under Chapter 119 of the Wisconsin Statutes. The District, governed by a nine-member Board, provides education services through grade 12 to residents of the City of Milwaukee and its participating suburban transfer students.

The reporting entity for the District is based upon criteria set forth by Governmental Accounting Standards Board ("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 of Milwaukee financial statements because the District operates with a separate governing board that is not under the control of the City of Milwaukee.

LOCAL ECONOMIC ANALYSIS

Milwaukee is the state's largest urban and economic center. The City has a diversified economy with strong service and manufacturing sectors. Finance, insurance, entertainment, communication, health care and other personal and business service activities account for over half of all employment within the City.

Based upon the Metropolitan Milwaukee Association of Commerce's August 2003 Economic Trends, August's seasonally adjusted unemployment rate of 6.3% is higher than the 5.9% rate registered one year ago. Currently, the metro Milwaukee area's jobless rate ranks higher than the state's 5.9% rate and the nation's 6.1% rates.

The City continues to maintain high bond ratings from three of the major agencies. A rating of AA from Standard & Poor's Corporation and AA+ from Fitch Ratings, and Aa2 from Moody's Investors Service, Inc. were received on recently issued general obligation bonds of the City.

MAJOR INITIATIVES

The Milwaukee Board of School Directors adopted a revised vision, mission, and goals on March 28, 2000. They are as follows:

Vision:

We in the Milwaukee Public Schools know that quality teaching will result in higher student achievement. We also know that educating students means more than instruction. We know that children learn and achieve more when they are cared for, when they are safe, and when they have a healthy well-being. Therefore, we must have strong and true partnerships with parents and all those in the community who influence and affect our students and families.

Our schools will be a center of community activity, a safe and inviting place that attracts families and staff to live in the neighborhood.

Teaching will be child-centered and based on proven methods. Diversity among students will be seen as a norm, not a disability. Class sizes will be small enough to allow for successful learning by all children.

Children will have the opportunity in the school and in the neighborhood to become competent, responsible, and generous, and belong to a caring community. Schools will be a vital part of the neighborhood, sharing a common purpose with community partners in a system of mutual support.

Mission:

The Milwaukee Public Schools will ensure that maximum educational opportunities are provided for all students to reach their highest potential so that:

- Students achieve their educational and employment goals, and
- Parents choose the Milwaukee Public Schools to educate their children.

Goals:

The goals of the Milwaukee Public Schools are to improve:

1. Student Achievement
2. Student success in further education and employment
3. Family satisfaction, as measured by their choices in the education marketplace

Measuring Success

The Milwaukee Public Schools began implementation of a strategic assessment program that includes a small number of quantifiable criteria to measure success and progress in achieving its mission and goals. The following are used to measure success:

Goals:	Criteria to measure success:
1. Student Achievement	<p>Progress in improving student achievement will continue to be measured based on a set of student achievement measures designed to measure the academic growth of students over a designated period of time (MPS' value added).</p> <p>The district's curriculum alignment process supports student achievement through the Learning Targets, Classroom Assessments Based on Standards (CABS), and the district's Balanced Assessment System.</p>
2. Student success in further education and employment	<p>A partnership between MPS and the MMAC continues to address this issue. The following measure was drafted to support this goal: Work closely with business and labor to improve the acceptance of MPS graduates into current apprenticeship programs, on the job training programs and other employment opportunities that provide meaningful career options with transparent career ladders leading to success. With business and labor, develop a realistic set of benchmarks to measure the success of this activity. Collaboration on this measure has started and quantifiable measures will be determined.</p>
3. Family satisfaction, as measured by their choices in the education marketplace	<p>The School Climate Survey developed in partnership with the Public Policy Forum was administered to parents and students (as well as staff) to address this goal. MPS rated highly overall despite wide variations from school to school and among parents, staff and students. For example, 68% of all respondents agreed that their schools have friendly and welcoming atmospheres, 74% say the school staffs are caring, 81% agreed their schools have high expectations, and 87% said they understood their schools' behavioral expectations. The survey will again be administered during the 2003-2004 school year.</p>

Strategic Initiatives

Inherent to the development of the Milwaukee Public Schools Strategic Plan and the corresponding strategic initiatives is our belief that *all children can learn and will achieve*. The broad initiative of the Milwaukee Partnership Academy (MPA) is to ensure that every child in Milwaukee Public Schools is performing at or above grade level in reading, writing, and mathematics through shared responsibility for student success. This broad initiative put forth by the MPA is consistent with the MPS Strategic Plan and forms the basis of the district's efforts.

To improve student achievement, the district's strategic plan and initiatives are being driven by our efforts to:

- develop principals as instructional leaders;
- organize central and district services to support learning;
- design schools as community anchors; and
- engage parents, the community, and other governmental bodies as full partners in our efforts.

The following six strategic initiatives represent the major priorities of the district. They do not encompass all issues, but they are those that represent the direction of the school district.

1. ***Student Achievement – Focus efforts to improve student achievement in the areas of reading, writing, and mathematics so that all students are performing at or above grade level.*** Through the efforts of the Milwaukee Partnership Academy (MPA), implementation of the Comprehensive Literacy Framework moved forward during the 2002-2003 school year. The MPA Implementation Team served as the vehicle for full deployment of the framework, and met weekly to identify the focus of the school learning teams. Throughout this process, the team engaged in self-assessment relative to their progress in implementing the Comprehensive Literacy Framework. One of the most exciting accomplishments of the MPA was completion of the curriculum alignment process, which includes the Learning Targets and Classroom Assessments Based on Standards (CABS). As the school-based learning team model is integral to the success of the Comprehensive Literacy Framework, the focus for school learning teams has been on building the capacity for embedded professional development.

The Office of Academic Excellence developed the Learning Targets in collaboration with the Wisconsin Center For Educational Research (WCER). The accompanying implementation plan was designed to assure that each and every classroom in the district has the appropriate grade level and content area Learning Target posters prominently displayed and that the Learning Targets serve as the central focus for teaching and learning throughout the district. It is clear that the district has taken an important first step in aligning our curriculum to state standards.

The district's Balanced Assessment System works in coordination with the Comprehensive Literacy Framework in supporting student achievement. Students are provided with multiple assessment opportunities to gauge if they have mastered material, or if material needs to be re-taught. The district will identify and endorse effective instructional tools and resources for use at the school level and share best practices across all schools. Technology is being used strategically to support the district's learning agenda. The achievement of individual students and schools will be monitored for progress and targeted assistance will be provided. The district is also collaborating with community-wide partners representing higher education, business, government, and community-based agencies to support our efforts to have every student performing at or above grade level in reading, writing, and mathematics.

The Administration worked collaboratively with school communities and Cardinal Stritch University to develop a corresponding rubric to accompany the Superintendent's *capacity builders*. This rubric gave schools the mechanism to assess their capacity for school improvement relative to improved academic achievement, and includes the following expectations for schools:

- **Effective Educational Plan:** Each school designs an Educational Plan that focuses on the school's effort to improve student achievement. Goals and objectives detailing instructional strategies and performance measures are tied to a comprehensive, data driven needs assessment. Involvement of the stakeholders in the development and ongoing review and adjustment of the Educational Plan is critical.
- **Professional Learning Community (PLC):** A school functions as a professional learning community when all of its stakeholders demonstrate a shared mission, vision and values, and participate in collective inquiry and collaborative teams with an orientation toward action and research, a commitment to continuous improvement, and a clear focus on results.
- **Aligned Curriculum, Assessment and Instruction:** Curriculum alignment brings together curriculum, instruction and assessment. It coordinates the Learning Targets (*what students are expected to learn*), classroom assessments based on standards, and the instruction in the classroom.
- **Fiscal Responsibility:** A school is managed in a fiscally responsible way when all of its resources are allocated to support classroom performance. Fiscal responsibility is demonstrated through a budget that aligns with a comprehensive, long-range Educational Plan and spending in accordance with such a plan.
- **Shared Decision-Making:** Shared decision making is a process of making educational decisions in a collaborative manner at the school level. The purpose is to improve school effectiveness and student learning by increasing staff commitment and ensuring that schools are more responsive to the needs of their students and community. In a shared decision-making model, teachers, parents,

school staff and the community will have more say about policies affecting their schools and children's success.

During 2002-2003, the district submitted two grant proposals, both of which are key to reform efforts in Milwaukee Public Schools. In May of 2003, the Bill and Melinda Gates Foundation awarded the district a \$17.25 million grant to embark upon redesigning Milwaukee's high schools into new small schools and multiplexes. The National Science Foundation (NSF) awarded the district a \$20 million grant over five years for implementation of the Comprehensive Mathematics Framework. Both proposals required extensive research and coordination on the part of the Administration, and represent important steps in improving student achievement and the graduation rate.

- 2. Leadership Development – Establish a leadership academy to develop and maintain leadership throughout the district. The first priority is to ensure that each school has a strong and effective school principal committed to bringing all children to high levels of achievement.** The professional development program for principals is focusing on providing principals with support and accountability mechanisms to allow for their development as instructional leaders. The capacity for developing principal leaders has been facilitated by flattening the organization to allow principals a more direct line to the Superintendent. The reorganization separated leadership development for principals into two functions, one responsible for supporting principals and one responsible for evaluating principals. During 2002-2003, more resources were directed to the support and evaluation of principals. To further realize greater leadership at the principal level, the monthly principal meetings were redesigned to include embedded instructional leadership support under the professional learning community (PLC) model. Board approval of the principal coach model allowed specially trained principal coaches to develop the processes for principals to realize improved leadership skills. Greater accountability measures served as the foundation for the recently completed standards-based evaluation system for principals that will go into effect for the 2003-2004 school year. The district will continue to put systems in place to develop principal leaders and continue to refine the district's guidelines for hiring new principals. The district responded throughout the summer of 2003 to meet the needs of school communities regarding the hiring of principals by empowering them in the selection of principals for the 2003-2004 school year.

Another aspect of this initiative is to recruit, retain, and continuously retrain classroom teachers. At the present time, Milwaukee Public Schools employs 6281 teachers. Of these teachers, only 221 presently do not have a valid license and 135 of them are new hires in the process of receiving their license. The number of teachers with a valid license has been steadily increasing due to increased levels enforcement by the Department of Human Resources.

Leadership and accountability at all levels is essential to our success as a district in meeting the academic needs of all students. Restructuring for freedom and performance will equip principals and their leadership teams with the resources and authority they need to tailor special programs that have been proven to be effective in addressing the needs of all students. Professional development and quality systems will be identified and implemented to support the facilitation of leadership throughout the district.

- 3. Decentralization and Financial Management – Develop policies and procedures to improve the District's financial management systems to preserve the district's financial stability and to decentralize more funding and decision-making authority to the schools.** Processes and refinements relative to decentralization and financial management have been evident during 2002-2003. Based on the reorganization, non-educational services have been realigned and downsized to fall under the purview of the Chief Financial Officer. This has resulted in the capacity for greater efficiency and effectiveness relative to non-educational resources. The district continues to work on our performance-based budgeting model that will ultimately drive the allocation of resources to become performance-based. Anticipated results include linking the strategic plan (in development) to the budget via performance measurements related to outcome and processes.

The Superintendent became more fiscally prescriptive to Schools Identified For Improvement (SIFI) by personally interacting with schools that failed to manage their finances responsibly.

The fiscal year 2003 budget development process was used to 1) continue decentralizing more funding and decision making authority directly to schools, thereby allowing more financial decisions to be made

where they will have the most immediate impact on teaching and learning; 2) continue to establish an equitable allocation formula that distributes more funds to schools.

4. ***Special Education Programs – Redesign the district’s special education services to more effectively and efficiently deliver educational programs and services to children with special needs.*** Special education services are structured around the identified needs and services required by students with special education needs and provided in the least restrictive environment as delineated on students’ individualized education plans, as determined by the IEP team. Presently, MPS is in the process of further development of a delivery of instructional programs for students utilizing a comprehensive service delivery model.

The following are examples of steps taken in an effort to support this initiative:

- The Board approved the MPS Special Education Oversight Action Plan (SOAP) in June 2002. This plan is based on complete ownership of all children at the building level and was successfully implemented in 2002-2003.
- Support is provided from Special Education Leadership Liaisons and Parent Liaisons, along with other central office staff to the schools.
- Principals have the authority and responsibility to create school-based models of assessment, instruction, and support for students with disabilities.
- Reinforced principals’ authority and responsibility to create school-based models of assessment, instruction, and support for students with disabilities.
- Aligned special education staff and responsibilities in other departments.

There has been a great deal of progress in the area of special education during 2002-2003, the most noteworthy being the narrowing of the focus of the current lawsuit from all MPS SEN students to one identified subsection of students. The Special Education Oversight Action Plan (SOAP) was created in response to the lawsuit and provides a mechanism for greater compliance relative to special education. The reorganization of the district brought Special Services, Pupil Services and the Parent Center together in response to the SOAP. The Educational Plan is now aligned to the SOAP through section 11, which directly addresses the delivery of special education services to schools. Section 11 of the Educational Plan now includes 40 target items for compliance in the following areas:

- IEP Procedures
- Assessment
- Suspension/Expulsion
- Least Restrictive Environment
- Parent Participation
- Promotion/Graduation/Transition

Other accomplishments in special education include implementation of the Parent Dispute Resolution System (PDRS) to ensure that parents have an informal yet reliable mechanism to resolve concerns regarding children with disabilities. Finally, the new principal evaluation system includes a special education component.

5. ***Neighborhood Schools – Develop and implement a neighborhood schools plan to divert dollars used for transportation to build and/or remodel schools where students live.*** The district developed a comprehensive Neighborhood Schools Plan after more than 10 months of study and extensive parent and community outreach. The state’s Joint Committee on Finance approved the Plan in September 2000. The district is moving forward to implement the Plan over a five-year period. The Plan calls for capital expenditures of \$98.4 million, for which the district can utilize its borrowing authority under the Neighborhood Schools Initiative approved by the state legislature. Components of the Plan include:

- Expanding capacity for 11,000 new neighborhood school seats, including 750,000 square feet of additional space through the construction of new buildings, additions, renovations, community partnerships to serve students and parents in the neighborhoods in which they live. This includes building six new schools, completing 19 additions to current schools, and 14 renovations/modifications to current schools over five years.
- Creating community-rich neighborhood schools that will provide, encourage and guarantee parents, students and neighborhood residents ownership, voice, access and active participation in the full operation of the school.
- Providing 92 full-day four- and five-year-old kindergarten programs in the 28 targeted elementary attendance area schools to enhance achievement for young children.
- Providing 83 before- and after-school programs to provide a safe, nurturing environment for children in their neighborhoods.
- Increasing the number of K-8 programs to 47 schools that permit students to remain in the same school for as many as 10 years providing for increased stability and less disruption.
- Increasing accessibility to bilingual programs and English as a Second Language programs by relocating them to areas where program participants reside.
- Serving students with special needs in neighborhood schools and providing the same access as all other students to extended-day services and programs.
- Reducing student-teacher ratios in early grades in each of the 28 targeted elementary attendance areas with a goal of a 15:1 student-teacher ratio for grades K-3.
- Replicating or relocating successful programs to increase the number of pupils attending neighborhood schools.
- Promoting safety in schools and surrounding neighborhoods through a number of initiatives and action plans.
- Partnering with community agencies to ensure affordable, high-quality before- and after-school programs, to provide additional school seats in overcrowded areas, and more.
- Expanding communications efforts so that parents, prospective parents, and the community are aware of the excellent MPS schools available within their neighborhoods.
- Revising transportation and enrollment policies to offer all parents in Milwaukee a realistic opportunity to select a neighborhood school and other educational options.
- Establishing a task force to study the complex issues that affect student mobility and develop recommendations on policies and practices to help alleviate the problems.
- Establishing aggressive goals to work with Historically Underutilized Businesses (HUB) and Community Development Entities for construction related to the Neighborhood Schools Plan.

