

MILWAUKEE PUBLIC SCHOOLS

MILWAUKEE, WISCONSIN

2004

C Comprehensive

A Annual

F Financial

R Report

For the Year Ended June 30, 2004

145th EDITION

145th EDITION

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

of the

BOARD OF SCHOOL DIRECTORS

MILWAUKEE PUBLIC SCHOOLS

5225 West Vliet Street

Milwaukee, Wisconsin

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PETER BLEWETT, President

WILLIAM G. ANDREKOPOULOS, Superintendent

Prepared by:

The Department of Finance

Chief Financial and Operations Officer

Michelle J. Nate, CPA

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MILWAUKEE PUBLIC SCHOOLS
 Comprehensive Annual Financial Report
 Year Ended June 30, 2004

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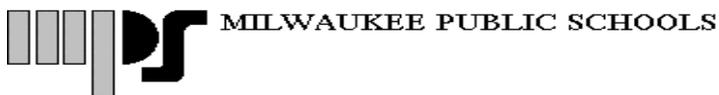
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INTRODUCTORY SECTION



Office of the Superintendent
Central Services Building
5225 West Vliet Street
P.O. Box 2181
Milwaukee, Wisconsin 53201-2181

December 23, 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, 2004. 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.

Governmental Accounting Standards Board (GASB) Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

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 and has over 103,800 students with over 11,000 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 2004 Economic Trends, August’s seasonally adjusted unemployment rate of 5.0% is lower than the 6.3% rate registered one year ago. Currently, the metro Milwaukee area’s jobless rate ranks higher than the state’s 4.8%, but lower than the nation’s 5.4% rates.

The City continues to maintain high bond ratings from three of the major agencies. A rating of AA from Standard & Poor’s Corporation, 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 the following 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

The Administration and the Milwaukee Board of School Directors developed the District’s core beliefs collaboratively. They provide the District with greater focus in moving forward to support our students, their families, and the community. The District’s core beliefs are the following:

- Children come first
- The classroom is the most important place in the District
- Leadership and accountability are keys to our success
- Central Services supports student achievement
- Families are valuable partners
- Community partnerships add value

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 using the “value added” model, which was designed through a partnership between MPS and the WCER (Wisconsin Center for Educational Research) to accurately measure the academic growth of students over a designated period of time.</p> <p>The District’s curriculum alignment process supports student achievement through continued development and implementation of the Balanced Literacy and Balanced Mathematics frameworks. Important components of the frameworks include 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 MPS technical education curriculum specialist has worked 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.</p> <p>The Milwaukee High School Redesign Initiative continues to move forward to facilitate increased graduation rates and preparedness for further academic and professional pursuits.</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 continues to be administered to parents, students, and staff to address this goal. MPS rated highly overall on the 2003-04 survey, with 36,833 surveys completed. The survey will again be administered during the 2004-05 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 the core beliefs, and forms the basis of the District's 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.** During the 2003-04 school year, many factors positively impacted student achievement for Milwaukee's children including the efforts of the Milwaukee Partnership Academy, full deployment of No Child Left Behind Act, the principal and literacy coach model, school learning teams, the high school redesign initiative, the realization of the capacity builders, and the District's core beliefs. This year's standardized test results illustrate that the District is moving forward in supporting all children in the quest for high academic achievement:

- MPS continues to close the achievement gap with the state on the annual Wisconsin Knowledge and Concepts Examination ("WKCE"). For example, in grade four reading, language arts, and math, the difference in the percentage of students scoring at/above proficient has declined by 10 to 12 percentage points in just three years.
- Nearly 40% of all MPS elementary schools are now equal, surpass, or are within 90% of the statewide average in reading and math in 2003-04, up from about 18% just two years earlier.
- The achievement gap between whites and African Americans and between whites and Hispanics continues to narrow, particularly at the elementary grades.
- Student achievement on the District assessment in grades three, five, six, seven, and nine rose in every subject area (reading, language arts, and mathematics) in 2003-04 over the year before.
- The achievement gap between English Language Learners (ELLs) and the District has decreased in reading and math at grades four, eight, and ten in 2003-04 over last year. The gap, at grades four and eight in math, has been eliminated. Additionally, the percentage of ELL students scoring at or above proficient in reading and math in grades four, eight, and ten has increased over last year.
- The percentage of students with disabilities scoring proficient or above on the WKCE at grades four, eight, and ten in reading and math has shown a steady increase over a three-year period.
- State assessments of student performance at or above grade level on the third grade Wisconsin Reading Comprehension Test resulted in an increase from 63% during the 2002-03 school year to 66% in 2003-04.
- The fourth grade WKCE in reading yielded similar results. Student performance at or above grade level increased from 63% in 2002-03 to 67% in the 2003-04 school year.

The Milwaukee Partnership Academy's (MPA) implementation of the Comprehensive Literacy and Mathematics Frameworks moved forward during the 2003-04 school year at a rapid pace. The Balanced

Literacy Framework is in its second year of implementation and the Balanced Mathematics Framework is in its first year of implementation. A structure for professional development was developed for the latter that formed the backbone of a \$12 million National Science Foundation grant received by Milwaukee Public Schools, the University of Wisconsin – Milwaukee, and the Milwaukee Area Technical College entitled the Milwaukee Mathematics Partnership (MMP). The framework complements the District’s reform, and promotes the development of Professional Learning Communities (PLCs) around the teaching and learning of mathematics and the curriculum alignment process at each school.

The District completed the 2003-04 school year at an advanced stage of implementing the curriculum alignment process. The Office of Academic Excellence developed the learning targets in collaboration with the Wisconsin Center For Educational Research (WCER) during 2002-03. 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.

There was a significant reduction in the number of MPS schools on the Schools Identified for Improvement (SIFI) list. The No Child Left Behind Act (NCLB) requires the state to identify schools that have not made sufficient progress in raising achievement results annually. A total of 43 Milwaukee Public Schools (MPS) are on the 2003-04 preliminary list. This is a reduction from the previous school year when 55 MPS schools were identified for improvement.

The Milwaukee High School Redesign Initiative reached the one-year mark on July 15, 2004. The first year of activities of the initiative accomplished eight of the nine important goals set forth in “The Blueprint for Milwaukee’s New Vision High Schools.” The Blueprint for Milwaukee’s New Vision High Schools was developed with broad input from various stakeholders in the Milwaukee community. The High School Redesign Team that contributed to the development of the document included teachers, students, parents, administrators, community members, and representatives of institutes of higher education and the Milwaukee Partnership Academy.

Over the past year, MPS has held a series of meetings with community and business partners regarding the critical need for improved health services in our schools to eliminate health-related barriers to learning. The District has also documented the current level of resources and services in each school, which has provided us with a clear picture of the challenges we face as a community in ensuring the equitable distribution of health services in all MPS schools.

In order to start addressing this challenge and improve health services in our schools, a Health Initiative that calls for a minimum level of health resources and services in each school has been developed. This plan and its goals were recently communicated to community and business partners. The goals are:

- Reduce and/or eliminate health-related barriers to learning.
- Reduce health-related student absenteeism.
- Fulfill state school health mandates.

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 continues to focus 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. The coaches carried the Superintendent’s message to the principals and asked questions about the MPS initiatives. The intention of the questions and the visits was to focus on moving principals from managers to leaders so that each school would experience improvements in student achievement.

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 continue to be identified and implemented to support the facilitation of leadership throughout the District. 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.

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 2003-04. Under the purview of the Chief Financial Officer, continued realignment and downsizing relative to non-educational services continued. This 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. Continued rollout and upgrade of the IFAS system facilitated timely reporting during the budget process, allowing schools and departments to refine their budget requests as soon as financial variations – such as the reduction in projected fringe benefit rate – were identified.

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.
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 ("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 continues to move 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, and community partnerships to serve students and parents in the neighborhoods in which they live. This includes building 6 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 communication 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 2003-04 school year. It is being projected that all building construction/capital improvements will be completed by spring 2006.

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.

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 function 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 that exceed available budgetary balances are not released until additional funds are transferred to cover the purchase order. Encumbrances that remain at June 30, 2004, 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
- The State of Wisconsin Fixed Retirement Investment Trust
- The State of Wisconsin Variable Retirement Investment Trust

- 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 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 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 risks of loss associated with providing health, dental, and life insurance benefits to employees and retirees.

The District provides health insurance benefits to employees and retirees through a fully insured health maintenance organization and through a self-insured comprehensive indemnity/PPO 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 workers' compensation benefits and does not purchase stop-loss insurance.

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

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

DEBT ADMINISTRATION

The City of Milwaukee school bonds, notes, and capital lease obligations outstanding at June 30, 2004 totaled \$453,399,121. Of this total, \$101,698,130 represents school bonds and notes that will be repaid by the City utilizing its 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 \$351,700,991 represents 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. 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 financial statements 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, 2004, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. 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, 2003. 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 – Peter Blewett
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 O'Neil (Chair), Morales (Vice-Chair), Balistreri, Blewett, Johnson