The district remains committed to the Neighborhood Schools Initiative (NSI), and has seen much progress during the 2002-2003 school year including eight schools expanding to K-8. Eight additional schools have expanded to K-8 programs via school governance councils and community involvement. The involvement of the school community in the additions and renovations in K-8 schools continues to be the hallmark of NSI. Similarly, the importance of community partners remains as the foundation of NSI. As always, all educational partners contribute to the education programs of NSI schools. In looking ahead to September of 2005, NSI will have sponsored 31 of the district's 55 K-8 schools. Some additional highlights for NSI during 2003 include the following:

- For the first time ever, school selection was completed in conjunction with NSI.
- A new NSI website was created to reference news releases, photographs of new buildings, NSI event schedules, copies of the NSI Notebook Newsletter, NSI maps, movie galleries, architectural renderings, and downloads of the final Plan and other NSI reports.

- The Office of Neighborhood Schools provided financial assistance for marketing efforts for schools that were experiencing expanded enrollment due to open enrollment additions for 2003-2004.
- Transportation reduction goals were achieved for the 2002-2003 school year.

6. Technology – Complete the technology infrastructure that will provide state-of-the-art voice, video, and data technology into more than 5,000 classrooms throughout the school district. Implementation of the MPS strategic technology plan will launch the district into using world-class technology as a tool for teaching and learning.

MPS has spent several years following a strategic plan that significantly increases the role that technology will play in supporting teaching and learning, which in turn is helping our students prepare for the 21st Century. Major developments continue in the following categories:

- The Board approved in July 2003 contracts for wiring the remaining 384 unwired classrooms in 17 schools. All projects associated with these contracts will be completed by February 2004. Upon completion of these projects, all of the district's classrooms will be wired for network connectivity (voice, video and data). Most of these wiring projects are partially funded by the E-Rate Program.
- The Division of Technology has installed all of the necessary computer equipment and obtained the necessary software to develop and implement the district's Professional Support Portal (PSP). Phase I of the PSP is under development and will be completed in November 2003. Phase II development will be implemented in stages with the final stage being implemented in June 2004.
- Technology professional development has aligned its training for instructional staff to be focused on the Superintendent's *capacity builders*. District resources now only support activities that correlate with goals and objectives that are tied to student achievement. Participation in cross-divisional planning and collaboration has enhanced and brought together divisions in a common message and consistent format. Work on PI-34 requirements is being addressed and investigated. Professional development tracking and data collection have been brought to the table and will be worked on collaboratively across divisions. A district-wide professional development calendar was configured for all of Central Services in order that schools have one source of information.
- Web based professional development has been explored. Presently over 400 teachers in the past year have participated in online professional development (OPD) workshops that focus on comprehensive literacy, comprehensive mathematics, data reform models and literacy across the content areas. Considerable effort has resulted in the graduate level approval for one graduate credit for each OPD six-week workshop. Capacity for delivery has been addressed by training additional facilitators to maintain quality and ensure adequate coverage.
- A new learning course management system has been introduced through our partnership with the University of Wisconsin – Milwaukee and the support contract we hold with dot.Edu as our provider. Desire to Learn (D2L) was installed in July 2003 and is being configured for full interactive trainings for OPD classes. A research proven design model is being learned for further training and support in development of assisting other divisions in creating self-service tutorials on standard operations.
- Tapped In is an online professional community tool that has now become part of the MPS tool set. Teachers are able to interact synchronously and asynchronously with other MPS staff and educators worldwide. New teacher cadres are in progress as well as online events weekly focusing on current issues in the classroom. Sixty facilitators have been trained and will be supported in working with teachers.

ACCOUNTING SYSTEM

The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions in a single accounting entity. Therefore, from a financial

management viewpoint, a governmental unit is a combination of several distinctly different accounting entities, each having a separate set of accounts and functioning independently of each other. Each accounting entity is accounted for in a separate "fund." A fund is defined as a fiscal accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The District's financial records are maintained on a modified accrual basis of accounting except for the private purpose trust and pension trust funds. Accordingly, revenues are recognized when measurable and available, expenditures when goods or services are received, liabilities are recognized when incurred, and receivables when a legal right to receive exists.

Management of the District is responsible for establishing and maintaining internal controls designed to ensure the assets of the District are protected from loss, theft, or misuse and to ensure that reliable and adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

BUDGETARY CONTROL

Annual appropriated budgets are adopted for the general, special revenue, and debt service funds by June 30th each year. Budgets are adopted for the capital projects fund on a project-length basis. Budgets are considered a management control and planning tool and as such are incorporated into the accounting system of the District.

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. Additional budgetary control is maintained through the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which exceed available budgetary balances are not released until additional funds are identified to cover the purchase order. Encumbrances which remain at June 30, 2003, are recorded as reservations of fund balance.

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

AUDIT SERVICES

To strengthen internal control, and provide for independent and objective reporting, the Board of School Directors maintains the audit function. The Office of Board Governance - Audit Services reports directly to the Board of School Directors. During the course of the year, the Office of Board Governance - Audit Services conducts fiscal and performance audits on individual funds, departments, divisions, programs, functions, and schools throughout the District. Reports are issued on an ongoing basis.

CASH MANAGEMENT

As provided by Wisconsin statutes, the City of Milwaukee acts as agent for the Board of School Directors. Substantially all treasury function activities are managed by the City of Milwaukee. A major portion of the District's cash is held and controlled by the Treasurer of the City of Milwaukee. The City retains all investment income and absorbs all losses. All investments of the District are limited to those investments permitted by state statutes related to these deposits. Permitted investments are limited to:

- Time deposits
- Bonds or securities issued or guaranteed as to principal and interest by the federal government or its agencies
- The State of Wisconsin local government pooled investment fund
- Bonds or securities of any county, city, drainage District, vocational, technical college, village, town, District in Wisconsin, local exposition District, local professional baseball park District or University of Wisconsin Hospitals and Clinics Authority
- Repurchase agreements
- Any security which matures or which may be tendered for purchase at the option of the holder within not more than seven years of the date on which it was acquired, if that security is rated within established statutory guidelines
- No-load securities of open-end registered management investment companies or investment trusts

The District's investment policy for pension trust funds is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, investment portfolios of the pension trust funds are limited to investments described above.

Trust assets are held by the trustees, M & I Trust Company, and Bank One Trust Company, on behalf of the District but in the street name to facilitate trading. These assets are the assets of the employees who have rights to pension benefits and assets restricted by donors for scholarships and other specified activities within the schools.

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 risk 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 fully-insured health maintenance organization and through a self-insured comprehensive indemnity/PPO plan. Effective July 1, 2003, Milwaukee Public Schools self-insured the health maintenance organization and purchased specific stop loss insurance for this plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO 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 worker's compensation benefits and does not purchase stop-loss insurance.

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

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

DEBT ADMINISTRATION

The City of Milwaukee school bonds, notes, Wisconsin Trust Fund loans, and capital lease obligations outstanding at June 30, 2003, totaled \$152,069,343. Of this total, \$79,935,935 represents school bonds and notes which 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 \$72,133,408 represents trust fund loans, capital lease obligations, 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. Bonds, notes, trust fund loans, and capital leases included in the long-term obligations bear interest rates ranging from zero to 6.24 percent and mature at various times through February 2022. In addition, the City of Milwaukee issues short-term revenue anticipation notes on behalf of the District.

INDEPENDENT AUDIT

The financial records of the Milwaukee Board of School Directors have been audited by KPMG LLP, independent auditors. The Auditors' opinion is unqualified. Such an opinion states the basic at June 30, 2003, and results of its operations for the year then ended. The Auditors' report on the basic financial statements and schedules is included in the financial section of this report.

In addition to a financial audit, KPMG LLP performed an audit designed to meet the requirements of the Single Audit Act of 1996, and related OMB Circular A-133 and state single audit requirements. Information related to federal and state single audits are disclosed in separate reports.

REPORTING ACHIEVEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Milwaukee Public Schools for its Comprehensive Annual Financial Report, for the fiscal year ended June 30, 2002. We believe that our current report conforms to the Certificate program requirements. Accordingly, we are submitting it to GFOA to determine its eligibility for certification.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated service of the entire staffs of the Department of Finance and the Office of Board Governance-Audit Services. We would like to express our appreciation to all members of these departments who assisted and contributed to its preparation.

Respectfully submitted,

WILLIAM G. ANDREKOPOULOS
SUPERINTENDENT OF SCHOOLS

MICHELLE J. NATE, CPA
CHIEF FINANCIAL AND OPERATIONS OFFICER

BOARD OF SCHOOL DIRECTORS

DISTRICT	NAME	ADDRESS	TERM EXPIRES
1	Barbara Horton	7833-H N. 60 th Street (53223)	April, 2007
2	Jeff Spence	3180 N. Colonial Drive (53222)	April, 2007
3	Kenneth L. Johnson	3250 N. Richards Street (53212)	April, 2007
4	Charlene Hardin	2829 N. 17 th Street (53206)	April, 2005
5	Jennifer Morales	3222 N. Cambridge Avenue (53211)	April, 2005
6	Peter Blewett	2750 N. 45 th Street (53210)	April, 2005
7	Lawrence J. O'Neil	6529 W. Dodge Place (53220)	April, 2005
8	Joseph Dannecker	2824 S. Wentworth Avenue (53207)	April, 2007
At-Large	Thomas Balistreri	5000 S. 19 th Street (53221)	April, 2007

President – Jeff Spence
 Vice President – Charlene Hardin
 Superintendent of Schools – William G. Andrekopoulos
 Director, Office of Board Governance/Board Clerk – Lynne A. Sobczak

STANDING COMMITTEES

INNOVATION/SCHOOL REFORM COMMITTEE

Directors Johnson (Chair), Balistreri (Vice-Chair), Dannecker, Hardin, Horton

LEGISLATION, RULES AND POLICIES COMMITTEE

Directors Hardin (Chair), Dannecker (Vice-Chair), Balistreri, Blewett, Horton

FINANCE/PERSONNEL COMMITTEE

Directors Horton (Chair), Morales (Vice-Chair), Dannecker, Hardin, Spence

STRATEGIC PLANNING AND BUDGET COMMITTEE

Directors Morales (Chair), O'Neil (Vice-Chair), Balistreri, Blewett, Dannecker, Hardin,
Horton, Johnson, Spence

SPECIAL EDUCATION COMMITTEE

Directors Dannecker (Chair), Blewett (Vice-Chair), Hardin, O'Neil, Spence

City of Milwaukee
School Board District Map – Not available

**MILWAUKEE PUBLIC SCHOOLS
ADMINISTRATIVE OFFICERS**

SUPERINTENDENT OF SCHOOLS

Acting Chief Academic Officer

Acting Director of Human Resources

Chief Financial and Operations Officer

Director of Pupil Services

Director of Office of Neighborhood Schools

Director of Strategic Planning & Community Outreach

MR. WILLIAM G. ANDREKOPOULOS

Dr. Patricia Ellis

Ms. Deborah Ford

Ms. Michelle J. Nate

Ms. Ada Rivera

Dr. Aquine Jackson

Dr. Daniel Donder

Citizens of Milwaukee

Board of School Directors

Office of the Superintendent

Office of Board Governance
Audit/Review Services
Board/Board Member Services
Clerk Services
Information/Coordination Services

SCHOOLS

Office of the Superintendent
Office of Neighborhood Schools
Office of Strategic Planning & Community Outreach
▪ Department of Assessment & Accountability
▪ Department of Communication & Public Affairs
▪ ESEA Implementation & Compliance
Office of the Superintendent
Department of Administrative Accountability
▪ Office of School Safety
Leadership Support
▪ Diversified Community Schools

Office of Academic Excellence
▪ Bilingual/Multicultural
▪ Career & Technical Education
▪ Educational Technology
▪ Professional Development
▪ Recreation, Athletics & Community Services
▪ Teaching & Learning
▪ Title I Services

Office of Pupil Services
Special Services
School Liaisons
Compliance & Monitoring Services
Equitable Educational Opportunities
Compliance & Management Services
Non-Conventional Programs
Psychological, Speech & Allied Health Services
Social Work, Transition & Parent/Community Services
Office of Instructional Support & Staff Development
Parent Information Center
Special Education Parent Informational Specialists
Parent Informational Specialists
Child Find
Student Services
School Support: Specialized Services
School Support: Student Assignment/Registration
School Support: Student Supported Services

Office of Administrative Services
▪ Benefits & Insurance Services
▪ Certificated Staffing
▪ Classified Staffing
▪ Employment Compliance Office
▪ Labor Relations & Compensation

Office of Finance & Operations
▪ Accounting & Payroll
▪ Budget
▪ Business Services
▪ Customer Service & System Evaluation
▪ Facilities & Maintenance
▪ Grant Development
▪ HUB
▪ Legislative Affairs
▪ Procurement
▪ Pupil Transportation
▪ School Nutrition Services
▪ Technology

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Milwaukee Public Schools for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Board of School Directors -
Milwaukee Public Schools,
Wisconsin

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

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FINANCIAL SECTION



KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

Independent Auditors' Report

The Board of Directors
Milwaukee Public Schools:

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, 2003, 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, 2003, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis; budgetary comparison information; and schedules of funding progress on pages 2 through 8; page 37 and page 38, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with Government Auditing Standards, we have also issued a report dated January 8, 2004 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 and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 8, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

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MILWAUKEE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2003

INTRODUCTION

This discussion and analysis of Milwaukee Public School's (MPS or District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2003. The intent of this management discussion and analysis is to look at MPS financial performance as a whole. It should be read in conjunction with the MPS financial statements.

FINANCIAL HIGHLIGHTS

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

- Total net assets of MPS decreased from \$359 million at June 30, 2002 to \$323 million at June 30, 2003, a decrease of \$36 million, or 10.1%.
- Total revenues increased by \$36 million from \$1.03 billion at June 30, 2002 to \$1.07 billion at June 30, 2003.
- Total expenses increased \$99 million from \$1.01 billion at June 30, 2002 to \$1.11 billion at June 30, 2003.
- MPS added \$13,974,676 in long-term debt during the 2003 fiscal year due in large part to the issuance of \$6,400,000 in notes payable for the Financial and Student Tracking System, \$4,979,000 of lease purchase debt associated with the Qualified Zone Academy Bond Program plus the \$1,935,676 for Teach wiring loans.

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

- Total fund balance of the District's governmental funds decreased in the 2003 fiscal year by \$54,669,270. This decrease is primarily due to retro pay to teachers and administrative staff plus a timing difference for the Neighborhood School Initiative (NSI) projects, wherein bond proceeds were received in FY02 while the spending on the projects occurred in FY03.
- Total fund balance for the governmental funds was \$109,634,929 at June 30, 2003. Of this amount, \$25,985,603 was reserved for encumbrances, \$3,668,395 was reserved for inventories, \$16,365,120 was reserved for self-insurance and prepaid expenditures, and \$63,615,811 remains unreserved.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- 1. Management Discussion and Analysis** (this section)
- 2. Basic Financial Statements**
 - Government-Wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
 - Fund Financial Statements
 - Government Funds
 - Fiduciary Funds
 - Notes to Financial Statements
- 3. Required Supplementary Information (RSI)**
 - Budget-to-Actual Comparison
 - Employee Pension Plan Liabilities, Current and Past Service

The **Management Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2003. 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 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 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 expenses. 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 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. Two pension related schedules are included. One schedule shows the District’s progress toward funding its *past* service liability. The other is a schedule of employer contributions that focuses on payment of *current* pension fund costs.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

Statement of Net Assets

MPS ended its fiscal year with net assets of \$323 million, of which \$435 million was invested in capital assets (net of related debt), \$3 million was restricted and (\$115) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the unfunded Wisconsin Retirement System (WRS) pension liability of about \$167 million. In November 2003, the MPS Board of School Directors took action to refinance this liability. The full funding allowed by the bond issue will ensure that all future employee pension benefits already granted through collective bargaining will be provided.

Table 2
Milwaukee Public Schools
Condensed Schedule of Net Assets
(in thousands)

	<u>Government-wide Activities</u>		<u>Difference</u>
	<u>2003</u>	<u>2002</u>	
Current Assets	\$172,286	\$180,009	\$ (7,723)
Noncurrent Assets (net)	<u>510,873</u>	<u>483,212</u>	<u>27,661</u>
Total Assets	683,159	663,221	19,938
Current Liabilities	102,403	65,285	37,118
Noncurrent Liabilities	<u>258,226</u>	<u>238,984</u>	<u>19,242</u>
Total Liabilities	360,629	304,269	56,360
Net Assets			
Invested in capital assets, net of related debt	434,581	415,911	18,670
Restricted	3,090	0	3,090
Unrestricted (deficit)	<u>(115,141)</u>	<u>(56,959)</u>	<u>(58,182)</u>
Total Net Assets	<u>\$322,530</u>	<u>\$358,952</u>	<u>\$(36,422)</u>

The Total Net Assets decreased by \$36 million over the prior year. The reason for the change is:

- Total Assets increased due to new building construction and other improvement projects.
- Total liabilities increased because the amount of salaries owed to employees as of June 30 was higher than the prior year. First, due to settled contracts, pay rates were higher. Second, the first payroll of July included six days of fiscal year 2003 (as compared to five days the prior year) for twelve-month and hourly employees. Third, new state legislation required a later start to the 2002-03 school year. As a result, the teacher pay calendar was also delayed so that the last five paid days were included in the first payroll of July 2003. In 2002, teacher salaries had been fully paid as of the last payroll in June. Finally, a liability was recorded for the contract settlement of administrative staff who received the related retroactive pay increases after the close of the fiscal year.

Statement of Activities

On a government-wide basis the District ended the fiscal year with a decrease in net assets of \$36 million.

Table 3
Milwaukee Public Schools
Schedule of Activities
(in thousands)
Government-wide Activities

	Government –wide Activities		
	2003	2002	Difference
Program Revenues:			
Charges for Services	\$ 8,837	\$ 9,011	\$ (174)
Operating Grants and Contributions	183,306	164,573	18,733
Capital Grants and Contributions	<u>16,421</u>	<u>36,967</u>	<u>(20,546)</u>
Total Program Revenues	208,564	210,551	(1,987)
General Revenues:			
Property Taxes	181,102	175,075	6,027
Federal and State Aid	678,954	647,951	31,003
Gain on sale of Property	1,263	-	1,263
Interest and Investment Earnings	<u>662</u>	<u>858</u>	<u>(196)</u>
Total General Revenues	<u>861,981</u>	<u>823,884</u>	<u>38,097</u>
Total Revenues	1,070,545	1,034,435	36,110
Expenses:			
Instruction	623,386	589,461	33,925
Community Services	21,757	18,606	3,151
Pupil and Staff Services	128,558	106,353	22,205
General Administration	110,764	103,023	7,741
Business Services	179,310	154,804	24,506
School Nutrition	29,348	28,672	676
Interest on Long-Term Debt	3,920	1,374	2,546
Insurance	8,734	5,148	3,586
Other	<u>1,190</u>	<u>480</u>	<u>710</u>
Total Expenses	<u>1,106,967</u>	<u>1,007,921</u>	<u>99,046</u>
Increase (Decrease) in Net Assets	<u><u>\$(36,422)</u></u>	<u><u>\$ 26,514</u></u>	<u><u>\$(62,936)</u></u>

- **Total revenues** increased primarily due to equalization aid increase of \$14 million and Title I increase of \$13 million. Equalization and other state aids are based on the level of district expenditures in selected operational areas for the prior year. The primary reason for increased revenue in FY 2003 was the increase in expenses from FY 2001 to FY 2002. Title I revenue increased substantially due to additional allocation of funds.

- **Total Expenses** increases were primarily due to the increased compensation rates of school-based staff. Contract settlements granting raises in wages and rising health insurance costs caused increases beyond the reductions made in non-personnel areas.

Capital Assets

At June 30, 2003, MPS had \$783 million invested in capital assets including land, buildings, furniture and equipment, and software. This amount represents a net increase of \$50 million from the previous year. The increase came primarily in the area of construction in progress. The major projects were Lan Technology Implementation of \$9.3 million, Major Maintenance of \$10.5 million, Code Compliance/Security of \$3.1 million, Major Remodeling of \$7 million and NSI of \$12 million.

Table 4
Milwaukee Public Schools
Change in Capital Assets

<u>Governmental Activities:</u>	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets:				
Land	\$ 29,151,349	-	(43,638)	\$ 29,107,711
Construction in progress	80,542,957	41,698,703	(24,492,210)	97,749,450
Buildings	581,497,963	24,492,210	(300)	605,989,873
Furniture and equipment	25,695,647	4,450,533	(730,497)	29,415,683
Software	<u>16,908,803</u>	<u>4,515,295</u>	-	<u>21,424,098</u>
Total Capital Assets	733,796,719	75,156,741	(25,266,645)	783,686,815
Accumulated depreciation	<u>(294,933,363)</u>	<u>(15,410,510)</u>	<u>725,015</u>	<u>(309,618,858)</u>
Totals	<u>\$438,863,356</u>	<u>\$ 59,746,231</u>	<u>\$ (24,541,630)</u>	<u>\$474,067,957</u>

Long-Term Obligations

At June 30, 2003, long-term obligations were \$72 million. This amount represents a net increase of \$9 million over the previous year. The increase is primarily the result of debt issues associated with the Financial and Student Tracking System and Qualified Zone Academy Bonds.

Table 5
Milwaukee Public Schools
Change in Long-Term Debt and Capital Lease Obligations

<u>Government Activities (thousands)</u>	<u>July 1, 2002</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2003</u>
State of Wisconsin Trust Fund Loans	\$ 5,514	\$ -	\$1,720	\$ 3,794
Americans with Disabilities Act Loans	7,902	660	701	7,861
TEACH Loan	4,092	1,936	531	5,497
Neighborhood School Initiative Bond	33,300	-	-	33,300
Qualified Zone Academy Bond	8,590	4,979	1,099	12,470
Financial and Student Tracking Note	<u>1,600</u>	<u>6,400</u>	<u>268</u>	<u>7,732</u>
Total	60,998	13,975	4,319	70,654
Capitalized Lease Obligations	<u>1,948</u>	-	467	<u>1,481</u>
Total Debt	<u>\$62,946</u>	<u>\$ 13,975</u>	<u>\$4,786</u>	<u>\$72,135</u>

The Trust Fund Loans and the Americans with Disabilities Act Loans (ADA) were issued for the purpose of bringing all Milwaukee Public Schools into compliance with ADA regulations. This type of borrowing has occurred annually over the last decade and is expected to continue for the foreseeable future.

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. The first TEACH agreement authorized MPS to borrow up to \$15,000,000. The District borrowed \$9,212,237, leaving \$5,787,763 to lapse. The current TEACH agreement authorizes MPS to borrow up to \$14,360,800. At June 30, 2003 the District had used only \$3,607,948 of this authority. The loan agreement expires on July 1, 2005.

The Neighborhood Schools Initiative debt is part of the 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. The first tranche was issued in February 2002 in the amount of \$33.3 million. On November 5, 2003 the second and final tranche of revenue bonds was sold, in the amount of \$78,740,000.

The Qualified Zone Academy Bond (QZAB) debt is in the form of a lease-purchase agreement collateralized by the furniture and equipment 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. MPS used \$4.9 million of QZAB funding authority in December 2002 to support the purchase of equipment and make building improvements at five schools. Interest on the debt is paid by the IRS via tax credits to the lender.

The financial and student-tracking debt is being used to fund the purchase and implementation of two new software applications: a financial management system and a student tracking system for special education.

FUND FINANCIAL STATEMENTS

Milwaukee Public Schools has two major funds reported on the governmental fund statements. The major funds are the General Fund and the Construction Fund.

- The General Fund Balance has a net change decrease of \$33 million at June 30, 2003. The decrease is primarily due to the increased cost of school-based staff, contract settlements and rising insurance costs beyond the reductions made in non-personnel areas.
- The Construction Fund Balance decreased by \$20.5 million, primarily due to a timing difference for the Neighborhood School Initiative (NSI) projects, wherein bond proceeds were received in FY02 while the spending on the projects occurred in FY03. Specifically, bonds for NSI projects totaling \$33,300,000 were issued in February 2002, while spending on NSI projects in FY02 totaled approximately \$3.8 million. In FY03, spending on NSI projects was approximately \$19 million while no bonds were issued.

Notes to Financial Statements

The Notes to 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 generally accepted accounting principals for the General, Construction, and Other Governmental Funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2002 the MPS Board of School Directors adopted the District's fiscal year 2003 budget (July 1, 2002 – June 30 2003). The adopted budget by necessity used a *projection* of the 2003 student enrollment. In October 2002, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2002 as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state equalization aid and property taxes, are predicated on actual MPS enrollment.

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

In October 2002 the Board approved a revised 2003 fiscal year balanced budget in the amount of \$1,012,896,414. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,053,876,147.

Both revenues and expenditures came in under budget in fiscal year 2003 in part due to a number of categorical programs remaining open at June 30, 2003. As these programs close out, revenues and expenditures will increase.

The expenditure variance is attributable in part to a timing difference. Schools are allowed to carryover expenditure authority to the following fiscal year up to a limit of 1.5% of their budget (3% cumulative). The total amount of expenditure authority committed, encumbered, or carried over at June 30, 2003 was \$12 million which is \$2.8 million less than at June 30, 2002. It is anticipated these carried over amounts will be expended in the 2004 fiscal year.

Next Year's Budget

In October 2003 the MPS Board approved a revised 2004 General Fund budget of \$988,750,996. This represents a decrease of \$24 million over the revised 2003 General Fund budget. The 2004 budget includes a decrease in categorical grants of \$15 million. Encumbrances and carryovers are not included in this amount.

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**
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BASIC FINANCIAL STATEMENTS

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Notes	Governmental Activities
Assets		
Current Assets:		
Cash and cash equivalents	2	\$ 90,158,850
Due from other governments	3	62,652,543
Accounts receivable (net)	3	3,599,613
Inventory and prepaid expenses	1	15,875,013
Total current assets		172,286,019
Noncurrent Assets:		
Restricted cash and cash equivalents	2	32,646,808
Deposits for self insurance	1	4,158,502
Capital assets not being depreciated	5	126,857,161
Capital assets being depreciated, net	5	347,210,796
Total noncurrent assets		510,873,267
Total Assets		683,159,286
Liabilities		
Current Liabilities:		
Accounts payable and other current liabilities		85,662,898
Deferred revenue	1	5,004,676
Current portion of long-term obligations	7	10,692,810
Accrued interest payable on long-term liabilities		1,042,468
Total current liabilities		102,402,852
Non-Current Liabilities:		
Non-current portion of long-term obligations	7	258,226,200
Total Liabilities		360,629,052
Net Assets		
Invested in capital assets, net of related debt		434,581,357
Restricted for:		
Capital Projects		3,089,752
Unrestricted (deficit)		(115,140,875)
Total Net Assets		\$ 322,530,234

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Government Activities</u>
Government Activities:					
Instruction	\$ 623,385,686	\$ 1,486,516	\$ 103,818,468	\$ 13,918,003	\$ (504,162,699)
Support Services:					
Community services	21,757,475	2,876,220	10,009,747	-	(8,871,508)
Pupil and staff services	128,557,769	-	3,108,062	-	(125,449,707)
General, administration and central services	110,763,906	-	-	2,502,693	(108,261,213)
Business services	179,310,149	143,894	41,786,993	-	(137,379,262)
School nutrition services	29,348,112	4,331,344	24,582,985	-	(433,783)
Interest on long-term debt	3,920,507	-	-	-	(3,920,507)
Insurance	8,733,676	-	-	-	(8,733,676)
Other	1,190,106	-	-	-	(1,190,106)
Total Support Services	483,581,700	7,351,458	79,487,787	2,502,693	(394,239,762)
Total School District	\$ 1,106,967,386	\$ 8,837,974	\$ 183,306,255	\$ 16,420,696	(898,402,461)
General Revenues:					
Taxes:					
Property taxes levied for general purposes					168,452,670
Property taxes levied for debt service					4,644,357
Property taxes levied for community services					8,004,465
Federal and State aid not restricted to a specific purpose					
General (Equalization Aid)					556,169,239
Other					122,784,828
Interest and investment earnings					662,490
Gain on sales of property					1,262,537
Miscellaneous					335
Total general revenues					861,980,921
Changes in net assets					(36,421,540)
Net assets - beginning					358,951,954
Net assets - ending					\$ 322,530,234

See accompanying notes to basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2003**

	Notes	<u>General</u>	<u>Construction</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Deposits with the City of Milwaukee and other cash	2	\$ 63,415,064	\$ 26,743,786	\$ -	\$ 90,158,850
Receivables:					
Due from other governmental units	3	51,140,029	-	11,512,514	62,652,543
Due from other funds	4	16,947,727	6,465,477	7,500,738	30,913,942
Other	3	3,599,613	-	-	3,599,613
Total Receivables		<u>71,687,369</u>	<u>6,465,477</u>	<u>19,013,252</u>	<u>97,166,098</u>
Restricted Cash and Cash equivalents	2	27,598,201	5,048,607	-	32,646,808
Inventories	1	3,079,674	-	588,721	3,668,395
Deposits for self insurance	1	4,158,502	-	-	4,158,502
Prepaid expenditures		<u>12,206,618</u>	<u>-</u>	<u>-</u>	<u>12,206,618</u>
Total assets		<u>\$ 182,145,428</u>	<u>\$ 38,257,870</u>	<u>\$ 19,601,973</u>	<u>\$ 240,005,271</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable		\$ 8,165,824	\$ 374,290	\$ 1,997,676	\$ 10,537,790
Contracts payable		561,556	4,987,862	-	5,549,418
Accrued salaries and wages		31,239,378	-	-	31,239,378
Deferred Revenue	1	13,793,502	-	-	13,793,502
Accrued claims for self-insurance	9	29,808,610	-	-	29,808,610
Accrued pensions payable	10	8,467,349	-	-	8,467,349
Other accrued expenditures		60,353	-	-	60,353
Due to other funds	4	4,856,182	11,163,116	14,894,644	30,913,942
Total liabilities		<u>96,952,754</u>	<u>16,525,268</u>	<u>16,892,320</u>	<u>130,370,342</u>
Fund balance:					
Reserved for:					
Encumbrances		12,425,566	13,560,037	-	25,985,603
Inventories		3,079,674	-	588,721	3,668,395
Self insurance deposits and prepaid expenditures		16,365,120	-	-	16,365,120
Unreserved:					
Designated by Board for subsequent year's expenditures	8	53,322,314	-	-	53,322,314
Undesignated, reported in:					
Capital Projects fund		-	8,172,565	-	8,172,565
Special Revenues funds		<u>-</u>	<u>-</u>	<u>2,120,932</u>	<u>2,120,932</u>
Total fund balance		<u>85,192,674</u>	<u>21,732,602</u>	<u>2,709,653</u>	<u>109,634,929</u>
Total liabilities and fund balance		<u>\$ 182,145,428</u>	<u>\$ 38,257,870</u>	<u>\$ 19,601,973</u>	<u>\$ 240,005,271</u>