LEGISLATION, RULES AND POLICIES COMMITTEE

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

FINANCE/PERSONNEL COMMITTEE

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

STRATEGIC PLANNING AND BUDGET COMMITTEE

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

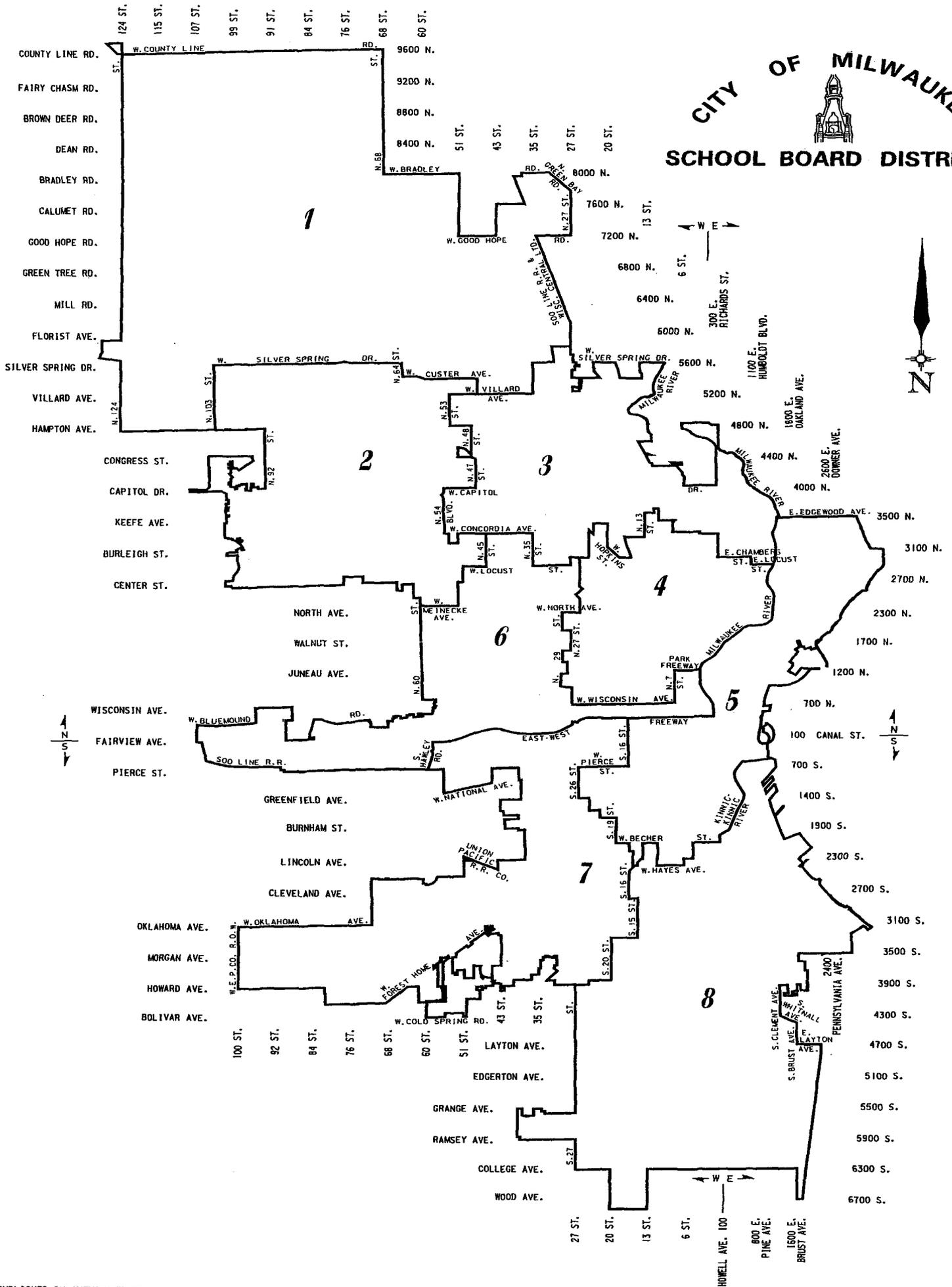
SPECIAL EDUCATION COMMITTEE

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

CITY OF MILWAUKEE



SCHOOL BOARD DISTRICTS



**MILWAUKEE PUBLIC SCHOOLS
ADMINISTRATIVE OFFICERS**

SUPERINTENDENT OF SCHOOLS

Director of Academic Officer

Executive Director, Human Resources

Chief Financial and Operations Officer

Chief, Pupil Services

Director of Office of Neighborhood Schools

Director of Strategic Planning & Community Outreach

Mr. William G. Andrekopoulos

Dr. Patricia Ellis

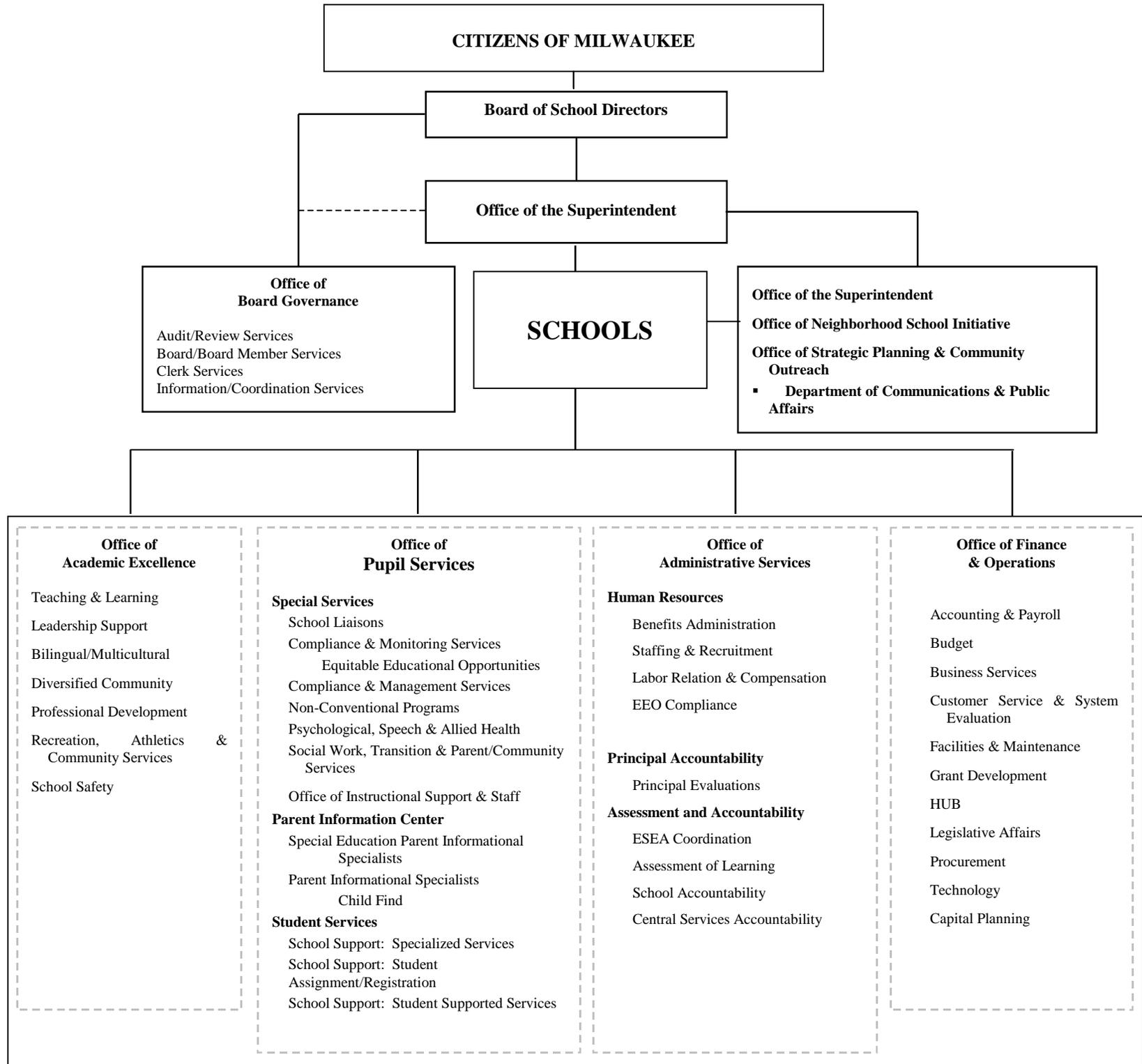
Ms. Deborah Ford

Ms. Michelle J. Nate

Ms. Ada Rivera

Dr. Aquine Jackson

Dr. Daniel Donder



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, 2003.

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, 2003

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.



Nancy L. Ziehl

President

Jeffrey R. Enow

Executive Director

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 (the District) as of and for the year ended June 30, 2004, 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, 2004, 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 3 through 12, page 51, and page 52, 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 December 22, 2004 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Milwaukee, Wisconsin
December 22, 2004

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

INTRODUCTION

This discussion and analysis of Milwaukee Public School's (MPS or the District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2004. 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 increased from \$323 million at June 30, 2003 to \$353 million at June 30, 2004, an increase of \$30 million, or 9.4%.
- Total revenues increased by \$24 million from \$1.07 billion for the year ended June 30, 2003 to \$1.09 billion for the year ended June 30, 2004, an increase of 2.3%.
- Total expenses decreased \$42 million from \$1.11 billion for the year ended June 30, 2003 to \$1.06 billion for the year ended June 30, 2004, a decrease of 3.8%.
- MPS increased long-term debt by \$111.9 million during fiscal year 2004 to a June 30, 2004 balance of \$351.7 million. The increases were largely due to issuance of Neighborhood School Initiative bonds (\$80.1 million) and MEC/Grand Avenue lease (\$34.5 million). The District also issued bonds to refinance pension-related debt previously payable to the Wisconsin Retirement System. Refinancing was done to take advantage of favorable interest rates in the current market.

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

- Total fund balances of the District's governmental funds increased in the 2004 fiscal year by \$50.5 million. This increase is primarily due to a timing difference for the Neighborhood School Initiative (NSI) projects, wherein bond proceeds were received in FY04 while the spending on the projects will occur in future years.
- Total fund balances for the governmental funds were \$160.2 million at June 30, 2004. Of this amount, \$109.9 million was reserved for encumbrances, \$2.5 million was reserved for inventories, \$19.0 million was reserved for self-insurance and prepaid expenditures, and \$28.8 million remains unreserved.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

2. Basic Financial Statements

- Government-wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities
- Fund Financial Statements
 - Governmental Funds
 - Fiduciary Funds
- Notes to Financial Statements

3. Required Supplementary Information (RSI)

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

The **Management's Discussion and Analysis** section discusses the financial performance of MPS during the year ending June 30, 2004. It includes an overview of the financial statements of the District and a report on the budgetary highlights.

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

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

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

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

	Government-Wide	Fund Statements	
	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	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

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

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

Required supplementary information (RSI) includes a budget-to-actual comparison that provides readers with information about the accuracy with which management was able to project the District's revenue

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

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 third 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 \$353 million, of which \$457 million was invested in capital assets (net of related debt), \$10 million was restricted, and (\$114) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the pension liability of approximately \$169 million, previously owed to the Wisconsin Retirement System. In November 2003, the MPS Board of School Directors took action to refinance this liability. The full funding allowed by the bond issue will ensure that all future employee pension benefits already granted through collective bargaining will be provided.