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, 2003**

Total fund balances - governmental funds		\$ 109,634,929
Amounts reported for governmental activities in the statement of net assets are different because:		
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	\$ 783,686,815	
Accumulated depreciation	<u>(309,618,858)</u>	
Net capital assets		474,067,957
Grant receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
		8,788,826
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	72,133,408	
Accrued bond interest payable	1,042,468	
Termination benefits payable	167,607,420	
Compensated absences payable (vacation and sick leave)	20,770,618	
Workers' compensation claims payable	5,031,153	
Self insurance claims payable	1,345,545	
Life insurance benefits and other long-term liabilities	<u>2,030,866</u>	
Total long-term debt liabilities		<u>(269,961,478)</u>
Total net assets - government activities		<u>\$ 322,530,234</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2003

	Notes	General	Construction	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Property tax levy		\$ 166,054,974	\$ 10,346,829	\$ 4,644,357	\$ 181,046,160
Lunchroom sales		-	-	4,331,344	4,331,344
Other local sources		10,384,593	147,135	-	10,531,728
State aid:					
Equalization aid		556,169,239	-	-	556,169,239
Special classes		40,312,755	-	-	40,312,755
Integration		38,717,298	-	-	38,717,298
Other state aid		48,330,871	-	6,191,815	54,522,686
Federal aid:					
Education Consolidation Improvement Act		55,238,900	-	-	55,238,900
School nutrition services		-	-	23,925,082	23,925,082
Erate Refunds		857,304	-	-	857,304
Intergovernmental aid from the City of Milwaukee	7	-	8,660,000	-	8,660,000
Other federal aid		65,769,875	-	19,749,621	85,519,496
Interest and investment earnings		163,109	499,381	-	662,490
Total revenues		<u>981,998,918</u>	<u>19,653,345</u>	<u>58,842,219</u>	<u>1,060,494,482</u>
Expenditures					
Instructional services:					
Undifferentiated curriculum		394,787,592	-	-	394,787,592
Regular and other curriculum		113,717,969	-	-	113,717,969
Special curriculum		95,307,418	-	6,863,130	102,170,548
Total instructional services		<u>603,812,979</u>	<u>-</u>	<u>6,863,130</u>	<u>610,676,109</u>
Community services		21,442,778	-	-	21,442,778
Pupil and staff services		106,437,367	-	20,692,452	127,129,819
General and school building administration		115,847,360	-	-	115,847,360
Business services		164,931,353	52,056,355	-	216,987,708
School nutrition services		-	-	29,209,501	29,209,501
Debt service:					
Principal		466,525	-	4,321,238	4,787,763
Interest		376,242	1,455,636	1,046,161	2,878,039
Other		1,400,556	84,971	-	1,485,527
Total expenditures		<u>1,014,715,160</u>	<u>53,596,962</u>	<u>62,132,482</u>	<u>1,130,444,604</u>
Excess of revenues over (under) expenditures		(32,716,242)	(33,943,617)	(3,290,263)	(69,950,122)
Other Financing Sources (Uses)					
Proceeds from City of Milwaukee general obligation notes and bonds	7	-	7,060,000	-	7,060,000
Proceeds from Qualified Zone Academy Bonds	7	-	4,979,000	-	4,979,000
Proceeds from Sale of Land	7	-	1,306,175	-	1,306,175
Proceeds from Teach Loan	7	-	-	1,935,677	1,935,677
Total other financing sources (uses)		<u>-</u>	<u>13,345,175</u>	<u>1,935,677</u>	<u>15,280,852</u>
Net change in fund balances		(32,716,242)	(20,598,442)	(1,354,586)	(54,669,270)
Fund balance:					
Beginning of year	1	<u>117,908,916</u>	<u>42,331,044</u>	<u>4,064,239</u>	<u>164,304,199</u>
End of year		<u>\$ 85,192,674</u>	<u>\$ 21,732,602</u>	<u>\$ 2,709,653</u>	<u>\$ 109,634,929</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds \$ (54,669,270)

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	\$ 50,664,531
Depreciation expense reported in the statement of activities	<u>(15,410,510)</u>

Amount by which capital outlays are greater (less) than depreciation in the current period.	35,254,021
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In the statement of activities, only the gain on the sale of school property is reported, whereas in the governmental funds, the entire proceeds the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the land. (43,638)

In the statement of activities, only the loss on the fixed assets is reported, whereas in the governmental funds, the entire book value decreases financial resources. (5,782)

Bonds or loans issued in the governmental funds are accounted for as other financing sources. In the government-wide statements they constitute a long-term liability and are not recorded as revenues. (13,974,676)

Repayment of debt service principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets. 4,787,763

Because some grants will not be collected for several months after the district's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. 8,788,826

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	(661,596)
Net increase in termination benefits payable	(878,654)
Net increase in compensated absences payable (vacation and sick pay)	(14,089,835)
Net increase in workers compensation claims payable	(860,013)
Net decrease in general insurance claims payable	104,582
Net increase in life insurance benefits payable	<u>(173,268)</u>

(16,558,784)

Change in net assets of governmental activities	<u><u>\$ (36,421,540)</u></u>
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See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2003

	<u>Employee Retirement Funds</u>	<u>Private Purpose Trust</u>	<u>Agency</u>
Assets			
Deposits with City of Milwaukee and other cash	\$ -	\$ 486,225	\$ 5,220,840
Investments	88,566,158	1,263,058	-
Receivables	168,735	-	-
	<u>88,734,893</u>	<u>1,749,283</u>	<u>5,220,840</u>
Liabilities And Net Assets			
Liabilities:			
Accounts payable	1,118,880	-	-
Due to student organizations	-	-	5,220,840
	<u>1,118,880</u>	<u>-</u>	<u>5,220,840</u>
Net Assets			
Held in Trust for:			
Supplemental pension benefits	87,616,012	-	-
Endowments	-	1,749,282	-
	<u>\$ 87,616,012</u>	<u>\$ 1,749,282</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

**MILWAUKEE PUBLIC SCHOOLS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2003**

	<u>Employee Retirement Funds</u>	<u>Private Purpose Trust</u>
Additions		
Employer contributions	\$ 13,649,378	\$ -
Participants contributions	208,912	-
Private Donations	-	442,912
Interest income	-	54,770
Investment income (loss)	693,009	-
Total additions	<u>14,551,299</u>	<u>497,682</u>
Deductions		
Scholarships and awards	-	126,482
Support services	11,737,945	-
Total deductions	<u>11,737,945</u>	<u>126,482</u>
Changes in net assets	2,813,354	371,200
Net Assets--Beginning	<u>84,802,658</u>	<u>1,378,082</u>
Net Assets--Ending	<u>\$ 87,616,012</u>	<u>\$ 1,749,282</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Milwaukee Public Schools ("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.

Reporting Entity – The District was established on February 3, 1846, and operates under Chapter 119 of the Wisconsin 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 ("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 of Milwaukee financial statements because the District operates with a separate governing board that is not under the control of the City of Milwaukee. The City of Milwaukee, however, performs the following services for the District as prescribed under Wisconsin 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.

Basis of Presentation

Government-wide Statements – The statement of net assets and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements – The fund 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 non-major 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 Statutes and are used to account for all financial revenues and expenditures of the District except those required to be accounted for in other funds or taxing entities.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

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

Additionally, the District reports the following fund types:

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

Private-Purpose Trust Funds: The Private-Purpose Trust Funds are:

- a) 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.
- b) 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 Funds: The Agency Fund account 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.

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. Non-exchange 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 ninety days after the end of the fiscal year except for property taxes which must be collected within sixty days after year end. Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received. Expenditures are recorded when the fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences which 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.

Cash and Cash Equivalents – The District considers cash and cash equivalents to include cash and investments having an original maturity of three months or less. The District does not consider any of the investments of the Employee Retirement Trust Funds to be cash equivalents.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Investments – Investments, including investments in the Supplemental Pension Plans, are reported at fair value based on quoted market prices. Short-term investments are reported at cost, which approximates fair value. Investments principally consist of U.S. Government securities, mortgage-backed securities, money market mutual funds and investments in the State of Wisconsin Fixed Retirement Investment Trust Fund (Trust Fund). The fair value of investments in the Wisconsin Retirement Investment Trust Fund is the same as the value of the pooled shares. Although not subject to direct regulators’ oversight, the Wisconsin Fixed Retirement 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 State of Wisconsin Fixed Retirement Investment Trust Fund consists of realized and unrealized gains and losses and investment income.

During fiscal year 2003, the District was notified that the Wisconsin Department of Employee Trust Funds improperly calculated investment unit valuations which resulted in the over allocation of investment income in the prior years of \$1,082,690 and \$1,693,191 to the ASC and Teachers Plans, respectively. This over allocation has been accounted for as a change in estimate in the fair value of investments in the current year. Accordingly, investment income has been reduced by \$1,082,690 and \$1,653,191 in the ASC and Teacher Plans, respectively, for the year ended June 30, 2003

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

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

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

	Capitalization <u>Threshold</u>	Estimated <u>Useful Life</u>
Buildings	\$5,000	50 years
Furniture and equipment	\$5,000	5-20 years
Vehicles	\$5,000	5-15 years
Computers and related equipment	\$5,000	5 years
Major computer/software projects	\$50,000	7 years

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 Statutes. Property taxes for the District are adopted by the Board by early November and are certified to the City of Milwaukee for levy and collection.

The District's property taxes are levied annually prior to December 31, are administered by the City of Milwaukee 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 of Milwaukee from January through October. All unpaid taxes as of June 30 are purchased by the City of Milwaukee.

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 combined balance sheet and revenue is recognized. Deferred revenues include amounts received from grants that have not yet been earned.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

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.

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 \$4,158,502 at June 30, 2003, to provide for payment of future claims.

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

- a. *Invested in Capital Assets, Net of Related Debt* – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted* – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.
- c. *Unrestricted* – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balance Reservations and Designations – In the fund financial statements, the District classifies its fund balance as follows:

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

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.

New Accounting Pronouncement – In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risks disclosed in the notes to the financial statements. The District will implement Statement No. 40 beginning with the year ended June 30, 2004.

2. DEPOSITS AND INVESTMENTS

As required by the Wisconsin Statutes, the City of Milwaukee acts as Treasurer for the Board of School Directors. A major portion of the District's cash is held and controlled by the Treasurer of the City of Milwaukee and is managed and commingled with other City funds. The City of Milwaukee retains all investment income and assumes all investment gains and losses related to the investment of District cash. At June 30, 2003, the aggregate cash balance held by the City Treasurer for the District's governmental fund types and fiduciary fund types were reconciled to the City Treasurer's and Comptroller's records.

MILWAUKEE PUBLIC SCHOOLS
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The following is a summary of deposits held by the City of Milwaukee and other cash and cash equivalents on June 30, 2003:

	City Treasurer	Other	Total
General Fund	\$ 58,957,555	\$ 32,055,710	\$ 91,013,265
Construction Fund	26,743,786	5,048,607	31,792,393
Fiduciary Fund Types	<u>-</u>	<u>5,707,065</u>	<u>5,707,065</u>
Total	<u>\$ 85,701,341</u>	<u>\$42,811,382</u>	<u>\$128,512,723</u>

Deposits and Other Cash – At year-end, the District's demand deposit balance (exclusive of funds held and controlled by the Treasurer of the City of Milwaukee) was \$42,811,382 (including a \$20,000 certificate of deposit) and the bank balance was \$14,375,127. Of the bank balance, \$7,264,563 was covered by the Federal Depository Insurance Corporation ("FDIC") and the State of Wisconsin Public Deposit Guarantee Fund and the remainder is collateralized through collateralization agreements with various depository institutions (underlying securities are in street name and are held by the trust departments of these depository institutions).

The \$85,701,341 in funds held and controlled by the Treasurer of the City of Milwaukee are insured by the Federal Depository Insurance Corporation and the Wisconsin Public Deposit Guarantee Fund or are collateralized through collateralization agreements in the name of the City of Milwaukee. Underlying securities for the collateralization agreements are held in the City of Milwaukee's name by the trust departments of various depository institutions.

Investments – The District is authorized by Wisconsin Statutes 66.04(2) and 67.11(2) to invest in the following instruments:

Time deposits

Bonds or securities issued or guaranteed as to principal and interest by the federal government or its agencies

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 University of Wisconsin Hospitals and Clinics Authority

Repurchase agreements

Any security that matures or that may be tendered for purchase at the option of the holder within not more than seven years of the date on which it was acquired, if that security is rated within established statutory guidelines

No-load securities of open-end registered management investment companies or investment trusts.

The District's investments for Fiduciary Funds are categorized in the following manner:

Category 1 – Includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

Category 2 – Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.

Category 3 – Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the District's name for the facilitation of trading by the District's investment managers.

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FIDUCIARY FUNDS

	Category 3	Carrying Value
Categorized Investments:		
U. S. Treasury Notes	\$ 2,437,380	\$ 2,437,380
U. S. Government Bonds	6,651,826	6,651,826
Mortgage-Backed Securities	3,873,319	3,873,319
Non-Government Obligations	<u>2,631,541</u>	<u>2,631,541</u>
	<u>\$15,594,066</u>	15,594,066
Noncategorized Investments:		
Investment in State of Wisconsin Fixed Retirement Investment Trust Fund		48,763,100
Investment in State of Wisconsin Variable Retirement Investment Trust Fund		19,745,603
Money Market Mutual Fund		<u>5,726,447</u>
Total Investments		<u>\$89,829,216</u>

Uncategorized investments are not subject to categorization because they are not securities. The relationship between the District and the investment agent is a direct contractual relationship, and the investments are not supported by a transferable instrument that evidences ownership.

In accordance with the Wisconsin Retirement System and Employees' Retirement System of the City of Milwaukee's investment policies, the District's pension plans invests in mortgage-backed securities. These securities are reported at fair value in the statement of fiduciary 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 prepayments by mortgages, which may result from a decline in interest rates. For example, if interest rates decline and homeowners refinance mortgages, thereby prepaying 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 District's pension plans invests in mortgage-backed securities to diversify the portfolio and to increase the return while minimizing the extent of risk.

3. RECEIVABLES

Receivables as of June 30, 2003 for the District's individual major funds and non-major funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Non-Major Funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 3,696,162	-	3,696,162
Intergovernmental – Federal	48,703,358	5,807,746	54,511,104
Intergovernmental – State	<u>2,436,671</u>	<u>5,704,768</u>	<u>8,141,439</u>
Gross Receivables	54,836,191	11,512,514	66,348,705
Less: Allowance for Uncollectibles	<u>(96,549)</u>	<u>-</u>	<u>(96,549)</u>
Net Total Receivables	<u>\$54,739,642</u>	<u>11,512,514</u>	<u>66,252,156</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
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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, 2003 represent Due to/From balances among all funds:

		Due From Other Funds			
		General Fund	Construction Fund	Non-Major Fund	Total
Due to Other Funds	General Fund	\$ -	-	4,856,182	\$ 4,856,182
	Construction Fund	11,163,116	-	-	11,163,116
	Non-Major Funds	<u>5,784,611</u>	<u>6,465,477</u>	<u>2,644,556</u>	<u>14,894,644</u>
	Totals	<u>\$16,947,727</u>	<u>6,465,477</u>	<u>7,500,738</u>	<u>\$30,913,942</u>

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

5. CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2003 was as follows:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 29,151,349	-	(43,638)	\$ 29,107,711
Construction in progress	<u>80,542,957</u>	<u>41,698,703</u>	<u>(24,492,210)</u>	<u>97,749,450</u>
Total capital assets not being depreciated	<u>\$109,694,306</u>	<u>41,698,703</u>	<u>(24,535,848)</u>	<u>126,857,161</u>
Capital assets being depreciated:				
Buildings	581,497,963	24,492,210	(300)	605,989,873
Furniture and equipment	25,695,647	4,450,533	(730,497)	29,415,683
Software	<u>16,908,803</u>	<u>4,515,295</u>	<u>-</u>	<u>21,424,098</u>
Total capital assets being depreciated	<u>624,102,413</u>	<u>33,458,038</u>	<u>(730,797)</u>	<u>656,829,654</u>
Less accumulated depreciation for:				
Buildings	(271,087,232)	(9,509,399)	300	(280,596,331)
Furniture and equipment	(19,098,004)	(2,840,526)	724,715	(21,213,815)
Software	<u>(4,748,127)</u>	<u>(3,060,585)</u>	<u>-</u>	<u>(7,808,712)</u>
Total accumulated depreciation	<u>(294,933,363)</u>	<u>(15,410,510)</u>	<u>725,015</u>	<u>(309,618,858)</u>
Total capital assets being depreciated, net	<u>329,169,050</u>	<u>18,047,528</u>	<u>(5,782)</u>	<u>347,210,796</u>
Governmental activities capital assets, net	<u><u>\$438,863,356</u></u>	<u><u>\$59,746,231</u></u>	<u><u>\$(24,541,630)</u></u>	<u><u>\$474,067,957</u></u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
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Depreciation expense was charged to functions/programs of the Milwaukee Public Schools as follows:

Governmental activities:	
Instruction	\$11,881,820
Community Services	95,557
Pupil and Staff Services	719,642
General and School Building	
Administrative	1,310,673
Business Services	1,171,248
School Nutrition	138,578
Other	<u>92,992</u>
Total Depreciation	<u>\$15,410,510</u>

6. SHORT-TERM BORROWINGS

The City of Milwaukee issued short-term revenue anticipation notes on behalf of the District in the amount of \$133,000,000 in September 2002. These notes bear an interest rate of 2.75% and mature in September 2003. The debt was repaid during June 2003 from the District's equalization aid allocations received from the State government.

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
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7. LONG-TERM OBLIGATIONS

The City of Milwaukee school bonds, notes, Wisconsin Trust Fund loans, and capital lease obligations outstanding at June 30, 2003, totaled \$152,069,343. Of this total, \$79,935,935 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 \$72,133,408 represents trust fund loans, capital lease obligations, 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:

Type	Original Amount	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003	Amount due in one year
Intergovernmental cooperation agreements with the City of Milwaukee:						
State of Wisconsin Trust Fund Loans:						
4.5% notes, due in annual installments to March, 2004	5,000,000	1,168,517	-	571,438	597,079	597,079
5.75% notes, due in annual installments to March, 2005	5,000,000	1,765,461	-	555,970	1,209,491	587,747
5.75% notes, due in annual installments to March, 2006	5,000,000	2,580,249	-	592,096	1,988,153	625,828
American with Disabilities Act Loans:						
4.5%-4.65% variable rate notes, due in annual installments to December, 2007	2,000,000	1,105,000	-	205,000	900,000	210,000
3.5%-4.25% note, due in annual installments to December, 2008	605,000	390,225	-	57,475	332,750	60,500
4.75%-5.375% Series O-G.O. Bonds, due in annual installments to June, 2014	300,000	240,000	-	20,000	220,000	20,000
4.75%-5.625% Series R Bonds, due in annual installments to September, 2016	2,000,000	1,866,584	-	133,416	1,733,168	133,416
3.59% Series T Bonds, due in annual installments to September, 2017	3,095,000	3,095,000	-	206,492	2,888,508	206,492
3.74% Series W Bonds, due in annual installments to September, 2017	1,205,000	1,205,000	-	80,446	1,124,554	80,446
4.0-5.0% Series Y Bonds, due in annual installments to September, 2017	660,000	-	660,000	-	660,000	44,042
5.0% Teach Loan, due in annual installments to March, 2012	4,690,982	4,091,684	1,935,676	531,426	5,495,934	538,444
3.5%-4.875% NSI-Neighborhood Schools Initiative Bonds, due in annual installments to February, 2022	33,300,000	33,300,000	-	-	33,300,000	-
QZAB-Qualified Zone Anticipated, due in annual installments to December, 2016	8,590,000	8,590,000	4,979,000	1,099,092	12,469,908	1,704,252

MILWAUKEE PUBLIC SCHOOLS
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Type	Original Amount	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003	Amount due in one year
Financial & Student Tracking Systems- 3.74%-6.24% note, due in annual installments to March, 2008	8,000,000	1,600,000	6,400,000	268,387	7,731,613	1,338,387
Capital Lease Obligations	4,437,000	1,948,775	-	466,525	1,482,250	472,500
Total Intergovernmental cooperation agreement debt		62,946,495	13,974,676	4,787,763	72,133,408	6,619,133
Pension-related debt – Wisconsin Retirement System		166,728,766	878,654	-	167,607,420	-
Accrued Compensated Absences		6,680,603	37,294,183	23,204,348	20,770,438	2,858,286
Workers' Compensation Claims		4,936,639	2,806,772	2,712,258	5,031,153	873,743
General Insurance Claims		1,450,127	-	104,582	1,345,545	65,739
Life Insurance Benefits		1,572,547	173,268	-	1,745,815	275,909
Liability for Other Long-Term Benefits		285,051	-	-	285,051	-
Total Long-term Obligations		<u>\$244,600,228</u>	<u>\$55,127,553</u>	<u>\$30,808,951</u>	<u>\$268,918,830</u>	<u>10,692,810</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the general fund. Pension related debt is expected to be liquidated from the Debt Service Fund.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2003, are as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2004	\$ 6,155,977	\$ 2,516,050	\$ 8,672,027
2005	5,923,890	2,411,017	8,334,907
2006	5,457,045	2,225,763	7,682,808
2007	4,883,552	2,066,461	6,950,013
2008	4,455,880	1,929,297	6,385,177
2009-2013	15,531,597	7,716,573	23,248,170
2014-2018	15,053,217	4,847,842	19,901,059
2019-2023	13,190,000	1,346,231	14,536,231
Total	<u>\$70,651,158</u>	<u>\$25,059,234</u>	<u>\$95,710,392</u>

**MILWAUKEE PUBLIC SCHOOLS
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The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2003:

Fiscal Year Ended June 30	Amount
2004	\$ 540,104
2005	528,318
2006	256,088
2007	250,623
2008	54,789
2009-2012	<u>5,125</u>
 Total minimum lease payments	 1,635,047
 Less amount representing interest	 <u>(152,797)</u>
 Present value of minimum lease payments	 <u>\$ 1,482,250</u>

The maximum allowable amount of City of Milwaukee debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City of Milwaukee (State Statute Chapter 67.03). 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 of Milwaukee for calendar year 2003 was \$21,730,754,000, and the 5% debt limit was \$1,086,537,700. No referendum-approved debt is outstanding at June 30, 2003.

8. FUND BALANCE

Designated for Subsequent Year's Expenditures – The unreserved fund balance of the General Fund is \$53,322,314 at June 30, 2003. This unreserved balance includes \$66,886,493 designated to partially fund school operating expenditures during the period July 1 through December 31, 2003.

Based on recent operating experience, management anticipates that approximately \$456,826,902 will be required to fully cover the anticipated School Operations operating expenditures during the period July 1 through December 31, 2003. In addition to the fund balance designated for subsequent year's expenditures, approximately \$302,973,000 of state aids will be used to fund operating expenditures through December 31, 2003.

The Board has established a formula to identify the amount of unreserved fund balance required to fund the six months of the subsequent year's School Operations property tax levy. The purpose of this designation of fund balance is to provide working capital until state aids and other payments from federal agencies are received. The formula established by this action and the application thereof as of June 30, 2003, is as follows:

General Fund unreserved fund balance	\$53,322,314
 Amount required to fund six months of the subsequent year's property tax levy: Current year's School Operations tax levy (\$162,696,867) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (74) to total calendar school year school days (180)	 <u>66,886,493</u>
 General Fund undesignated fund balance deficiency	 <u>\$(13,564,179)</u>

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

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 risk 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 fully-insured health maintenance organization and through a self-insured comprehensive indemnity/PPO plan. Effective July 1, 2003, Milwaukee Public Schools self-insured the health maintenance organization and purchased specific stop loss insurance for this plan. The District does not purchase stop-loss insurance for its self-insured comprehensive indemnity/PPO 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 worker's compensation benefits and does not purchase stop-loss insurance.

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

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

A liability for claims is reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of recent claim settlement trends including frequency and amount of pay-outs 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, 2003	Year Ended June 30, 2002
Beginning of Year Liability	\$ 31,056,000	\$ 29,046,000
Current Year Claims and Changes in Estimate	172,487,000	142,255,000
Claim Payments	<u>(166,551,000)</u>	<u>(140,245,000)</u>
End of Year Liability	<u>\$ 36,992,000</u>	<u>\$ 31,056,000</u>

The District has recognized the entire liability for Health and Dental insurance, which totaled \$28,869,128 and \$23,096,687 as of June 30, 2003 and 2002, respectively, in the general fund. The District has also recognized a liability of \$1,043,482 and \$1,126,080 as of June 30, 2003 and 2002, respectively, in the general fund for other claims that were due as of the respective year-end. All other claims liabilities are considered to be general 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 generally over thirty years.

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Wisconsin Retirement System – All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.4% of their salaries to the plan for calendar year 2003. The District pays all employer and principally (with the exception of some substitute teachers) all employee required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2002, was \$362,572,000; the District's total payroll was \$497,415,000. The total required contribution for the year ended December 31, 2002, was \$39,883,000, which consisted of \$21,029,000, or 5.8% of payroll, from the District and \$18,854,000, or 5.2% of payroll, from the District on behalf of the employees. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2001 and 2000 were \$40,945,000 and \$42,889,000, 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 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 are determined under Chapter 40 of the Wisconsin 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 (pensions-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. Employers' pension-related debt for prior service costs is being amortized over a 40-year period beginning January 1, 1990. Historical trend information showing the WRS's progress in accumulating sufficient assets to pay benefits is presented in the WRS's annual financial report. As of December 31, 2002, pension-related debt for the District was \$172,218,000 or 9.9% of the WRS's total Unfunded Accrued Actuarial Liability for prior service contribution receivable of \$1,727,704,605. This liability was determined in accordance with the provisions of GASB Statement No. 27 regarding pension-related debt. The actuarial methods and assumptions used are unchanged from those used prior to the implementation of GASB Statement No. 27.

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 of Milwaukee (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City of Milwaukee Charter. Due to the Global Pension Settlement, employees eligible for enrollment on or after January 1, 2000, may consent to the Global Settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the Global Settlement. Employers are required

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to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District's employees covered by the System for the year ended December 31, 2002, was \$105,709,000; the District's total payroll was \$497,415,000. The total required contribution for the year ended December 31, 2002, was \$5,814,000 or 5.5% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2001 and 2000 were \$5,884,000 and \$5,881,000 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 on or after January 1, 2000 who consent to Global Pension Settlement shall make a bi-weekly employee contribution to pay for their cost of living adjustment (COLA) improvements upon completion of the first eight years of employment. 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 of Milwaukee Charter.

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the City of Milwaukee, City Hall, 200 East Wells Street, Room 603, Milwaukee, WI 53202-3567.

Supplemental Retirement Plans

a. Plan Descriptions and Funding Policies

(1) 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, which 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 the District.

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 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 District. 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.

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. The Plan provides for unreduced benefits at age 60, and for reduced benefits between ages 55 and 60. For participants who retire between ages 60 and 65 under the System or under the WRS, a special supplemental benefit, as defined, shall be paid until the retiree attains age 65. Benefits are paid in the form of monthly payments based on years of service and average monthly compensation for the three highest fiscal years of earnings preceding the date of retirement to a maximum benefit, from 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

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

directly affects the Plan by decreasing the benefits paid and increasing the funded status of the Plan. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the Plan's actuary was \$6,326,664 of which a \$937,750 gain was allocated in fiscal year 2002 and 2003. In the meantime, benefits continue to be paid by the Plan and adjusted (reduced) to reflect Wisconsin Act 11.

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. However, the agreement is contingent upon 95% of affected individuals signing consents and waiving rights to benefits under the Teachers Plan.

- Transfer the benefit formula under the Teachers Plan to the ASC Plan for those individuals who have prior MPS teaching service 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 Wisconsin Retirement System.

The amendments to the ASC Plan have not been incorporated into the June 30, 2003 actuarial valuation. It is estimated that these amendments will result in an increase to the actuarial accrued liability of \$3,906,000 and an increase to the fiscal year 2004 required District (employer) contributions of \$770,000.

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

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. Classified employees are not required to make member contributions under the Plan.

For the period prior to July 1, 2003 as noted in the aforementioned Plan amendment, participant contributions are funded by payroll deductions, which cover 20% of the Plan cost, as specified in the collective bargaining agreement. The District is required to fund the remaining 80% of the actuarially determined contribution requirement.

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.

(2) 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, which 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 are determined under the provisions of the Plan document. The Plan is administered by the District.

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

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.

The Plan provides for reduced early retirement benefits to participants who are eligible and commence their WRS benefits after age 55 and prior to age 62 and provides optional 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 years of service, and defined average monthly compensation for the three fiscal years of highest earnings preceding the date of retirement. Effective July 1, 1998 a new 15 year vesting provision and years of creditable service provision applies to new participants and re-hired former participants of the Plan.

The Plan also provides for disability benefits for vested participants of the Plan.

The Plan is a noncontributory plan. Therefore, the District is required to fund 100% of the actuarially determined contribution requirement.