Table 2

MILWAUKEE PUBLIC SCHOOLS

Condensed Statement of Net Assets

(in thousands)

	Government-wide activities		
	2004	2003	Difference
Capital assets, net	\$ 566,157	474,068	92,089
Noncapital assets	265,619	209,091	56,528
Total assets	831,776	683,159	148,617
Current liabilities	107,011	102,403	4,608
Noncurrent liabilities	371,898	258,226	113,672
Total liabilities	478,909	360,629	118,280
Net assets:			
Invested in capital assets, net of related debt	456,937	434,581	22,356
Restricted	9,519	3,090	6,429
Unrestricted (deficit)	(113,588)	(115,141)	1,553
Total net assets	\$ 352,868	322,530	30,338

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

The total net assets increased by \$30 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 primarily in the area of long-term debt. Bonds were issued for the Neighborhood School Initiative and to lessen the District's annual financing costs for the two leased sites: Milwaukee Education Center and Grand Avenue Middle School. Also, the District has revised its' method of recording a liability for potential payments of accrued sick leave to eligible retirees. The new method resulted in an increase of \$6.3 million in long-term obligations.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

Statement of Activities

On a government-wide basis, the District ended the fiscal year with an increase in net assets of \$30 million.

Table 3

MILWAUKEE PUBLIC SCHOOLS

Schedule of Revenues and Expenses

(in thousands)

	Government-wide activities		
	2004	2003	Difference
Program revenues:			
Charges for services	\$ 10,719	8,837	1,882
Operating grants and contributions	183,944	183,306	638
Capital grants and contributions	17,706	16,421	1,285
Total program revenues	212,369	208,564	3,805
General revenues:			
Property taxes	183,198	181,102	2,096
Federal and state aid	698,644	678,954	19,690
Gain on sale of property	—	1,263	(1,263)
Interest and investment earnings	762	662	100
Miscellaneous	89	—	89
Total general revenues	882,693	861,981	20,712
Total revenues	1,095,062	1,070,545	24,517
Expenses:			
Instruction	644,448	623,386	21,062
Community services	18,155	21,757	(3,602)
Pupil and staff services	105,549	128,558	(23,009)
General admission	116,816	110,764	6,052
Business services	140,825	179,310	(38,485)
School nutrition	31,249	29,348	1,901
Interest on long-term debt	6,250	3,920	2,330
Insurance	—	8,734	(8,734)
Other	1,433	1,190	243
Total expenses	1,064,725	1,106,967	(42,242)
Increase (decrease) in net assets	\$ 30,337	(36,422)	66,759

MILWAUKEE PUBLIC SCHOOLS

Management’s Discussion and Analysis

June 30, 2004

(Unaudited)

- Total revenues increased primarily due to an equalization aid increase of \$19 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 2004 was the increase in expenses from FY 2002 to FY 2003.
- Total expenses decreased primarily due to a greater percentage of the District’s expenditures were for capital assets in fiscal year 2004 and a decrease in expenses for compensated absences that resulted from changes in estimates in 2003 and 2004.

Capital Assets

At June 30, 2004, MPS had \$893 million invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$109 million from the previous year. The increase came primarily in the area of construction and a capital lease of \$36 million for MEC/Grand Avenue schools. Completed projects moved from “construction-in-progress” to “buildings,” and new projects were recorded, primarily in the Neighborhood School Initiative. Detailed information can be reviewed in note 5 to the District’s financial statements (page 31).

Table 4

MILWAUKEE PUBLIC SCHOOLS

Change in Capital Assets

(in thousands)

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets:				
Land	\$ 29,108	312	—	29,420
Construction in progress	97,749	64,662	104,980	57,431
Buildings	605,990	140,725	—	746,715
Leasehold improvements	—	5,929	—	5,929
Furniture and equipment	29,416	789	762	29,443
Software	21,424	2,571	—	23,995
Total capital assets	<u>783,687</u>	<u>214,988</u>	<u>105,742</u>	<u>892,933</u>
Accumulated depreciation	<u>(309,619)</u>	<u>(17,821)</u>	<u>(665)</u>	<u>(326,775)</u>
Totals	<u>\$ 474,068</u>	<u>197,167</u>	<u>105,077</u>	<u>566,158</u>

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

Long-term Debt

At June 30, 2004, long-term debt was \$352 million. This amount represents a net increase of \$112 million over the previous year. The increase is primarily the result of debt issued for the Neighborhood School Initiative and the capital lease for the MEC/Grand Avenue schools.

Table 5

MILWAUKEE PUBLIC SCHOOLS

Change in Long-term Debt and Capital Lease Obligations

(in thousands)

	<u>July 1, 2003</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2004</u>
Governmental activities:				
Refinancing for state trust				
fund loans	\$ 3,795	—	1,811	1,984
Americans with Disabilities				
Act loans	7,859	1,267	747	8,379
TEACH loan	5,496	—	720	4,776
Neighborhood School				
Initiative bonds	33,300	80,097	100	113,297
Qualified Zone Academy bonds	12,470	2,650	1,713	13,407
Financial and Student				
Tracking note	7,732	—	1,338	6,394
Pension refinancing debt	—	168,051	(861)	168,912
WRS pension-related debt	167,607	—	167,607	—
MEC/Grand Ave capital lease	—	34,475	1,400	33,075
Other intergovernmental debt	1,482	1,252	1,257	1,477
Total debt	\$ <u>239,741</u>	<u>287,792</u>	<u>175,832</u>	<u>351,701</u>

The trust fund loans and the Americans with Disabilities Act (ADA) loans 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

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

agreement authorizes MPS to borrow up to \$14,360,800. At June 30, 2004, the District had used \$3.8 million 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 \$2.7 million of QZAB funding authority in August 2003 to support the purchase of equipment and make building improvements at four schools. Interest on the debt is paid by the IRS via tax credits to the lender.

The financial and student-tracking debt is being used to fund the purchase and implementation of two software applications acquired in FY03, a financial management system, and a student tracking system for special education.

In December 2003, the city of Milwaukee, in connection with an intergovernmental cooperation agreement, issued \$168,051,136 in pension bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293.

Detailed information can be reviewed in note 7 to the District's financial statements (pages 32-34).

FUND FINANCIAL STATEMENTS

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

- The general fund balance had a net decrease of \$3.4 million during the period ended June 30, 2004. The District made a concerted effort to use available revenues, while maintaining a stable fund balance.
- The construction fund balance increased by \$56 million, primarily due to a timing difference for the Neighborhood School Initiative (NSI) projects, wherein bond proceeds were received in FY04, while the spending on the projects will occur in future years. Specifically, bonds for NSI projects totaling \$78.7 million were issued in November 2003, while spending on NSI projects in FY04 totaled approximately \$24.7 million.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2004

(Unaudited)

Notes to Basic Financial Statements

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

BUDGETARY HIGHLIGHTS

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

In May 2003, the MPS Board of School Directors (the Board) adopted the District's fiscal year 2004 budget (July 1, 2003 – June 30 2004). The adopted budget by necessity used a *projection* of the 2004 student enrollment. In October 2003, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2003, 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 2003, the Board approved a revised 2004 fiscal year balanced budget in the amount of \$1,009,813,484. Including prior year encumbrances and carryover authority, the expenditure budget increased to \$1,052,842,220.

Revenues and expenditures both came within 1% of the adopted budget, recognizing the pension debt refinancing as an off-budget transaction approved in November 2003.

Next Year's Budget

In October 2004, the MPS Board approved a revised 2005 general fund budget of \$1,036,323,616. This represents an increase of \$27 million over the revised 2004 general fund budget. The 2005 budget includes an increase in local property tax revenue of \$24 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**

Or visit our website at: www.milwaukee.k12.wi.us

**BASIC FINANCIAL
STATEMENTS**

MILWAUKEE PUBLIC SCHOOLS

Statement of Net Assets

June 30, 2004

	Governmental activities
Assets	
Current assets:	
Cash and cash equivalents (note 2)	\$ 101,131,287
Accounts receivable, net (note 3)	2,185,424
Due from other governments (note 3)	57,710,220
Inventory (note 1(f))	2,523,077
Prepaid expenses	15,492,113
Total current assets	<u>179,042,121</u>
Noncurrent assets:	
Restricted cash and cash equivalents (note 2)	79,968,054
Deposits for self-insurance (note 1(k))	3,489,458
Deferred charges—bond issuance costs (note 1(l))	3,119,419
Capital assets not being depreciated (note 5)	86,851,098
Capital assets being depreciated, net (note 5)	479,306,061
Total noncurrent assets	<u>652,734,090</u>
Total assets	<u>831,776,211</u>
Liabilities	
Current liabilities:	
Accounts payable and other current liabilities	90,079,307
Accrued interest payable on long-term liabilities	1,861,019
Deferred revenue (note 1(i))	604,380
Current portion of long-term obligations (note 7)	14,466,443
Total current liabilities	107,011,149
Noncurrent liabilities:	
Noncurrent portion of long-term obligations (note 7)	<u>371,897,544</u>
Total liabilities	<u>478,908,693</u>
Net Assets	
Invested in capital assets, net of related debt	456,936,816
Restricted for debt service	9,518,692
Unrestricted	<u>(113,587,990)</u>
Total net assets	<u>\$ 352,867,518</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Activities

Year ended June 30, 2004

Functions/programs	Expenses	Program revenues		Net (expenses) revenues and changes in net assets	
		Charges for services	Operating grants and contributions		Capital grants and contributions
Governmental activities:					
Instruction	\$ 644,447,634	2,309,821	106,964,376	11,334,558	(523,838,879)
Support services:					
Community services	18,154,857	3,246,347	7,629,273	—	(7,279,237)
Pupil and staff services	105,549,340	—	2,864,019	—	(102,685,321)
General, administration, and central services	116,816,130	—	—	5,732,070	(111,084,060)
Business services	140,825,201	111,642	41,609,807	639,448	(98,464,304)
School nutrition services	31,249,035	4,754,985	24,876,913	—	(1,617,137)
Interest on long-term debt	6,250,445	296,612	—	—	(5,953,833)
Other	1,432,919	—	—	—	(1,432,919)
Total support services	<u>420,277,927</u>	<u>8,409,586</u>	<u>76,980,012</u>	<u>6,371,518</u>	<u>(328,516,811)</u>
Total school district	<u>\$ 1,064,725,561</u>	<u>10,719,407</u>	<u>183,944,388</u>	<u>17,706,076</u>	<u>(852,355,690)</u>
General revenues:					
Taxes:					
Property taxes levied for general purposes					168,470,699
Property taxes levied for debt service					6,723,273
Property taxes levied for community services					8,004,465
Federal and state aid not restricted to a specific purpose:					
General (equalization aid)					575,069,738
Other					123,574,539
Interest and investment earnings					761,505
Miscellaneous					88,755
Total general revenues					<u>882,692,974</u>
Change in net assets					30,337,284
Net assets—beginning					322,530,234
Net assets—ending					<u>\$ 352,867,518</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Balance Sheet