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, 2003 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	Total
Contribution rates as a percentage of payroll:			
District	2.66%	3.80%	
Plan participants	.54	-	
Annual required contribution	\$1,206,396	\$11,541,960	\$12,748,356
Interest on net pension obligation	0	0	0
Adjustment to annual required contribution	<u>0</u>	<u>0</u>	<u>0</u>
Annual pension cost	1,206,396	11,541,960	12,748,356
Contributions made	<u>1,206,396</u>	<u>11,541,960</u>	<u>12,748,356</u>
Increase (decrease) in net pension obligation	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, beginning of the year	<u>0</u>	<u>0</u>	<u>0</u>
Net pension obligation, end of the year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

	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	7/1/02	7/1/02
Actuarial cost method	Projected Unit Credit	Entry Age Normal
Amortization method	Level amortization over average expected future working lifetime of active participants	Level dollar amount over 30 years
Remaining amortization period	Varies, depending upon date of base creation. Newly established bases are amortized over a closed nine-year period.	Varies, depending upon date of base creation. New bases established are amortized over a closed 30 years.
Asset valuation method	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.	Five-year smoothed market value for assets other than dedicated bond portfolios. Dedicated bond portfolios are valued as discounted cash flows.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases:		
Certificated Participants	Participant's pay level at "transition" is assumed to increase by the regular pay scale of 1.8% (inflation rate) plus an additional merit raise of 4.5% for each of the next six years. "Age at transition" is the assumed age at which a participant enters the ASC union. This assumed age is age at hire plus six years of service.	The assumed compensation increase (including inflation) for each participant is 3% per annum.
Classified Participants	4.0%	
Mortality:	For males, according to the 1983 Group Annuity Mortality Table for males, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.	For males, according to the 1983 Group Annuity Mortality Table for males, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003**

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

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2002	\$1,206,396	100%	\$0
2001	1,248,752	100	0
2000	1,722,442	100	0

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Fiscal Year Beginning July 1	Annual Pension Cost	% of Annual Pension Cost Contributed	Net Pension Obligation
2002	\$11,541,960	100%	\$0
2001	9,144,027	100	0
2000	8,673,730	100	0

11. POST-RETIREMENT LIFE AND HEALTH CARE INSURANCE BENEFITS

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

Health insurance is available on a self-paid basis to retired employees who retire at age 55 or older, with 15 years of service, by paying the premium for such coverage. In the event such employees have 70% of their maximum sick leave accumulation balance at the time of retirement, the District will pay an amount towards the health insurance premium equal to the premium for that employee at the time of retirement. Any increases in premium beyond the amount of the premium at the employee's retirement is paid by the retiree. The District's costs for retiree health insurance is recorded in current operating expenditures as paid. The District has available a self-insured indemnity/PPO health plan and one fully-insured health maintenance organizations. These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

Expenditures for post-retirement life and health care insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$20,867,000 for the year ended June 30, 2003. Approximately 4,960 participants are currently eligible to receive post-retirement life insurance benefits, and approximately 4,960 participants are receiving post-retirement health care benefits.

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

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

12. LIMITATION ON DISTRICT REVENUES

Wisconsin 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, 2003, the District is below its revenue limitation by approximately \$87,575.

13. SCHOOL NUTRITION DEFICIT

The School Nutrition Services Fund had a deficit of \$2,414,640. The deficit is anticipated to be funded through future operations or operating transfers from the General Fund.

14. COMMITMENTS AND CONTINGENCIES

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, 2003 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.

Operating Leases

The District leases certain computer equipment with a carrying value of approximately \$1,605,799 from external vendors. The District also leases two facilities under an operating lease that expires in 2012. The lessor obtained financing for the acquisition and renovation of the leased property through the Redevelopment Authority of the City of Milwaukee, and the lease payments being made by the District are equal to the amounts necessary to pay debt service on the lessor's financing.

For fiscal year 2003, total operating lease expense of the District was \$7,707,048. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2003 and thereafter for the computers and property are as follows:

Fiscal Year	Amount
2004	\$ 5,952,502
2005	4,478,902
2006	4,379,475
2007	4,376,647
2008	4,378,722
2009-2012	<u>13,632,852</u>
TOTAL	<u>\$ 37,199,100</u>

MILWAUKEE PUBLIC SCHOOLS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

Construction Commitments

The District has various active construction projects with commitments outstanding of \$13,560,037 as of June 30, 2003.

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.

15. SUBSEQUENT EVENTS

On August 1, 2003, Milwaukee Public Schools (MPS) entered into a Lease and Deferred Payment Agreement with Banc One Leasing Corporation (2003 QZAB Project) for the purpose of constructing certain improvements to, and purchasing and installing certain equipment for use at various MPS schools, which are "qualified purposes" under Section 1397E of the Internal Revenue Code of 1986, as amended. The amount of the Agreement is \$2,650,000. MPS will make annual payments of \$265,045.28 commencing December 1, 2004 through December 1, 2010. The maturity is 16 years, maturing August 5, 2019.

On September 30, 2003, the City of Milwaukee issued \$150,000,000 of Short-Term School Order Notes, Series of 2003 M5 (Revenue Anticipation Notes) for the purpose of financing Milwaukee Public Schools' general operating purposes pending receipt of State school aid payments. The maturity is June 30, 2004. Interest is payable at maturity.

On November 18, 2003, the Redevelopment Authority of the City of Milwaukee issued \$78,740,000 of Revenue Bonds, Series 2003A, and loaned the proceeds to Milwaukee Public Schools for the purpose of financing, in part, the Neighborhood Schools Plan and related activities. The bonds mature commencing August 1, 2007 through August 1, 2023. Interest is payable February 1 and August 1, commencing February 1, 2004.

On December 23, 2003 the City of Milwaukee issued \$21,482,013.50 of Taxable General Obligation Promissory Notes, 2003 Series M10 and the Redevelopment Authority of the City of Milwaukee issued \$15,719,121.70 of Taxable Pension Funding Bonds, 2003 Series C and \$130,850,000 Taxable Pension Funding Bonds, 2003 Series D to fund payments to be made by the Milwaukee Public Schools (MPS) to the Wisconsin Retirement System with respect to MPS' unfunded actuarial accrued liability for retirement benefits for MPS employees.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

MILWAUKEE PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
Property tax levy	\$ 170,665,399	\$ 166,054,965	\$ 166,054,974
Other local sources	3,875,327	13,162,446	10,384,593
State aid:			
Equalization aid	550,600,000	556,168,855	556,169,239
Special classes	40,400,000	40,400,000	40,312,755
Integration	38,700,000	38,717,682	38,717,298
Other state aid	57,457,488	65,563,099	48,330,871
Federal aid:			
Education Consolidation Improvement Act	76,407,632	66,927,297	55,238,900
Erate Refunds	-	-	857,304
Other federal aid	21,450,111	65,902,070	65,769,875
Interest	-	-	163,109
Total revenues	<u>959,555,957</u>	<u>1,012,896,414</u>	<u>981,998,918</u>
Expenditures			
Current operating:			
Instructional services:			
Undifferentiated curriculum	417,269,651	412,683,709	394,787,592
Regular and other curriculum	60,531,961	67,323,782	113,717,969
Special curriculum	98,268,320	104,349,905	95,307,418
Total instructional services	<u>576,069,932</u>	<u>584,357,396</u>	<u>603,812,979</u>
Community services	14,610,544	23,863,094	21,442,778
Pupil and staff services	93,054,399	117,509,160	106,437,367
General and school building administration	83,460,899	85,987,974	115,847,360
Business services	159,199,196	168,590,234	164,931,353
Debt service	-	-	842,767
Other	64,965,758	73,568,289	1,400,556
Total expenditures	<u>991,360,728</u>	<u>1,053,876,147</u>	<u>1,014,715,160</u>
Excess of revenues over (under) expenditures	<u>\$ (31,804,771)</u>	<u>\$ (40,979,733)</u>	(32,716,242)
Fund balance - beginning			<u>117,908,916</u>
Fund balance - ending			<u>\$ 85,192,674</u>

See accompanying independent auditors' report and notes to required supplementary information.

**MILWAUKEE PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2003**

SCHEDULES OF FUNDING PROGRESS

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

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/02	\$40,229,422	\$41,356,358	\$1,126,936	97.27%	\$37,694,546	02.98%
7/1/01	40,125,187	40,280,250	155,063	99.62	41,022,453	00.38
7/1/00	38,305,613	44,985,363	6,679,750	85.15	40,129,546	16.65

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Total Unfunded AAL (2) – (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	Unfunded AAL As a Percentage of Covered Payroll (2) – (1) / (5)
7/1/02	\$44,638,240	\$142,261,158	\$97,622,918	31.38%	\$303,351,587	32.18%
7/1/01	40,148,172	115,223,720	75,075,548	34.84	295,633,828	25.40
7/1/00	33,826,809	103,998,229	70,171,420	32.53	298,981,706	23.47

**MILWAUKEE PUBLIC SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2003**

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 function 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. There were no supplemental budget appropriations necessary during the year.

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; and
- Does not move monies between statutory funds.

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

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

**MILWAUKEE PUBLIC SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS**

Special Revenue Funds

Special Revenue Funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

- TEACH Wisconsin Programs Fund – This fund is used to account for proceeds from state grants which provide funding for advanced and innovative telecommunications-based projects.
- Categorically Aided Programs Fund – This fund is used to account for proceeds from federal grants which provide emphasis on social and curriculum needs of special populations within the District.
- 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.

Debt Service Fund

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of the governmental funds.

MILWAUKEE PUBLIC SCHOOLS
COMBINING BALANCE SHEET - NON-MAJOR FUNDS
JUNE 30, 2003

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Assets					
Receivable due from					
other governmental units	\$ -	\$ 5,807,746	\$ 5,704,768	\$ -	\$ 11,512,514
Due from other funds	5,438,697	90,631	1,971,410	-	7,500,738
Inventories	-	-	588,721	-	588,721
Total assets	<u>\$ 5,438,697</u>	<u>\$ 5,898,377</u>	<u>\$ 8,264,899</u>	<u>\$ -</u>	<u>\$ 19,601,973</u>
Liabilities And Fund Balance					
Liabilities:					
Accounts payable	\$ -	\$ 1,664,342	\$ 333,334	\$ -	\$ 1,997,676
Due to other funds	314,404	4,234,035	10,346,205	-	14,894,644
Total liabilities	<u>314,404</u>	<u>5,898,377</u>	<u>10,679,539</u>	<u>-</u>	<u>16,892,320</u>
Fund balance (deficit):					
Reserved for inventories	-	-	588,721	-	588,721
Unreserved and undesignated	5,124,293	-	(3,003,361)	-	2,120,932
Total fund balance	<u>5,124,293</u>	<u>-</u>	<u>(2,414,640)</u>	<u>-</u>	<u>2,709,653</u>
Total liabilities and fund balance	<u>\$ 5,438,697</u>	<u>\$ 5,898,377</u>	<u>\$ 8,264,899</u>	<u>\$ -</u>	<u>\$ 19,601,973</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE (DEFICIT) - NON-MAJOR FUNDS
YEAR ENDED JUNE 30, 2003

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Revenues					
Property taxes	\$ -	\$ -	\$ -	\$ 4,644,357	\$ 4,644,357
Lunchroom sales	-	-	4,331,344	-	4,331,344
State aid-other	5,533,912	-	657,903	-	6,191,815
Federal aid:					
School nutrition services	-	-	23,925,082	-	23,925,082
Other federal aid	-	19,749,621	-	-	19,749,621
Total revenues	<u>5,533,912</u>	<u>19,749,621</u>	<u>28,914,329</u>	<u>4,644,357</u>	<u>58,842,219</u>
Expenditures					
Current operating:					
Regular and other curriculum	-	-	-	-	-
Special curriculum	-	6,863,130	-	-	6,863,130
Pupil and staff services	7,805,961	12,886,491	-	-	20,692,452
School nutrition services	-	-	29,209,501	-	29,209,501
Debt service:					
Principal	531,426	-	-	3,789,812	4,321,238
Interest	191,616	-	-	854,545	1,046,161
Total expenditures	<u>8,529,003</u>	<u>19,749,621</u>	<u>29,209,501</u>	<u>4,644,357</u>	<u>62,132,482</u>
Excess of revenues over (under)					
Expenditures	(2,995,091)	-	(295,172)	-	(3,290,263)
Other financing sources:					
Proceeds from Teach Loan	<u>1,935,677</u>	-	-	-	<u>1,935,677</u>
Total other financing sources	<u>1,935,677</u>	-	-	-	<u>1,935,677</u>
Net changes in fund balance	(1,059,414)	-	(295,172)	-	(1,354,586)
Fund balance (deficit):					
Beginning of year	<u>6,183,707</u>	-	<u>(2,119,468)</u>	-	<u>4,064,239</u>
End of year	<u>\$ 5,124,293</u>	<u>\$ -</u>	<u>\$ (2,414,640)</u>	<u>\$ -</u>	<u>\$ 2,709,653</u>

See accompanying independent auditors' report.

**MILWAUKEE PUBLIC SCHOOLS
TEACH WISCONSIN PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
State aid:			
Other state aid	\$ 6,559,000	\$ 7,206,020	\$ 5,533,912
Total revenues	<u>6,559,000</u>	<u>7,206,020</u>	<u>5,533,912</u>
Expenditures			
Current operating:			
Pupil and staff services	7,129,244	7,776,264	7,805,961
Debt service	<u>723,042</u>	<u>723,042</u>	<u>723,042</u>
Total expenditures	<u>7,852,286</u>	<u>8,499,306</u>	<u>8,529,003</u>
Excess of revenues over (under) expenditures	<u>(1,293,286)</u>	<u>(1,293,286)</u>	<u>(2,995,091)</u>
Other financing sources:			
Proceeds from Teach Loan	<u>587,000</u>	<u>587,000</u>	<u>1,935,677</u>
Total other financing sources	<u>587,000</u>	<u>587,000</u>	<u>1,935,677</u>
Net change in fund balance	<u>\$ (706,286)</u>	<u>\$ (706,286)</u>	<u>(1,059,414)</u>
Fund balance - beginning			<u>6,183,707</u>
Fund balance - ending			<u>\$ 5,124,293</u>

See accompanying independent auditors' report and notes to required supplementary information.

**MILWAUKEE PUBLIC SCHOOLS
CATEGORICALLY AIDED PROGRAMS FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
Federal aid:			
Other federal aid	\$ 17,237,981	\$ 22,206,492	\$ 19,749,621
Total revenues	<u>17,237,981</u>	<u>22,206,492</u>	<u>19,749,621</u>
Expenditures			
Current operating:			
Special curriculum	6,597,035	7,442,412	6,863,130
Pupil and staff services	10,640,946	14,764,080	12,886,491
Total expenditures	<u>17,237,981</u>	<u>22,206,492</u>	<u>19,749,621</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Fund balance - beginning			<u>-</u>
Fund balance - ending			<u>\$ -</u>

See accompanying independent auditors' report and notes to required supplementary information.

**MILWAUKEE PUBLIC SCHOOLS
SCHOOL NUTRITION SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>
	<u>Adopted</u>	<u>Revised</u>	
Revenues			
Lunchroom sales	\$ 3,750,000	\$ 4,200,000	4,331,344
State aid:			
School nutrition aid	700,000	650,000	657,903
Federal aid:			
School nutrition aid	<u>22,900,000</u>	<u>23,300,000</u>	<u>23,925,082</u>
Total revenues	<u>27,350,000</u>	<u>28,150,000</u>	<u>28,914,329</u>
Expenditures			
Current operating:			
School nutrition services	<u>27,361,819</u>	<u>28,161,819</u>	<u>29,209,501</u>
Total expenditures	<u>27,361,819</u>	<u>28,161,819</u>	<u>29,209,501</u>
Excess of revenues over (under) expenditures	<u>\$ (11,819)</u>	<u>\$ (11,819)</u>	<u>(295,172)</u>
Fund balance - beginning			<u>(2,119,468)</u>
Fund balance - ending			<u>\$ (2,414,640)</u>

See accompanying independent auditors' report and notes to required supplementary information.

**MILWAUKEE PUBLIC SCHOOLS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP Basis)</u>
Revenues			
State aid:			
Other state aid	\$ 5,891,945	\$ 4,644,357	\$ 4,644,357
Total revenues	<u>5,891,945</u>	<u>4,644,357</u>	<u>4,644,357</u>
Expenditures			
Current operating:			
Debt service	<u>5,891,945</u>	<u>4,644,357</u>	<u>4,644,357</u>
Total expenditures	<u>5,891,945</u>	<u>4,644,357</u>	<u>4,644,357</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Fund balance - beginning			<u>-</u>
Fund balance - ending			<u>\$ -</u>

See accompanying independent auditors' report and notes to required supplementary information.

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**MILWAUKEE PUBLIC SCHOOLS
FIDUCIARY FUNDS**

Pension Trust Funds

The Pension Trust Funds are:

- Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan accounts for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified administrators.
- Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers accounts for the accumulation of resources for pension benefit payments for early retirement plans maintained by the District for qualified teachers.

Agency Fund

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

MILWAUKEE PUBLIC SCHOOLS
COMBINING STATEMENT OF CHANGES IN NET ASSETS FOR PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2003

	<u>Milwaukee Board of School Directors Early Retirement Supplemental and Benefit Improvement Plan</u>	<u>Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers</u>	<u>Total</u>
Additions			
Employer contributions	\$ 1,574,035	\$ 12,075,343	\$ 13,649,378
Participants contributions	208,912	-	208,912
Investment income (loss)	955,183	(262,174)	693,009
Total additions	<u>2,738,130</u>	<u>11,813,169</u>	<u>14,551,299</u>
Deductions			
Support services	<u>3,675,145</u>	<u>8,062,800</u>	<u>11,737,945</u>
Total deductions	<u>3,675,145</u>	<u>8,062,800</u>	<u>11,737,945</u>
Changes in net assets	(937,015)	3,750,369	2,813,354
Net Assets--Beginning	<u>38,070,706</u>	<u>46,731,952</u>	<u>84,802,658</u>
Net Assets--Ending	<u>\$ 37,133,691</u>	<u>\$ 50,482,321</u>	<u>\$ 87,616,012</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2003
AGENCY FUND

	<u>Balance</u> <u>07/01/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/2003</u>
Assets				
Cash and cash equivalents	\$ 4,983,079	\$ 19,420,697	\$ (19,182,936)	\$ 5,220,840
Total assets	<u>\$ 4,983,079</u>	<u>\$ 19,420,697</u>	<u>\$ (19,182,936)</u>	<u>\$ 5,220,840</u>
Liabilities				
Due to student organizations	\$ 4,983,079	\$ 19,420,697	\$ (19,182,936)	\$ 5,220,840
Total liabilities	<u>\$ 4,983,079</u>	<u>\$ 19,420,697</u>	<u>\$ (19,182,936)</u>	<u>\$ 5,220,840</u>

See accompanying independent auditors' report.

STATISTICAL SECTION

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**Milwaukee Public Schools
Government-wide Expenses by Function
Last Two Fiscal Years
(amounts expressed in thousands)**

<u>Fiscal Year</u>	<u>Instruction</u>	<u>Community Services</u>	<u>Pupil & Staff Services</u>	<u>General Administrative and Central Services</u>	<u>Business Services</u>	<u>School Nutrition Services</u>	<u>Interest on Long-Term Debt</u>	<u>Insurance</u>	<u>Other</u>	<u>Total</u>
2002	\$ 589,461	\$ 18,606	\$ 106,354	\$ 103,023	\$ 154,804	\$ 28,672	\$ 1,374	\$ 5,148	\$ 479	\$ 1,007,921
2003	623,386	21,757	128,558	110,764	179,310	29,348	3,920	8,734	1,190	1,106,967

The District implemented GASB 34 on June 30, 2002 accordingly prior year data is not available.

**Milwaukee Public Schools
Government-wide Revenues
Last Two Fiscal Years
(amounts expressed in thousands)**

<u>Fiscal Year</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contribution</u>	<u>Taxes</u>	<u>Federal and State aid not restricted to a Specific Purpose</u>	<u>Interest and Investment Earnings</u>	<u>Miscellaneous</u>	<u>Total</u>
2002	\$ 9,011	\$ 164,573	\$ 36,967	\$ 175,075	\$ 647,950	\$ 858	\$ -	\$ 1,034,434
2003	8,838	183,306	16,421	181,101	678,954	662	1,263	1,070,545

The District implemented GASB 34 on June 30, 2002 accordingly prior year data is not available.

**Milwaukee Public Schools
General Governmental Expenditures by Function
Last Ten Fiscal Years
(amounts expressed in thousands)**

Fiscal Year	Instruction	Community Services	Pupil & Staff Services	General and School Building Administration	Business Services	Debt Service	Other	Total
1994	\$ 405,996	\$ 5,819	\$ 50,834	\$ 49,091	\$ 110,428	\$ -	\$ 26,702	\$ 648,870
1995	423,323	5,400	57,413	52,658	115,242	-	43,363	697,399
1996	435,112	5,273	57,033	55,921	117,650	-	40,136	711,125
1997	452,702	5,333	64,744	61,240	125,395	-	36,865	746,279
1998	474,317	6,737	69,031	65,689	127,716	-	49,751	793,241
1999	510,566	6,986	76,999	69,334	130,481	-	55,595	849,961
2000	508,121	5,483	81,330	72,226	135,632	-	64,505	867,297
2001	518,808	6,100	83,973	74,586	139,612	-	81,424	904,503
2002	559,946	18,312	84,850	82,822	150,644	993	53,253	950,820
2003	603,813	21,443	106,438	115,847	164,931	842	1,401	1,014,715

This schedule includes the General Fund.

**Milwaukee Public Schools
General Governmental Revenues by Source
Last Ten Fiscal Years
(amounts expressed in thousands)**

Fiscal Year	Property Tax Levy	Other Local Sources	State Aid	Federal Aid	Other Federal Aid	Interest and Investment Earnings	Total
1994	\$ 225,995	\$ 6,779	\$ 376,741	\$ 35,592	\$ 9,849	-	\$ 654,956
1995	225,905	5,378	401,916	40,035	11,124	-	684,358
1996	212,464	6,418	447,762	38,878	13,276	-	718,798
1997	169,618	5,896	518,993	42,770	16,399	-	753,676
1998	144,332	5,560	564,061	49,389	20,621	-	783,963
1999	182,170	6,275	589,590	46,769	28,007	-	852,811
2000	149,762	7,063	627,328	52,528	28,316	-	864,997
2001	157,723	15,367	650,150	55,355	37,732	-	916,327
2002	161,632	9,680	666,763	48,563	54,872	-	941,510
2003	166,055	10,385	683,529	56,096	65,770	163	981,998

This schedule includes the General Fund.

**COMPARATIVE PER CAPITA COST STATISTICS
LAST TEN YEARS**

	Cost Per Pupil
1993 - 1994	6,831
1994 - 1995	7,382
1995 - 1996	7,556
1996 - 1997	7,768
1997 - 1998	8,022
1998 - 1999	8,718
1999 - 2000	9,036
2000 - 2001	9,502
2001 - 2002	10,228
2002 - 2003	11,086

**ASSESSED AND EQUALIZED VALUATION -
CITY OF MILWAUKEE
(IN THOUSANDS)**

The assessed and equalized valuations for the past 30 years are shown below.

Year	Assessed Valuation	Assessed Valuation Increase/(Decrease) Over Prior Years	Equalized Valuation
1973	2,793,281	102,941	5,281,415
1974 *	6,173,995	3,380,715	6,254,371
1975	6,213,594	39,599	6,885,391
1976	6,096,761	(116,834)	7,284,706
1977	5,860,570	(236,191)	7,744,959
1978	8,332,979	2,472,409	8,453,477
1979	7,789,446	(543,533)	9,345,784
1980	7,680,434	(109,012)	10,252,337
1981	7,459,893	(220,540)	10,404,727
1982	10,432,662	2,972,769	10,762,198
1983	10,542,257	109,595	10,906,324
1984	11,001,963	459,705	11,025,039
1985	11,076,974	75,011	11,152,473
1986	11,140,003	63,029	11,181,029
1987	11,303,217	163,214	11,709,716
1988	11,865,999	562,782	12,002,681
1989	12,017,462	151,463	12,648,530
1990	12,614,531	597,069	12,808,708
1991	12,701,237	86,706	13,189,084
1992	13,336,770	635,533	13,279,156
1993	13,345,968	9,198	14,047,985
1994	14,029,734	683,766	14,363,706
1995	13,976,649	(53,085)	14,821,109
1996	14,850,607	873,958	15,041,199
1997	14,914,137	63,530	15,511,857
1998	16,072,114	1,157,977	16,228,218
1999	15,773,850	(298,264)	16,701,225
2000	17,582,995	1,809,145	17,344,251
2001	17,699,784	116,789	19,453,830
2002	19,866,255	2,166,471	20,298,387

* The City of Milwaukee reassessed all real property in 1974 to reflect full valuation. Assessed valuation approximates actual property value for all classes of property within the City of Milwaukee.

Source: Assessed valuation is determined by the City of Milwaukee, Assessor's Office.
Equalized valuation is determined by the State of Wisconsin Department of Revenue. Both the assessed valuation and the equalized valuation include Tax Incremental Financing Districts.

**MILWAUKEE PUBLIC SCHOOLS
PROPERTY TAX RATES AND LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN YEARS**

<u>Levy for Year (C)</u>	<u>Milwaukee School Board (A)</u>		<u>City of Milwaukee (B)</u>		<u>Milwaukee Area District Board of Vocational, Technical and Adult Education</u>		<u>County of Milwaukee</u>	
TAX RATES PER \$1,000 OF ASSESSED VALUE AND PERCENT OF TOTAL								
1993	18.45	45.4	11.50	28.3	2.00	4.9	5.48	13.5
1994	18.59	45.8	10.93	26.9	2.09	5.2	5.59	13.8
1995	15.46	42.2	10.47	28.5	2.04	5.6	5.41	14.7
1996	14.28	40.5	10.09	28.6	2.10	6.0	5.74	16.3
1997	9.97	33.9	9.81	33.3	2.01	6.8	5.72	19.4
1998	9.02	31.6	9.47	33.2	2.11	7.4	5.96	20.9
1999	9.44	33.4	9.20	32.5	2.01	7.1	5.72	20.2
2000	8.95	31.9	9.12	32.5	2.16	7.7	5.82	20.7
2001	8.81	31.5	9.86	35.2	2.00	7.1	5.46	19.5
2002	9.11	30.8	10.22	34.6	2.23	7.6	5.91	20.0

TAX LEVIES (IN THOUSANDS)

1993	237,095	148,963	25,755	70,658
1994	242,620	142,794	27,307	72,965
1995	238,537	144,049	28,081	74,326
1996	221,958	138,750	28,967	78,897
1997	181,336	143,061	29,388	83,308
1998	167,446	139,417	31,020	87,779
1999	181,736	145,555	31,847	90,387
2000	169,562	141,279	33,455	90,017
2001	180,874	169,678	34,437	93,946
2002	186,228	176,579	38,499	102,173

- (A) Includes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy by the City of Milwaukee (\$.65 in 2002).
- (B) Excludes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy of the City of Milwaukee (\$.65 in 2002).
- (C) Tax rates were constructed considering the provision of the tax incremental district law. The application of these rates to the applicable assessed values will provide a tax yield higher than the levy requirements.

Source: City of Milwaukee, Assessor's Office.

<u>State of Wisconsin</u>	<u>Milwaukee Metropolitan Sewerage District</u>			<u>Total</u>	
TAX RATES PER \$1,000 OF ASSESSED VALUE AND PERCENT OF TOTAL					
0.20	0.5	2.99	7.4	40.62	100.0
0.21	0.5	3.16	7.8	40.57	100.0
0.21	0.6	3.07	8.4	36.66	100.0
0.21	0.6	2.81	8.0	35.23	100.0
0.20	0.7	1.72	5.9	29.43	100.0
0.21	0.7	1.77	6.2	28.54	100.0
0.20	0.7	1.72	6.1	28.29	100.0
0.21	0.8	1.80	6.4	28.06	100.0
0.20	0.7	1.68	6.0	28.01	100.0
0.22	0.7	1.87	6.3	29.56	100.0

TAX LEVIES (IN THOUSANDS)

2,656	38,523	523,650
2,810	41,234	529,730
2,873	42,191	530,057
2,964	38,654	510,190
3,008	25,110	465,211
3,102	26,039	454,803
3,246	27,152	479,923
3,340	27,876	465,529
3,469	28,876	511,280
3,891	32,287	539,657

**TAX RATES FOR SCHOOL PURPOSES
LAST TEN YEARS
(PER \$1,000 OF ASSESSED VALUE)**

Year	School Operations	Construction	Extension	Total
1991	\$17.67	\$0.62	\$0.38	\$18.67
1993	17.48	0.60	0.37	18.45
1994	17.68	0.56	0.35	18.59
1995	14.53	0.57	0.36	15.46
1996	13.44	0.51	0.33	14.28
1997	9.23	0.44	0.30	9.97
1998	8.32	0.40	0.30	9.02
1999	8.61	0.48	0.35	9.44
2000	8.14	0.49	0.32	8.95
2001	8.00	0.52	0.29	8.81
2002	8.19	0.52	0.40	9.11

**TAX LEVIES FOR SCHOOL PURPOSES
LAST TEN YEARS**

Year	School Operations	Construction	Extension	Total
1993	224,164,277	7,700,000	4,570,723	236,435,000
1994	220,610,916	7,700,000	4,771,837	233,082,753
1995	202,936,592	7,700,000	4,996,113	215,632,705
1996	161,804,737	7,700,000	5,333,642	174,838,379
1997	146,410,265	7,700,000	5,452,011	159,562,276
1998	160,074,588	7,700,000	5,718,371	173,492,959
1999	146,513,018	8,123,121	5,924,868	160,561,007
2000	154,374,123	9,273,404	6,073,405	169,720,932
2001	158,610,459	10,328,700	5,795,434	174,734,593
2002	162,696,867	10,346,829	8,002,455	181,046,151

**CITY OF MILWAUKEE -
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
December 31, 2002
(IN THOUSANDS)**

Name of Governmental Unit	Net Debt Outstanding	Percentage Applicable to City of Milwaukee	City of Milwaukee's Share of Debt
Direct Debt:			
City of Milwaukee (A)	\$619,083	100.00 %	\$619,083
Overlapping Debt:			
Milwaukee Area Technical College District Board of Vocational, Technical and Adult Education ...	77,313	37.32	28,853
County of Milwaukee	489,152	45.70	223,542
Milwaukee Metropolitan Sewerage Area (B).....	551,321	46.87	<u>258,404</u>
Total Overlapping Debt			
Total District and Overlapping Debt			<u><u>\$1,129,882</u></u>

(A) Excludes \$94,153 of Industrial Revenue Bonds. Includes debt incurred to finance Milwaukee School Board construction.

(B) Includes \$271,740 low interest loans from the State of Wisconsin Clean Water Fund, supported by the full faith and credit of the Milwaukee Metropolitan Sewerage District.