Governmental Funds

June 30, 2004

Assets	General	Construction	Nonmajor governmental funds	Total governmental funds
Deposits with the City of Milwaukee and other cash (note 2)	\$ 76,984,862	24,146,425	—	101,131,287
Receivables, net:				
Accounts (note 3)	2,185,424	—	—	2,185,424
Due from other governmental units (note 3)	44,962,295	—	12,747,925	57,710,220
Due from other funds (note 4)	8,297,396	75,122,547	15,835,305	99,255,248
Total receivables	55,445,115	75,122,547	28,583,230	159,150,892
Restricted cash and cash equivalents (note 2)	72,423,214	7,544,840	—	79,968,054
Inventories (note 1(f))	1,930,963	—	592,114	2,523,077
Prepaid expenditures	15,492,113	—	—	15,492,113
Deposits for self-insurance (note 1(k))	3,489,458	—	—	3,489,458
Total assets	\$ <u>225,765,725</u>	<u>106,813,812</u>	<u>29,175,344</u>	<u>361,754,881</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 8,924,939	1,179,060	530,941	10,634,940
Contracts payable	314,411	2,165,093	—	2,479,504
Accrued salaries and wages	37,328,128	—	—	37,328,128
Deferred revenue (note 1(i))	12,247,768	—	—	12,247,768
Accrued claims for self-insurance (note 9)	34,174,609	—	—	34,174,609
Accrued pension payable (note 10)	5,083,793	—	—	5,083,793
Other accrued expenditures	378,333	—	—	378,333
Due to other funds (note 4)	45,505,498	25,376,915	28,372,835	99,255,248
Total liabilities	143,957,479	28,721,068	28,903,776	201,582,323
Fund balances:				
Reserved for:				
Encumbrances	20,094,349	89,865,291	—	109,959,640
Inventories	1,930,963	—	592,114	2,523,077
Self-insurance deposits and prepaid expenditures	18,981,571	—	—	18,981,571
Unreserved:				
Designated by board for subsequent year's expenditures (note 8)	40,801,363	—	—	40,801,363
Undesignated, reported in:				
Capital projects fund	—	(11,772,547)	—	(11,772,547)
Special revenues funds	—	—	(320,546)	(320,546)
Total fund balances	81,808,246	78,092,744	271,568	160,172,558
Total liabilities and fund balances	\$ <u>225,765,725</u>	<u>106,813,812</u>	<u>29,175,344</u>	<u>361,754,881</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, 2004

Total fund balances—governmental funds		\$	160,172,558
Amounts reported for governmental activities in the statement of net assets are different because:			
Bond costs of issuance are capitalized at the government-wide level and amortized over the life of the related bonds			3,119,419
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	\$	892,932,449	
Accumulated depreciation		<u>(326,775,290)</u>	
Net capital assets			566,157,159
Grant receivables that are not collected within 90 days after year end are not considered to be available to pay for the current period's expenditures and, therefore, are deferred in the funds			11,643,388
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		(436,251,887)	
Bonds premium		(1,257,237)	
Discount on capital appreciation bonds		118,883,133	
Capital leases payable		(33,075,000)	
Accrued bond interest payable		(1,861,019)	
Compensated absences payable (vacation and sick leave)		(27,102,884)	
Workers' compensation claims payable		(3,666,732)	
Self-insurance claims payable		(1,329,578)	
Life insurance benefits and other long-term liabilities		<u>(2,563,802)</u>	
Total long-term debt liabilities			<u>(388,225,006)</u>
Total net assets—government activities		\$	<u><u>352,867,518</u></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, 2004

	<u>General</u>	<u>Construction</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Property tax levy	\$ 164,834,180	11,640,984	6,723,273	183,198,437
Lunchroom sales	—	—	4,754,985	4,754,985
Other local sources	9,106,065	115,034	—	9,221,099
State aid:				
Equalization aid	575,069,738	—	—	575,069,738
Special classes	40,437,993	—	—	40,437,993
Integration	39,437,167	—	—	39,437,167
Other state aid	50,393,039	—	1,824,091	52,217,130
Federal aid:				
Education Consolidation Improvement Act	59,694,854	—	—	59,694,854
School nutrition services	—	—	24,215,335	24,215,335
Erate refunds	—	639,448	—	639,448
Intergovernmental aid from the City of Milwaukee	—	11,334,558	—	11,334,558
Other federal aid	63,564,038	—	27,365,384	90,929,422
Interest and investment earnings	761,505	296,612	—	1,058,117
Total revenues	<u>1,003,298,579</u>	<u>24,026,636</u>	<u>64,883,068</u>	<u>1,092,208,283</u>
Expenditures:				
Instructional services:				
Undifferentiated curriculum	426,491,163	—	—	426,491,163
Regular and other curriculum	103,609,583	—	—	103,609,583
Special curriculum	97,023,789	—	4,433,131	101,456,920
Total instructional services	<u>627,124,535</u>	<u>—</u>	<u>4,433,131</u>	<u>631,557,666</u>
Community services	18,191,494	—	—	18,191,494
Pupil and staff services	82,254,854	—	24,093,048	106,347,902
General and school building administration	116,968,619	—	—	116,968,619
Business services	156,312,056	82,496,380	—	238,808,436
School nutrition services	—	—	31,097,577	31,097,577
Debt service:				
Principal	4,003,652	—	6,588,986	10,592,638
Interest	907,094	2,197,020	1,108,411	4,212,525
Bond issuance cost	2,082,726	1,200,215	—	3,282,941
Other	1,383,820	—	—	1,383,820
Total expenditures	<u>1,009,228,850</u>	<u>85,893,615</u>	<u>67,321,153</u>	<u>1,162,443,618</u>
Excess of revenues over (under) expenditures	(5,930,271)	(61,866,979)	(2,438,085)	(70,235,335)
Other financing sources (uses) (note 7):				
Proceeds from City of Milwaukee general obligation notes and bonds	—	1,005,000	—	1,005,000
Proceeds from pension bonds	168,051,136	—	—	168,051,136
Payment for refunded pension debt	(165,505,293)	—	—	(165,505,293)
Proceeds from qualified zone academy bonds	—	2,650,000	—	2,650,000
Proceeds from NSI intergovernmental revenue bonds	—	78,740,000	—	78,740,000
Premium on NSI intergovernmental revenue bonds	—	1,357,121	—	1,357,121
Proceeds from capital leases	—	34,475,000	—	34,475,000
Refunding intergovernmental debt issued	—	—	790,000	790,000
Payment for refunded intergovernmental debt	—	—	(790,000)	(790,000)
Total other financing sources (uses), net	<u>2,545,843</u>	<u>118,227,121</u>	<u>—</u>	<u>120,772,964</u>
Net change in fund balances	(3,384,428)	56,360,142	(2,438,085)	50,537,629
Fund balances:				
Beginning of year	85,192,674	21,732,602	2,709,653	109,634,929
End of year	\$ <u>81,808,246</u>	<u>78,092,744</u>	<u>271,568</u>	<u>160,172,558</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2004

Net change in fund balances—total governmental funds		\$ 50,537,629
Amounts reported for governmental activities in the statement of activities are different because:		
Costs of issuance associated with refunding bonds are capitalized and amortized over the life of the bonds in the statement of net assets		3,282,941
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	\$ 110,008,022	
Depreciation expense reported in the statement of activities	<u>(17,821,380)</u>	
Amount by which capital outlays are greater than depreciation in the current period		92,186,642
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to decrease net assets		(97,440)
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		2,854,562
Bond, note, and capital lease proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.		
Debt issued:		
Bonds and notes	(251,697,661)	
Premium on bonds and notes	(1,357,121)	
Capital leases	(34,475,000)	
Repayments:		
Bonds and notes	10,330,173	
Payment for refunded pension debt	165,505,293	
Payment for refunded intergovernmental debt	<u>790,000</u>	
Net adjustment		(110,904,316)
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	(818,551)	
Accretion of interest on capital appreciation bonds	(1,155,731)	
Amortization of bond premium	99,884	
Amortization of bond issuance costs	(163,522)	
Net increase in compensated absences payable (vacation and sick pay)	(6,332,266)	
Net decrease in workers' compensation claims payable	1,364,421	
Net decrease in general insurance claims payable	15,967	
Net increase in life insurance benefits payable	<u>(532,936)</u>	
		<u>(7,522,734)</u>
Change in net assets of governmental activities	\$	<u><u>30,337,284</u></u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

June 30, 2004

Assets	Pension trusts	Private purpose trust	Agency
	<u> </u>	<u> </u>	<u> </u>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	489,104	4,854,062
Investments (note 2)	104,086,291	1,286,902	—
Receivables	196,135	—	—
	<u> </u>	<u> </u>	<u> </u>
Total assets	104,282,426	1,776,006	4,854,062
	<u> </u>	<u> </u>	<u> </u>
Liabilities			
Accounts payable	1,154,142	—	—
Due to student organizations	—	—	4,854,062
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	1,154,142	—	4,854,062
	<u> </u>	<u> </u>	<u> </u>
Net Assets			
Held in trust for:			
Supplemental pension benefits	103,128,284	—	—
Endowments	—	1,776,006	—
	<u> </u>	<u> </u>	<u> </u>
Total net assets	\$ 103,128,284	1,776,006	—
	<u> </u>	<u> </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, 2004

	Pension trusts	Private purpose trust
Additions:		
Employer contributions	\$ 16,174,750	—
Participants contributions	4,604	—
Private donations	—	310,721
Interest income	—	226
Investment income, net of expenses	12,784,756	—
Total additions	28,964,110	310,947
Deductions:		
Benefits paid to participants or beneficiaries	12,851,696	—
Distribution of participant contribution accounts	416,592	—
Administrative expenses	183,552	—
Scholarships and awards	—	284,224
Total deductions	13,451,840	284,224
Changes in net assets	15,512,270	26,723
Net assets—beginning of year	87,616,014	1,749,283
Net assets—end of year	\$ 103,128,284	1,776,006

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

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

(a) Reporting Entity

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

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

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

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

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

(b) Basis of Presentation

Government-wide Statements—The statement of net assets and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. 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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund types:

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

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

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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

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

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

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

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

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

All governmental activities (i.e. government-wide financial statements) of the District follow Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, Accounting Principles Board opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB statements.

(d) *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 pension trust funds to be cash equivalents.

(e) *Investments*

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

(f) *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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(g) 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 threshold	Estimated useful life
Buildings	\$ 5,000	50 years
Furniture and equipment	5,000	5 – 20 years
Vehicles	5,000	5 – 15 years
Computers and related equipment	5,000	5 years
Major computer/software projects	50,000	7 years

(h) Property Taxes

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

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

(i) Deferred Revenue

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

(j) 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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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.

(k) Insurance Deposits

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$3,489,458 at June 30, 2004 to provide for payment of future claims.

(l) Bond Premiums, Discounts, and Issuance Costs

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

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

(m) Net Assets

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

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

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

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(n) *Fund Balance Reservations and Designations*

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

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

(o) *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.

(p) *New Accounting Pronouncements*

In March 2003, the 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, 2006.

In July 2004, the GASB issued Statement No. 43, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other postemployment benefit expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The District currently provides post-retirement life and healthcare benefits in accordance with union contracts that are accounted for on the pay-as-you-go basis. The District is currently analyzing the impact of adopting this new standard. The District will implement Statement No. 43 during the year ended June 30, 2008.

(2) **Deposits and Investments**

As required by the Wisconsin State Statutes, the City 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 and is managed and commingled with other City funds. The City retains all investment income and assumes all investment gains and losses related to the investment of District cash. At June 30, 2004, the aggregate cash balances 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

Notes to Basic Financial Statements

June 30, 2004

The following is a summary of deposits held by the City and other cash and cash equivalents on June 30, 2004:

	City treasurer	Other	Total
General fund	\$ 55,199,261	94,208,815	149,408,076
Construction fund	24,146,425	7,544,840	31,691,265
Fiduciary fund types	—	5,343,166	5,343,166
Total	\$ 79,345,686	107,096,821	186,442,507

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) was \$107,096,821 (including a \$20,000 certificate of deposit) and the bank balance was \$110,754,359. Of the bank balance, \$8,208,258 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 \$79,345,686 in funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund or are collateralized through collateralization agreements in the name of the City. Underlying securities for the collateralization agreements are held in the City’s name by the trust departments of various depository institutions.

Investments—The District is authorized by Wisconsin State 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 the 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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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.

Fiduciary funds	Category 3	Carrying value
Categorized investments:		
U.S. Treasury Notes	\$ 2,910,848	2,910,848
U.S. Government bonds	512,836	512,836
Mortgage-backed securities	6,550,572	6,550,572
Non-Government obligations	4,545,877	4,545,877
	\$ 14,520,133	14,520,133
Noncategorized investments:		
Investment in state of Wisconsin:		
Fixed retirement investment		—
Trust fund		52,020,194
Variable retirement		—
Investment trust fund		35,240,060
Money market mutual fund		3,592,806
Total investments	\$	105,373,193

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's investment policies, the District's pension plans invest 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 invest in mortgage-backed securities to diversify the portfolio and to increase the return, while minimizing the extent of risk.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(3) Receivables

Receivables as of June 30, 2004 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Nonmajor funds</u>	<u>Total</u>
Receivables:			
Accounts	\$ 2,247,804	—	2,247,804
Intergovernmental—federal	34,286,806	12,747,925	47,034,731
Intergovernmental—state	10,675,489	—	10,675,489
	<u>47,210,099</u>	<u>12,747,925</u>	<u>59,958,024</u>
Gross receivables			
Less allowance for uncollectibles	<u>(62,380)</u>	<u>—</u>	<u>(62,380)</u>
Total receivables, net	\$ <u>47,147,719</u>	<u>12,747,925</u>	<u>59,895,644</u>

(4) Interfund Transactions

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

The following balances as of June 30, 2004 represent due to/from balances among all funds:

	<u>General fund</u>	<u>Due from other funds Construction fund</u>	<u>Nonmajor fund</u>	<u>Total</u>
Due to other funds:				
General fund	\$ 8,297,396	37,208,102	—	45,505,498
Construction fund	—	25,376,915	—	25,376,915
Nonmajor funds	—	12,537,530	15,835,305	28,372,835
	<u>8,297,396</u>	<u>75,122,547</u>	<u>15,835,305</u>	<u>99,255,248</u>
Total	\$ <u>8,297,396</u>	<u>75,122,547</u>	<u>15,835,305</u>	<u>99,255,248</u>

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(5) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Balance July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2004</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 29,107,711	312,100	—	29,419,811
Construction in progress	<u>97,749,450</u>	<u>64,661,900</u>	<u>104,980,063</u>	<u>57,431,287</u>
Total capital assets, not being depreciated	<u>126,857,161</u>	<u>64,974,000</u>	<u>104,980,063</u>	<u>86,851,098</u>
Capital assets, being depreciated:				
Buildings	605,989,873	140,725,024	—	746,714,897
Leasehold improvements	—	5,929,283	—	5,929,283
Furniture and equipment	29,415,683	788,856	762,388	29,442,151
Software	<u>21,424,098</u>	<u>2,570,922</u>	<u>—</u>	<u>23,995,020</u>
Total capital assets, being depreciated	<u>656,829,654</u>	<u>150,014,085</u>	<u>762,388</u>	<u>806,081,351</u>
Less accumulated depreciation for:				
Buildings	(280,596,331)	(12,431,766)	—	(293,028,097)
Leasehold improvements	—	(83,228)	—	(83,228)
Furniture and equipment	(21,213,815)	(2,062,163)	(664,948)	(22,611,030)
Software	<u>(7,808,712)</u>	<u>(3,244,223)</u>	<u>—</u>	<u>(11,052,935)</u>
Total accumulated depreciation	<u>(309,618,858)</u>	<u>(17,821,380)</u>	<u>(664,948)</u>	<u>(326,775,290)</u>
Total capital assets, being depreciated	<u>347,210,796</u>	<u>132,192,705</u>	<u>97,440</u>	<u>479,306,061</u>
Capital assets, net	<u>\$ 474,067,957</u>	<u>197,166,705</u>	<u>105,077,503</u>	<u>566,157,159</u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

Depreciation expense for governmental activities for the year ended June 30, 2004 was charged to functions/programs as follows:

Governmental activities:		
Instruction	\$	15,000,532
Community services		88,471
Pupil and staff services		678,490
General, administration and central services		694,555
Business services		1,158,775
School nutrition		151,458
Other		49,099
		<hr/>
Total depreciation	\$	<u>17,821,380</u>

(6) Short-term Borrowings

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$150,000,000 in September 2003. These notes were issued with interest rates of 2% and 6% and a true interest cost (TIC) of 0.9933%. The notes matured June 30, 2004. The debt was repaid during June 2004 from the District's equalization aid allocations received from the state government.

(7) Long-term Obligations

The City school bonds, notes, and capital lease obligations outstanding at June 30, 2004 totaled \$453,399,121. Of this total, \$101,698,130 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 \$351,700,991 represents 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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
Refinancing for state trust loans, 4.5% to 5.75%, due in annual installments through March 2006	\$ 15,000,000	3,794,723	—	1,810,664	1,984,059	1,283,860
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual installments to December 2007	2,000,000	900,000	205,000	205,000	900,000	220,000
3.5% – 4.25%, due in annual installments to December 2008	605,000	332,750	57,475	57,475	332,750	63,525
4.75% – 5.375%, due in annual installments to June 2014	300,000	220,000	—	20,000	200,000	20,000
4.74% – 5.625%, due in annual installments to September 2016	2,000,000	1,733,168	—	133,416	1,599,752	133,304
3.59%, due in annual installments to September 2017	3,095,000	2,888,508	—	206,492	2,682,016	206,492
3.74%, due in annual installments to September 2017	1,205,000	1,124,554	—	80,446	1,044,108	80,446
4.0 – 5.0%, due in annual installments to September 2017	660,000	660,000	—	44,042	615,958	44,042
4.0 – 5.0%, due in annual installments to September 2017	350,000	—	335,000	—	335,000	—
4.0 – 5.0%, due in annual installments to September 2017	670,000	—	670,000	—	670,000	—
TEACH loan, 5.0%, due in annual installments to March 2012	4,690,982	5,495,934	—	719,622	4,776,312	735,309
Neighborhood Schools Initiative Bonds (NSI), 3.5% – 4.875%, due in annual installments to February 2022	33,300,000	33,300,000	78,740,000	—	112,040,000	—
Plus: Premium on issuance	1,357,121	—	1,357,121	99,884	1,257,237	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to December 2016	16,219,000	12,469,908	2,650,000	1,713,452	13,406,456	2,049,676
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to March 2008	8,000,000	7,731,613	—	1,338,387	6,393,226	1,335,806
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	—	46,715,000	295,000	46,420,000	—
Less: Discount	(25,232,986)	—	(25,232,986)	(627,604)	(24,605,382)	—
Capital appreciation bonds, due in annual installments beginning April 1, 2026 through April 1, 2041	110,525,000	—	110,525,000	—	110,525,000	—
Less: Discount	(94,805,878)	—	(94,805,878)	(528,127)	(94,277,751)	—
Pension bonds, variable interest rate “auction rate”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	—	130,850,000	—	130,850,000	—
Other intergovernmental notes	4,437,000	1,482,250	1,251,525	1,256,525	1,477,250	472,500
Capital lease—MEC/Grand Avenue	34,475,000	—	34,475,000	1,400,000	33,075,000	2,925,000
Total intergovernmental cooperation agreement debt		<u>72,133,408</u>	<u>287,792,257</u>	<u>8,224,674</u>	<u>351,700,991</u>	<u>9,569,960</u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

	<u>Balance at July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2004</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 72,133,408	287,792,257	8,224,674	351,700,991	9,569,960
Pension-related debt—Wisconsin Retirement System	167,607,420	—	167,607,420	—	—
Accrued compensated absences	20,770,618	15,045,655	8,713,389	27,102,884	3,222,988
Workers' compensation claims	5,031,153	2,834,121	4,198,542	3,666,732	1,300,000
General insurance claims	1,345,545	1,429,466	1,445,433	1,329,578	93,273
Life insurance benefits	1,745,815	532,936	—	2,278,751	280,222
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	<u>\$ 268,919,010</u>	<u>307,634,435</u>	<u>190,189,458</u>	<u>386,363,987</u>	<u>14,466,443</u>

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

The District has recognized a liability of \$2,575,614 as of June 30, 2004 in the governmental funds for accrued compensated absences that were due as of year-end. These amounts are not included in general long-term liabilities above. Accordingly, the total liability for compensated absences was \$29,678,498 as of June 30, 2004.