**SCHOOL ACCOMMODATIONS
LAST THIRTY-FIVE YEARS**

	Instructional Staff (a)	Number of School Buildings	Average School Year Daily Membership
1968 - 1969	5,276	156	122,526 (b)
1969 - 1970	5,316	156	123,699 (b)
1970 - 1971	5,556	157	124,783 (b)
1971 - 1972	5,811	158	123,365 (b)
1972 - 1973	5,825	160	123,432 (b)
1973 - 1974	5,772	160	118,283 (b)
1974 - 1975	5,915	164	113,291 (b)
1975 - 1976	6,182	163	108,300 (b)
1976 - 1977	6,083	161	105,581 (b)
1977 - 1978	5,974	156	96,618 (b)
1978 - 1979	5,836	151	91,929 (b)
1979 - 1980	5,679	150	87,679 (b)
1980 - 1981	5,313	150	84,379 (b)
1981 - 1982	5,167	150	82,632 (b)
1982 - 1983	5,019	150	82,353 (b)
1983 - 1984	5,026	144	82,667
1984 - 1985	5,126	143	84,443
1985 - 1986	5,380	145	86,836
1986 - 1987	5,474	144	87,283
1987 - 1988	5,581	145	87,949
1988 - 1989	5,675	146	89,675
1989 - 1990	5,791	146	90,595
1990 - 1991	5,920	149	90,487
1991 - 1992	6,872	154	91,071
1992 - 1993	6,811	156	94,694
1993 - 1994	6,817	155	96,496
1994 - 1995	6,816	155	98,312
1995 - 1996	6,682	154	99,278
1996 - 1997	6,785	154	101,622
1997 - 1998	7,005	157	102,914
1998 - 1999	7,187	157	102,097
1999 - 2000	7,114	157	100,682
2000 - 2001	7,128	158	99,332
2001 - 2002	7,154	164	99,302
2002 - 2003	7,137	164	99,054

(a) Including principals

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

**NUMBER AND DISTRIBUTION OF INSTRUCTIONAL STAFF
LAST TEN YEARS**

CLASSIFICATIONS	1993 - 1994	1994 - 1995	1995 - 1996	1996 - 1997	1997 - 1998	1998 - 1999	1999 - 2000	2000 - 2001	2001 - 2002	2002 - 2003
Senior High and Middle Schools:										
Principals	36	37	37	37	37	37	37	37	38	36
Assistant Principals	105	105	117	118	120	119	111	116	113	111
Teachers	<u>2,435</u>	<u>2,453</u>	<u>2,473</u>	<u>2,434</u>	<u>2,456</u>	<u>2,491</u>	<u>2,425</u>	<u>2,320</u>	<u>2,291</u>	<u>2,352</u>
Total	<u>2,576</u>	<u>2,595</u>	<u>2,627</u>	<u>2,589</u>	<u>2,613</u>	<u>2,647</u>	<u>2,573</u>	<u>2,473</u>	<u>2,442</u>	<u>2,499</u>
Elementary Schools:										
Principals	111	111	112	113	113	115	107	120	117	108
Assistant Principals	65	64	73	77	81	85	79	86	84	70
Teachers	<u>3,235</u>	<u>3,235</u>	<u>3,202</u>	<u>3,310</u>	<u>3,381</u>	<u>3,544</u>	<u>3,599</u>	<u>3,705</u>	<u>3,762</u>	<u>3,736</u>
Total	<u>3,411</u>	<u>3,410</u>	<u>3,387</u>	<u>3,500</u>	<u>3,575</u>	<u>3,744</u>	<u>3,785</u>	<u>3,911</u>	<u>3,963</u>	<u>3,914</u>
Special Schools and Classes:										
Principals	4	4	5	3	3	3	1	1	1	1
Assistant Principals	7	6	4	2	2	2	2	2	2	2
Teachers	<u>801</u>	<u>801</u>	<u>659</u>	<u>691</u>	<u>812</u>	<u>791</u>	<u>753</u>	<u>741</u>	<u>746</u>	<u>721</u>
Total	<u>812</u>	<u>811</u>	<u>668</u>	<u>696</u>	<u>817</u>	<u>796</u>	<u>756</u>	<u>744</u>	<u>749</u>	<u>724</u>
Summary:										
Principals	151	152	154	153	153	155	145	158	156	145
Assistant Principals	177	175	194	197	203	206	192	204	199	183
Teachers	<u>6,489</u>	<u>6,489</u>	<u>6,334</u>	<u>6,435</u>	<u>6,649</u>	<u>6,826</u>	<u>6,777</u>	<u>6,766</u>	<u>6,799</u>	<u>6,809</u>
Total	<u>6,817</u>	<u>6,816</u>	<u>6,682</u>	<u>6,785</u>	<u>7,005</u>	<u>7,187</u>	<u>7,114</u>	<u>7,128</u>	<u>7,154</u>	<u>7,137</u>
Superintendent, Deputy and Assistant Superintendent, Department Directors and Assistants, Guidance and Psychological Counselors, Librarians and Supervisors .	<u>588</u>	<u>587</u>	<u>790</u>	<u>711</u>	<u>747</u>	<u>763</u>	<u>766</u>	<u>708</u>	<u>735</u>	<u>674</u>
Grand Total	<u>7,387</u>	<u>7,403</u>	<u>7,472</u>	<u>7,496</u>	<u>7,752</u>	<u>7,950</u>	<u>7,880</u>	<u>7,836</u>	<u>7,889</u>	<u>7,811</u>

COMPARATIVE STATEMENT OF ANNUAL SCHOOL CENSUS
 Children Between 4 and 19 Years of Age
 Residing in the City of Milwaukee

Years	Total Number of Children	Increase or (Decrease) Over Prior Year	Males	Increase or (Decrease) Over Prior Year	Females
1969	199,899	(1,226)	102,043	(801)	97,856
1970	197,815	(2,084)	100,734	(1,309)	97,081
1971	193,827	(3,988)	98,569	(2,165)	95,258
1972	188,169	(5,658)	95,729	(2,840)	92,440
1973	179,821	(8,348)	91,643	(4,086)	88,178
1974	172,258	(7,563)	87,713	(3,930)	84,545
1975	167,370	(4,888)	85,316	(2,397)	82,054
1976	161,099	(6,271)	81,963	(3,353)	79,136
1977	152,435	(8,664)	77,734	(4,229)	74,701
1978	148,378	(4,057)	75,519	(2,215)	72,859
1979	133,507	(14,871)	68,491	(7,028)	65,016
1980	133,639	132	68,245	(246)	65,394
1981	130,215	(3,424)	66,550	(1,695)	63,665
1982	131,748	1,533	67,085	535	64,663
1983	134,734	2,986	68,642	1,557	66,092
1984	140,729	5,995	71,689	3,047	69,040
1985	147,347	6,618	75,066	3,377	72,281
1986	148,768	1,421	75,391	325	73,377
1987	145,593	(3,175)	73,844	(1,547)	71,749
1988	148,416	2,823	75,196	1,352	73,220
1989	150,714	2,298	76,520	1,324	74,194
1990	150,723	9	76,382	(138)	74,341
1991 *	128,540	(22,183)	65,230	(11,152)	63,310
1992	144,452	15,912	73,180	7,950	71,272
1993	145,499	1,047	73,772	592	71,727
1994	149,545	4,046	75,893	2,121	73,652
1995	151,541	1,996	76,471	578	75,070
1996	151,710	169	76,778	307	74,932
1997	151,027	(683)	76,429	(349)	74,598
1998	153,227	2,200	77,533	1,104	75,694
1999	154,328	1,101	78,141	608	76,187
2000	154,977	649	78,599	458	76,378
2001	150,256	(4,721)	76,048	(2,551)	74,208
2002	149,992	(264)	76,142	94	73,850
2003	162,011	12,019	82,187	6,045	79,824

* Data collection method was not consistent with prior years and may not have produced accurate data.

Increase or (Decrease) Over Prior Year	Attending Public Schools	Attending Private Schools	Total Attending Schools	Percent Attending Schools
(425)	130,622	42,711	173,333	86.7%
(775)	130,617	39,851	170,468	86.2%
(1,823)	130,147	36,978	167,125	86.2%
(2,818)	128,757	33,567	162,324	86.3%
(4,262)	124,370	30,840	155,210	86.3%
(3,633)	118,890	27,974	146,864	85.3%
(2,491)	115,758	27,437	143,195	85.6%
(2,918)	113,336	26,475	139,811	86.8%
(4,435)	104,619	25,078	129,697	85.1%
(1,842)	100,859	26,275	127,134	85.7%
(7,843)	93,296	26,011	119,307	89.4%
378	91,069	25,436	116,505	87.2%
(1,729)	82,520	31,238	113,758	87.4%
998	80,683	29,623	110,306	83.7%
1,429	83,148	31,149	114,297	84.8%
2,948	87,243	31,601	118,844	84.4%
3,241	93,406	31,464	124,870	84.7%
1,096	96,520	30,961	127,481	85.7%
(1,628)	94,744	30,997	125,741	86.4%
1,471	98,438	31,140	129,578	87.3%
974	99,988	29,988	129,976	86.2%
147	99,079	29,346	128,425	85.2%
(11,031)	86,407	27,012	113,419	88.2%
7,962	100,017	28,346	128,363	88.9%
455	100,728	27,956	128,684	88.4%
1,925	103,452	28,196	131,648	88.0%
1,418	106,886	27,816	134,702	88.8%
(138)	106,910	27,931	134,841	88.9%
(334)	107,121	27,455	134,576	89.1%
1,096	108,786	27,723	136,509	89.1%
493	111,712	27,207	138,919	90.0%
191	110,397	28,342	138,739	89.5%
(2,170)	107,905	26,479	134,384	89.4%
(358)	109,852	25,066	134,918	90.0%
5,974	122,631	23,760	146,391	90.4%

**ANNUAL ENUMERATION OF CHILDREN RESIDING
IN THE CITY OF MILWAUKEE
AS OF JUNE 30, 2003**

Ages	Males	Females	Total	Attended Public School	Attended Parochial or Private School	Did Not Attend School
0	933	880	1,813	0	0	1,813
1	1,894	1,762	3,656	0	0	3,656
2	3,162	3,098	6,260	0	0	6,260
3	<u>3,664</u>	<u>3,476</u>	<u>7,140</u>	<u>492</u>	<u>101</u>	<u>6,547</u>
Total	<u>9,653</u>	<u>9,216</u>	<u>18,869</u>	<u>492</u>	<u>101</u>	<u>18,276</u>
4	4,365	4,202	8,567	2,417	275	5,873
5	4,929	4,815	9,744	6,431	642	2,670
6	5,057	4,906	9,963	7,542	1,058	1,362
7	5,153	4,937	10,090	7,993	1,401	696
8	5,340	5,085	10,425	8,462	1,641	321
9	5,265	5,135	10,400	8,596	1,676	127
10	5,358	5,338	10,696	8,919	1,709	68
11	5,431	5,186	10,617	8,818	1,740	59
12	5,395	5,276	10,671	8,939	1,675	56
13	5,391	5,258	10,649	8,805	1,779	65
14	5,130	4,918	10,048	8,335	1,626	87
15	4,900	4,675	9,575	8,156	1,336	83
16	4,765	4,634	9,399	8,001	1,266	132
17	4,704	4,596	9,300	7,821	1,272	206
18	4,690	4,551	9,241	7,026	1,573	641
19	6,314	6,312	12,626	6,370	3,091	3,165
Total 4 - 19	<u>82,187</u>	<u>79,824</u>	<u>162,011</u>	<u>122,631</u>	<u>23,760</u>	<u>15,611</u>
Grand Total	<u>91,840</u>	<u>89,040</u>	<u>180,880</u>	<u>123,123</u>	<u>23,861</u>	<u>33,887</u>

**POPULATION AND PUPILS
RESIDING IN THE CITY OF MILWAUKEE
LAST TEN YEARS**

	1993- 1994	1994- 1995	1995- 1996	1996- 1997	1997- 1998	1998- 1999	1999- 2000	2000- 2001	2001- 2002	2002- 2003
Total number of school age children according to city wide child census	149,545	151,541	151,710	151,027	153,227	154,328	154,977	150,256	149,992	162,011
Enrollment for State Aid:*										
Third Friday	100,767	100,652	101,060	103,507	106,337	104,249	103,660	101,744	101,618	101,715
Summer School	<u>222</u>	<u>221</u>	<u>240</u>	<u>255</u>	<u>196</u>	<u>#####</u>	<u>1,819</u>	<u>1,585</u>	<u>1,113</u>	<u>964</u>
Total	100,989	100,873	101,300	103,762	106,533	105,765	105,479	103,329	102,731	102,679
Average Number Enrolled:										
Senior High	24,568	24,202	25,514	25,618	25,851	25,433	26,009	25,157	25,389	26,766
Junior High/Middle	14,399	14,327	14,273	21,863	21,992	21,860	22,039	22,841	23,974	23,670
Elementary	<u>53,601</u>	<u>63,346</u>	<u>65,182</u>	<u>58,320</u>	<u>58,866</u>	<u>58,375</u>	<u>57,567</u>	<u>55,571</u>	<u>53,940</u>	<u>52,683</u>
Total	92,568	101,875	104,969	105,801	106,709	105,668	105,615	103,569	103,303	103,119
Average Number Attending:										
Senior High	20,146	18,394	19,084	19,188	19,758	19,382	20,463	19,396	19,727	20,936
Junior High/Middle	12,499	12,221	12,275	18,758	18,746	18,603	19,168	19,848	20,927	20,843
Elementary	<u>49,556</u>	<u>57,898</u>	<u>60,228</u>	<u>53,888</u>	<u>54,510</u>	<u>53,848</u>	<u>53,880</u>	<u>51,846</u>	<u>50,240</u>	<u>48,858</u>
Total	82,201	88,513	91,587	91,834	93,014	91,833	93,511	91,090	90,894	90,637

* Non-resident and choice students not included.

**CITY OF MILWAUKEE
CONSTRUCTION, BANK DEPOSITS, AND PROPERTY VALUE
LAST TEN YEARS
(IN THOUSANDS)**

Year	<u>Commercial Construction</u>		<u>Residential Construction</u>		<u>Bank Deposits (A)</u>
	Number of Permits	Value	Number of units	Value	
1993	57	41,785	290	20,084	11,173,595
1994	68	43,548	203	11,796	11,819,678
1995	71	39,983	390	20,776	13,013,020
1996	77	37,780	183	12,122	16,205,221
1997	86	161,479	345	27,512	17,921,013
1998	79	68,042	589	45,257	20,832,537
1999	95	128,344	203	20,442	15,975,126
2000	88	99,968	352	35,184	17,926,606
2001	99	106,537	542	99,106	23,185,907
2002	89	87,778	697	72,252	20,513,650

(A) Firstar Bank - Milwaukee was purchased by Firstar Bank - Cincinnati in October, 1999, and is no longer included.

Sources: Construction data from the City of Milwaukee Department of Neighborhood Services. Bank deposits at year-end as reported to U.S. Federal Reserve, Chicago, except for 1991, which is September 30, 1991 deposits amount. Equalized Property Value is determined by the State of Wisconsin. Nontaxable property value is estimated by the City of Milwaukee, Assessor's Office.

Real Property Value		
Equalized		Non-taxable
Commercial	Residential	
5,006,339	7,298,070	3,547,799
5,175,813	7,521,850	3,599,941
5,268,072	7,911,127	3,448,884
5,388,417	8,246,386	3,497,462
5,409,709	8,501,628	3,525,520
5,475,827	8,859,451	3,566,982
6,221,962	9,683,606	3,456,294
6,241,899	10,187,868	3,384,708
7,011,654	11,364,344	3,422,534
7,221,024	12,179,233	3,368,493

**CITY OF MILWAUKEE
PRINCIPAL TAXPAYERS
December 31, 2002
(IN THOUSANDS)**

Taxpayer	Type of Business	2002 Assessed Valuation	Percentage of Total Assessed Valuation
First Security Bank	Banking	\$ 200,732	1.01 %
Northwestern Mutual Life Insurance Company	Insurance	166,276	0.84
Teachers Insurance & Annuity/ TIAA Realty	Real Estate	100,879	0.51
Towne Realty	Real Estate	81,212	0.41
M&I Marshall & Ilsley Bank/ Metavante Corp.	Banking	78,634	0.40
Marcus Corporation	Hotels/Motels/Restaurants	74,043	0.37
Great Lakes REIT LP	Real Estate	67,147	0.34
Miller Brewing	Brewery	69,660	0.35
Metropolitan Associates	Real Estate	66,607	0.33
100 E. Wisconsin Joint Venture Real Estate		<u>55,950</u>	<u>0.28</u>
Total		<u><u>\$ 961,140</u></u>	<u><u>4.84 %</u></u>

Source: City of Milwaukee, Assessor's Office