The District has recognized a liability of \$1,364,421 as of June 30, 2004 in the governmental funds for workers' compensation claims that were due as of year-end. These amounts are not included in general long-term liabilities above. Accordingly, the total liability for workers' compensation claims was \$5,031,153 as of June 30, 2004.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2004 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2005	\$ 6,699,046	8,541,115	15,240,161
2006	6,774,718	7,368,784	14,143,502
2007	5,459,044	7,361,115	12,820,159
2008	7,274,249	7,034,728	14,308,977
2009	7,122,549	7,004,555	14,127,104
2010 – 2014	38,749,109	31,599,293	70,348,402
2015 – 2019	53,728,648	25,253,880	78,982,528
2020 – 2024	75,319,524	15,426,501	90,746,025
2025 – 2029	41,590,000	1,717,710	43,307,710
2030 – 2034	62,140,000	1,480,630	63,620,630
2035 – 2039	85,420,000	1,539,595	86,959,595
2040 – 2044	45,975,000	1,319,267	47,294,267
Total	<u>\$ 436,251,887</u>	<u>115,647,173</u>	<u>551,899,060</u>

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

Interest on the \$130,850,000 variable rate pension debt (auction rate securities) included in the schedule of future payments on the previous page is based upon an auction to occur approximately every 35 days. The interest rate as of June 30, 2004 was 1.32%.

The District leases land and buildings with a historical cost and accumulated amortization of \$36,057,061 and \$893,264, respectively, under capital lease arrangements. Future minimum lease payments under these capital leases at June 30, 2004 are as follows:

Fiscal year ended June 30:		
2005	\$	3,913,023
2006		3,908,473
2007		3,913,473
2008		3,906,573
2009		3,910,973
2010 – 2014		19,545,773
Total minimum lease payments		39,098,288
Less amount representing interest		(6,023,288)
Present value of minimum lease payments	\$	33,075,000

The maximum allowable amount of City debt (including school debt) outstanding at any time shall not be greater than 5% of the total equalized taxable property in the City (Wisconsin State Statute Chapter 67.03). Wisconsin State Statute Chapter 119.49 further authorizes referendum-approved bonding in an additional amount equivalent to 2% of the equalized taxable property for school capital purposes. The total equalized taxable property in the City for calendar year 2004 was \$23,470,205,000 and the 5% debt limit was \$2,251,945,000. No referendum-approved debt is outstanding at June 30, 2004.

Current Refunding of Debt

In December 2003, the City, in connection with an intergovernmental cooperation agreement, issued \$168,051,136 in pension bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293. This refunding resulted in an economic gain, as well as savings from refunding. The economic gain realized in this refunding was \$11,831,813 and the savings resulting from the refunding was as follows:

Cash flow requirements to service (old) pension-related debt	\$	610,500,208
Less cash flow requirements for new debt		(515,327,973)
Net savings from refunding	\$	95,172,235

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

Interest Rate Swap Agreement

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in December 2003, the District entered into interest rate swap agreements in connection with the \$130,850,000 Taxable Pension Funding Bonds, 2003 Series D (variable-rate bonds). The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 5.56%.

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

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	(1.46)%
Net interest rate swap payments		4.10%
Variable-rate bond coupon payments	Auction Rate	1.32%
Synthetic interest rate on bonds		5.42%

Fair value. Because interest rates have decreased since execution of the swaps, the swaps had an aggregate negative fair value of \$4,645,044 as of June 30, 2004. The swap's negative fair value may be countered by reductions in total interest payments required on the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit risk. As of June 30, 2004, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swaps become positive, the District would be exposed to credit risk in the amount of the derivative's fair values. The swap counterparties were rated AA- and A+ by Standard & Poor's and Aa3 and A1 by Moody's Investors Service as of June 30, 2004. To mitigate the potential for credit risk, if the AA-

MILWAUKEE PUBLIC SCHOOLS

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June 30, 2004

/Aa3 counterparty's credit quality falls below A- by Standard & Poor's or A3 by Moody's Investors Service, the fair value of the swap above \$100,000 will be fully collateralized by the counterparty with U.S. Government securities. The obligation of the A+/A1 counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

Basis risk. The swaps expose the District to basis risk should the relationship between LIBOR and the auction rate diverge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (5.56%) and the synthetic rate as of June 30, 2004 (5.42%). If a change occurs that results in the rates' moving farther apart, the expected cost savings may not be realized. As of June 30, 2004, the auction rate was 1.32%, whereas LIBOR was 1.26%.

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

Swap payments and associated debt. Using rates as of June 30, 2004, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

	Variable-rate bonds		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ended June 30:				
2005	\$ —	1,679,067	5,110,011	6,789,078
2006	—	1,679,067	5,130,220	6,809,287
2007	—	1,846,974	5,610,907	7,457,881
2008	—	1,679,067	5,089,802	6,768,869
2009	—	1,846,974	5,631,116	7,478,090
2010 – 2014	—	8,731,149	26,572,055	35,303,204
2015 – 2019	—	8,731,149	26,572,055	35,303,204
2020 – 2024	6,250,000	8,695,174	26,443,090	41,388,264
2025 – 2029	31,325,000	7,299,707	22,234,648	60,859,355
2030 – 2034	31,250,000	5,300,608	16,126,157	52,676,765
2035 – 2039	31,100,000	3,105,751	9,453,173	43,658,924
2040 – 2044	30,925,000	1,002,486	3,051,173	34,978,659
Totals	\$ 130,850,000	51,597,173	157,024,407	339,471,580

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(8) Fund Balance

Designated for Subsequent Year's Expenditures—The unreserved fund balance of the general fund is \$40,801,363 at June 30, 2004. This unreserved balance includes \$65,421,999 designated to partially fund school operating expenditures during the period July 1 through December 31, 2004.

Based on recent operating experience, management anticipates that approximately \$436,682,145 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2004. In addition to the fund balance designated for subsequent year's expenditures, approximately \$305,316,000 of state aids will be used to fund operating expenditures through December 31, 2004.

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, 2004, is as follows:

General fund unresrved fund balance	\$ 40,801,363
Amount required to fund six months of the subsequent year's property tax levy:	
Current year's school operations tax levy (\$163,554,998)	
multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (72) to total calendar school year days (180)	<u>65,421,999</u>
General fund undesignated fund balance deficiency	<u>\$ (24,620,636)</u>

(9) Risk Management

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

The District provides health insurance benefits to employees and retirees through a self-insured health maintenance organization and a self-insured comprehensive indemnity/PPO 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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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

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

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

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

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

	Year ended June 30	
	2004	2003
Beginning of year liability	\$ 36,992,000	31,056,000
Current year claims and changes in estimate	183,665,617	172,487,000
Claim payments	(179,056,000)	(166,551,000)
End of year liability	\$ 41,601,617	36,992,000

The District has recognized the entire liability for health and dental insurance, which totaled \$32,676,915 and \$29,808,610 as of June 30, 2004 and 2003, respectively, in the general fund. The District has also recognized a liability of \$1,364,421 and \$1,043,482 as of June 30, 2004 and 2003, respectively, in the general fund for workers' compensation claims that were due as of the respective year-end. All other claims liabilities are considered to be general long-term liabilities and are recognized in the government-wide financial statements.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(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. The District currently contributes to both plans to provide for payment of current service costs and to fund prior service costs.

Wisconsin Retirement System—All eligible District employees (certificated employees, principally teachers) participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). All permanent certificated employees expected to work over 440 hours a year (teachers) are eligible to participate in the WRS. Covered employees in the general/teacher category are required by statute to contribute 5.6% of their salaries to the plan for calendar year 2004. The District pays all employer and principally all employee (with the exception of some substitute teachers) required contributions to the plan. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for the District's employees covered by the WRS for the year ended December 31, 2003 was \$390,882,000; the District's total payroll was \$543,968,000. The total required contribution for the year ended December 31, 2003 was \$44,561,000, which consisted of \$23,453,000, or 6.0% of payroll, from the District and \$21,108,000, or 5.4% 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, 2002 and 2001 were \$39,883,000 and \$40,945,000, 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, is determined under Chapter 40 of the Wisconsin State Statutes.

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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

Employees’ Retirement System of the City of Milwaukee—All eligible District employees (classified employees, principally non-teachers) participate in the Employees’ Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 760 hours per year) who are eligible under adopted rules and regulations and who have evidenced their intent to join the System and all full-time classified employees (defined by the System as employees who work 2,080 hours a year for non-teachers and 1,520 hours for 10-month school year teachers) are eligible to participate in the System. Covered employees in the general employee category are required to contribute 5.5% of specified rates of compensation without overtime as agreed upon in past labor negotiations. The District pays all employer and substantially all of the employee required contributions to the System, as stipulated in Chapter 36 of the City charter. Due to the global pension settlement, employees eligible for enrollment on or after January 1, 2000 may consent to the global pension settlement and participate in the System combined fund. The consenting employees are required to pay 1.6% of their pensionable earnings for the first eight years from the enrollment date. Also, employees have the option to object to the global pension settlement. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits. The System uses the projected unit credit actuarial cost method to determine employer contribution rates.

The payroll for the District’s employees covered by the System for the year ended December 31, 2003 was \$112,963,000; the District’s total payroll was \$543,969,000. The total required contribution including retroactive adjustments for the year ended December 31, 2003 was \$6,512,000, or 5.8% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2002 and 2001 were \$5,814,000 (includes retro payments of \$364,000) and \$5,884,000, respectively, equal to the required contributions for each year.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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 biweekly 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 charter.

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

Supplemental Retirement Plans

(a) Plan Descriptions and Funding Policies

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

The plan, a single-employer pension trust fund, is a contributory, defined benefit pension plan established to provide benefits after early retirement that will supplement the pension benefits provided by the WRS and the System. The plan was originally established, effective January 1, 1978, pursuant to a collective bargaining agreement between the District and the 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 State Statute Sec.119.32 (3), or any other employee who is identified as a covered participant by the District through an employment contract between such employee and the 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, 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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

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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 directly affects the plan by decreasing the benefits paid and increasing the funded status of the plan. The actuarial value commencing fiscal year 2002 included recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the plan's actuary was \$6,326,664, of which a \$937,750 gain was allocated in fiscal years 2003 and 2004. 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. The District received more than the required 95% of signed waivers and the board approved the agreement on June 24, 2004.

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

The amendments to the ASC plan have been incorporated into the July 1, 2003 actuarial valuation. These amendments resulted in an increase to the actuarial accrued liability of \$4,973,000 and an increase to the fiscal year 2004 required District (employer) contributions of \$737,000.

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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.

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

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 rehired former participants of the plan.

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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, 2004 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	5.662%	3.991%	
Plan participants	—	—	
Annual required contribution	\$ 2,378,932	12,585,622	14,964,554
Interest on net pension obligation	—	—	—
Adjustment to annual required contribution	—	—	—
Annual pension cost	2,378,932	12,585,622	14,964,554
Contributions made	2,378,932	12,585,622	14,964,554
Increase (decrease) in net pension obligation	—	—	—
Net pension obligation, beginning of year	—	—	—
Net pension obligation, end of year	\$ —	—	—

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	July 1, 2003	July 1, 2003
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. Newly established bases 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%

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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 the 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%	N/A
Mortality	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.	For males, according to the 1983 Group Annuity Mortality Table, and for females, according to the 1983 Group Annuity Mortality Table for males set back 6 years.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(c) Three-Year Trend Information

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

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

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning			
July 1:			
2003	\$ 2,378,932	100%	\$ —
2002	1,206,396	100%	—
2001	1,248,752	100%	—

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

	<u>Annual pension cost</u>	<u>% of annual pension cost contributed</u>	<u>Net pension obligation</u>
Fiscal year beginning			
July 1:			
2003	\$ 12,585,622	100%	\$ —
2002	11,541,960	100%	—
2001	9,144,027	100%	—

(11) Post-Retirement Life and Healthcare Insurance Benefits

All post-retirement benefits are provided by the District in accordance with union contracts. District employees who take an immediate annuity at age 55 or over, with 15 or more years of service, may retain full life insurance coverage by paying the premium for such coverage until age 65. Employees taking an immediate annuity at age 55 or over, with 30 or more years of service, continue in the group life insurance program with the same coverage and with the District paying the premium in accordance with the union contract under which the employee retired. For retirees who have attained age 65, the life insurance coverage is reduced by 25% of the original coverage for each year following their 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

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

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

Expenditures for post-retirement life and healthcare insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$21,432,000 for the year ended June 30, 2004. Approximately 5,148 retired participants are currently eligible to receive post-retirement life insurance benefits and approximately 5,109 retired participants are receiving post-retirement healthcare benefits.

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

(12) Limitation on District Revenues

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

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

For the fiscal year ended June 30, 2004, the District is below its revenue limitation by approximately \$51,987.

(13) School Nutrition Deficit

The school nutrition services fund had a deficit of \$3,880,319. The deficit is anticipated to be funded through future operations or operating transfers from the general fund.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2004

(14) Commitments and Contingencies

(a) Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2004 may be impaired. In the opinion of District management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

(b) Operating Leases

The District leases certain computer equipment with a carrying value of approximately \$442,784. For fiscal year 2004, total operating lease expense of the District was \$1,992,610. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2004 and thereafter for the computers and property are as follows:

Fiscal years:		
2005	\$	323,603
2006		<u>119,181</u>
Total	\$	<u><u>442,784</u></u>

(c) Construction Commitments

The District has various active construction projects with commitments outstanding of \$89,865,000 as of June 30, 2004.

(d) Litigation

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

(15) Subsequent Events

On September 9, 2004, the City issued \$172,000,000 of School Revenue Anticipation Notes, Series 2004 M5 for the purpose of financing MPS' general operating purposes pending receipt of state school aid payments. The maturity of this issue is September 1, 2005. Interest is payable at maturity.

**REQUIRED SUPPLEMENTARY
INFORMATION**

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2004

	Budgeted amounts		Actual
	Adopted	Revised	(GAAP basis)
Revenues:			
Property tax levy	\$ 175,723,080	166,173,719	164,834,180
Other local sources	6,548,096	13,613,827	9,106,065
State aid:			
Equalization aid	563,605,569	575,069,738	575,069,738
Special classes	40,000,000	40,762,610	40,437,993
Integration	38,738,661	39,437,167	39,437,167
Other state aid	51,909,485	52,112,229	50,393,039
Federal aid:			
Education Consolidation Improvement Act	57,565,020	64,697,628	59,694,854
Other federal aid	41,933,655	56,886,566	63,564,038
Erate		530,000	
Interest	—	—	761,505
Total revenues	976,023,566	1,009,283,484	1,003,298,579
Expenditures:			
Current operating:			
Instructional services:			
Undifferentiated curriculum	290,123,825	315,660,925	426,491,163
Regular and other curriculum	173,254,660	174,958,757	103,609,583
Special curriculum	111,633,708	111,440,317	97,023,789
Total instructional services	575,012,193	602,059,999	627,124,535
Community services	9,681,113	9,681,190	18,191,494
Pupil and staff services	94,717,660	95,980,005	82,254,854
General and school building administration	101,948,592	96,536,080	116,968,619
Business services	165,088,957	170,635,897	156,312,056
Debt service	—	—	6,993,472
Other	72,976,088	77,949,049	1,383,820
Total expenditures	1,019,424,603	1,052,842,220	1,009,228,850
Excess of revenues over (under) expenditures	\$ (43,401,037)	(43,558,736)	(5,930,271)
Other financing sources (uses):			
Proceeds from pension bonds			168,051,136
Payment for refunded pension debt			(165,505,293)
Total other financing sources (uses), net			2,545,843
Net change in fund balance			(3,384,428)
Fund balance—beginning of year			85,192,674
Fund balance—end of year			\$ 81,808,246

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

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2004

**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)
7/1/03	\$ 39,808,674	49,453,070	9,644,396	80.50 %	\$ 42,014,246	22.96 %
7/1/02	40,229,422	41,356,358	1,126,936	97.28	37,694,546	2.99
7/1/01	40,125,187	40,280,250	155,063	99.62	41,022,453	0.38

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)
7/1/03	\$ 49,570,891	157,875,834	108,304,943	31.40 %	\$ 315,368,449	34.34 %
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	25.39

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

MILWAUKEE PUBLIC SCHOOLS

Notes to Required Supplementary Information

Year ended June 30, 2004

(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
- Does not move monies between statutory funds

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

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**COMBINING AND INDIVIDUAL
FUND STATEMENTS
AND SCHEDULES**

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MILWAUKEE PUBLIC SCHOOLS

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

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

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

MILWAUKEE PUBLIC SCHOOLS
Combining Balance Sheet—Nonmajor Governmental Funds
June 30, 2004

Assets	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Receivables due from other governmental units	\$ —	7,372,019	5,375,906	—	12,747,925
Due from other funds	14,023,354	—	1,811,951	—	15,835,305
Inventories	—	—	592,114	—	592,114
Total assets	<u>\$ 14,023,354</u>	<u>7,372,019</u>	<u>7,779,971</u>	<u>—</u>	<u>29,175,344</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ —	58,599	472,342	—	530,941
Due to other funds	9,871,467	7,313,420	11,187,948	—	28,372,835
Total liabilities	<u>9,871,467</u>	<u>7,372,019</u>	<u>11,660,290</u>	<u>—</u>	<u>28,903,776</u>
Fund balances (deficit):					
Reserved for inventories	—	—	592,114	—	592,114
Unreserved and undesignated	4,151,887	—	(4,472,433)	—	(320,546)
Total fund balances	<u>4,151,887</u>	<u>—</u>	<u>(3,880,319)</u>	<u>—</u>	<u>271,568</u>
Total liabilities and fund balances	<u>\$ 14,023,354</u>	<u>7,372,019</u>	<u>7,779,971</u>	<u>—</u>	<u>29,175,344</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2004

	TEACH Wisconsin Programs	Categorically Aided Programs	School Nutrition Services	Debt Service	Total
Revenues:					
Property taxes	\$ —	—	—	6,723,273	6,723,273
Lunchroom sales	—	—	4,754,985	—	4,754,985
State aid—other	1,162,513	—	661,578	—	1,824,091
Federal aid:					
School nutrition services	—	—	24,215,335	—	24,215,335
Other federal aid	—	27,365,384	—	—	27,365,384
Total revenues	<u>1,162,513</u>	<u>27,365,384</u>	<u>29,631,898</u>	<u>6,723,273</u>	<u>64,883,068</u>
Expenditures:					
Instructional services—	—	—	—	—	—
special curriculum	—	4,433,131	—	—	4,433,131
Pupil and staff services	1,160,795	22,932,253	—	—	24,093,048
School nutrition services	—	—	31,097,577	—	31,097,577
Debt service:					
Principal	719,622	—	—	5,869,364	6,588,986
Interest	254,502	—	—	853,909	1,108,411
Total expenditures	<u>2,134,919</u>	<u>27,365,384</u>	<u>31,097,577</u>	<u>6,723,273</u>	<u>67,321,153</u>
Excess of revenues over (under) expenditures	(972,406)	—	(1,465,679)	—	(2,438,085)
Other financing sources (uses):					
Refunding intergovernmental debt issued	—	—	—	790,000	790,000
Payment for refunded intergovernmental debt	—	—	—	(790,000)	(790,000)
Total other financing sources (uses), net	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net changes in fund balances	(972,406)	—	(1,465,679)	—	(2,438,085)
Fund balances (deficit):					
Beginning of year	<u>5,124,293</u>	<u>—</u>	<u>(2,414,640)</u>	<u>—</u>	<u>2,709,653</u>
End of year	\$ <u>4,151,887</u>	<u>—</u>	<u>(3,880,319)</u>	<u>—</u>	<u>271,568</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

Year ended June 30, 2004

	<u>Budgeted amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
Revenues:			
State aid:			
Other state aid	\$ —	840,832	1,162,513
Total revenues	<u>—</u>	<u>840,832</u>	<u>1,162,513</u>
Expenditures:			
Current operating:			
Pupil and staff services	756,497	840,832	1,160,795
Debt service	<u>723,042</u>	<u>723,042</u>	<u>974,124</u>
Total expenditures	<u>1,479,539</u>	<u>1,563,874</u>	<u>2,134,919</u>
Excess of revenues over (under) expenditures	<u>(1,479,539)</u>	<u>(723,042)</u>	<u>(972,406)</u>
Other financing sources:			
Proceeds from TEACH loan	<u>1,512,935</u>	<u>1,512,935</u>	<u>—</u>
Total other financing sources	<u>1,512,935</u>	<u>1,512,935</u>	<u>—</u>
Net change in fund balance	<u>\$ 33,396</u>	<u>789,893</u>	<u>(972,406)</u>
Fund balance—beginning of year			<u>5,124,293</u>
Fund balance—end of year			<u>\$ 4,151,887</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS

Categorically Aided Programs Fund

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

Year ended June 30, 2004

	<u>Budgeted amounts</u>		<u>Actual</u>
	<u>Adopted</u>	<u>Revised</u>	<u>(GAAP basis)</u>
Revenues:			
Federal aid:			
Other federal aid	\$ 21,535,491	24,956,584	27,365,384
Total revenues	<u>21,535,491</u>	<u>24,956,584</u>	<u>27,365,384</u>
Expenditures:			
Current operating:			
Special curriculum	6,038,392	6,342,534	4,433,131
Pupil and staff services	15,497,099	18,614,050	22,932,253
Total expenditures	<u>21,535,491</u>	<u>24,956,584</u>	<u>27,365,384</u>
Net change in fund balance	\$ <u> —</u>	<u> —</u>	<u> —</u>
Fund balance—beginning of year			<u> —</u>
Fund balance—end of year			\$ <u><u> —</u></u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS

School Nutrition Services Fund

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

Year ended June 30, 2004

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Lunchroom sales	\$ 4,735,066	4,735,066	4,754,985
State aid:			
School nutrition aid	660,000	660,000	661,578
Federal aid:			
School nutrition aid	23,965,000	23,965,000	24,215,335
Total revenues	<u>29,360,066</u>	<u>29,360,066</u>	<u>29,631,898</u>
Expenditures:			
Current operating:			
School nutrition services	<u>29,360,066</u>	<u>29,360,066</u>	<u>31,097,577</u>
Total expenditures	<u>29,360,066</u>	<u>29,360,066</u>	<u>31,097,577</u>
Net change in fund deficit	\$ <u>—</u>	<u>—</u>	(1,465,679)
Fund deficit—beginning of year			<u>(2,414,640)</u>
Fund deficit—end of year			<u>\$ (3,880,319)</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS

Debt Service Fund

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

Year ended June 30, 2004

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Property taxes	\$ 5,871,538	5,383,734	6,723,273
Total revenues	5,871,538	5,383,734	6,723,273
Expenditures:			
Current operating:			
Debt service	5,871,538	5,383,734	6,723,273
Total expenditures	5,871,538	5,383,734	6,723,273
Excess of revenues over (under) expenditures	\$ —	—	—
Other financing sources:			
Refunding bonds issued			790,000
Payment to refunded bond			(790,000)
Total other financing sources			—
Net change in fund balance			—
Fund balance—beginning of year			—
Fund balance—end of year			\$ —

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS

Fiduciary Funds

Pension Trust Funds

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

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

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

Agency Fund

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

MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Changes in Net Assets—Pension Trust Funds

Year ended June 30, 2004

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
Additions:			
Employer contributions	\$ 3,064,441	13,110,309	16,174,750
Participants contributions	4,604	—	4,604
Investment income, net of expenses	4,604,988	8,179,768	12,784,756
	<hr/>	<hr/>	<hr/>
Total additions	7,674,033	21,290,077	28,964,110
Deductions:			
Benefits paid to participants or beneficiaries	3,544,706	9,306,990	12,851,696
Distribution of participant contribution accounts	416,592	—	416,592
Administrative expenses	73,176	110,376	183,552
	<hr/>	<hr/>	<hr/>
Total deductions	4,034,474	9,417,366	13,451,840
Changes in net assets	3,639,559	11,872,711	15,512,270
Net assets—beginning	37,133,692	50,482,322	87,616,014
Net assets—ending	\$ <u>40,773,251</u>	<u>62,355,033</u>	<u>103,128,284</u>

See accompanying independent auditors' report.

MILWAUKEE PUBLIC SCHOOLS
 Agency Fund
 Schedule of Changes in Assets and Liabilities
 Year ended June 30, 2004

Assets	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Cash and cash equivalents	\$ 5,220,840	19,628,182	(19,994,960)	4,854,062
Total assets	<u>\$ 5,220,840</u>	<u>19,628,182</u>	<u>(19,994,960)</u>	<u>4,854,062</u>
Liabilities				
Liabilities:				
Due to student organizations	\$ 5,220,840	19,628,182	(19,994,960)	4,854,062
Total liabilities	<u>\$ 5,220,840</u>	<u>19,628,182</u>	<u>(19,994,960)</u>	<u>4,854,062</u>

See accompanying independent auditors' report.

STATISTICAL SECTION

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MILWAUKEE PUBLIC SCHOOLS

Government-wide Expenses by Function

Last Three Fiscal Years

(amounts expressed in thousands)

Fiscal year	Instruction	Community services	Pupil and staff services	General administrative and central services	Business services	School nutrition services	Interest on long-term debt	Insurance	Other	Total
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
2004	644,448	18,155	105,549	116,816	140,825	31,249	6,250	—	1,433	1,064,725

The District implemented GASB Statement No. 34 on June 30, 2002; accordingly, prior year data is not available.

MILWAUKEE PUBLIC SCHOOLS

Government-wide Revenues

Last Three 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 contributions</u>	<u>Property 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
2004	10,719	183,944	17,706	183,198	698,644	762	89	1,095,062

The District implemented GASB Statement No. 34 on June 30, 2002; accordingly, prior year data is not available.

MILWAUKEE PUBLIC SCHOOLS
 General Governmental Expenditures by Function
 Last Three Fiscal Years
 (amounts expressed in thousands)

Fiscal year	Instruction	Community services	Pupil & staff services	General and school building administration	Business services	School nutrition	Debt service	Other	Total
2002	\$ 562,781	18,312	106,273	82,822	188,826	28,602	4,128	53,253	1,044,997
2003	610,676	21,442	127,129	115,847	216,988	29,210	7,666	1,486	1,130,444
2004	631,558	18,191	106,348	116,969	238,808	31,098	18,088	1,384	1,162,444

The District implemented GASB No. 34 on June 30, 2002; accordingly, prior year data is not available.

MILWAUKEE PUBLIC SCHOOLS

General Governmental Revenues by Source

Last Three Fiscal Years

(amounts expressed in thousands)

<u>Fiscal year</u>		<u>Property tax levy</u>	<u>Lunchroom sales</u>	<u>Other local sources</u>	<u>State aid</u>	<u>Federal aid</u>	<u>Intergovernmental aid</u>	<u>Other federal aid</u>	<u>Interest and investment earnings</u>	<u>Total</u>
2002	\$	174,734	4,231	10,009	678,979	74,779	23,500	68,201	23,500	1,057,933
2003		181,046	4,331	10,531	689,721	80,021	8,660	85,519	662	1,060,491
2004		183,198	4,755	9,221	707,163	84,549	11,334	90,930	1,058	1,092,208

The District implemented GASB No. 34 on June 30, 2002; accordingly, prior year data is not available.

MILWAUKEE PUBLIC SCHOOLS

Comparative per Capita Cost Statistics

Last Ten Fiscal Years

		Cost per pupil
		<hr/>
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
2003 – 2004	.....	11,358

MILWAUKEE PUBLIC SCHOOLS

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
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
2003	21,009,517	721,237	21,730,754

* 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 Government

Last Ten Years

Levy for year (C)	Milwaukee School Board (A)		City of Milwaukee (B)	Milwaukee Area District Board of Vocational, Technical, and Adult Education		County of Milwaukee		State of Wisconsin		Milwaukee Metropolitan Sewerage District		Total			
TAX RATES PER \$1,000 OF ASSESSED VALUE AND PERCENT OF TOTAL															
1994	\$	18.59	45.8	10.93	26.9	2.09	5.2	5.59	13.8	0.21	0.5	3.16	7.8	40.57	100.0 %
1995		15.46	42.2	10.47	28.5	2.04	5.6	5.41	14.7	0.21	0.6	3.07	8.4	36.66	100.0
1996		14.28	40.5	10.09	28.6	2.10	6.0	5.74	16.3	0.21	0.6	2.81	8.0	35.23	100.0
1997		9.97	33.9	9.81	33.3	2.01	6.8	5.72	19.4	0.20	0.7	1.72	5.9	29.43	100.0
1998		9.02	31.6	9.47	33.2	2.11	7.4	5.96	20.9	0.21	0.7	1.77	6.2	28.54	100.0
1999		9.44	33.4	9.20	32.5	2.01	7.1	5.72	20.2	0.20	0.7	1.72	6.1	28.29	100.0
2000		8.95	31.9	9.12	32.5	2.16	7.7	5.82	20.7	0.21	0.8	1.80	6.4	28.06	100.0
2001		8.81	31.5	9.86	35.2	2.00	7.1	5.46	19.5	0.20	0.7	1.68	6.0	28.01	100.0
2002		9.11	30.8	10.22	34.6	2.23	7.6	5.91	20.0	0.22	0.7	1.87	6.3	29.56	100.0
2003		8.55	31.4	9.51	34.9	2.05	7.5	5.20	19.1	0.20	0.7	1.74	6.4	27.25	100.0

TAX LEVIES (IN THOUSANDS)

1994	\$	242,620	142,794	27,307	72,965	2,810	41,234	529,730
1995		238,537	144,049	28,081	74,326	2,873	42,191	530,057
1996		221,958	138,750	28,967	78,897	2,964	38,654	510,190
1997		181,336	143,061	29,388	83,308	3,008	25,110	465,211
1998		167,446	139,417	31,020	87,779	3,102	26,039	454,803
1999		181,736	145,555	31,847	90,387	3,246	27,152	479,923
2000		169,562	141,279	33,455	90,017	3,340	27,876	465,529
2001		180,874	169,678	34,437	93,946	3,469	28,876	511,280
2002		186,228	176,579	38,499	102,173	3,891	32,287	539,657
2003		193,636	184,682	39,808	100,841	4,060	33,722	556,749

(A) Includes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy by the city of Milwaukee (\$0.64 in 2003).

(B) Excludes allocation of debt service requirement on debt incurred for schools, initially included in the tax levy of the city of Milwaukee (\$0.64 in 2003).

(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.

MILWAUKEE PUBLIC SCHOOLS

Tax Rates for School Purposes

Last Ten Years
(per \$1,000 of Assessed Value)

<u>Year</u>	<u>School Operations</u>	<u>Construction</u>	<u>Extension</u>	<u>Total</u>
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
2003	7.64	0.54	0.37	8.55

Tax Levies for School Purposes

Last Ten Years

<u>Year</u>	<u>School Operations</u>	<u>Construction</u>	<u>Extension</u>	<u>Total</u>
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
2003	163,554,998	11,640,984	8,002,455	183,198,437

MILWAUKEE PUBLIC SCHOOLS

Computation of Direct and Overlapping Debt—
City of Milwaukee

December 31, 2003

(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)	\$ 624,717	100.00 %	\$ 624,717
Overlapping debt:			
Milwaukee Area Technical College District Board	75,069	37.35	28,038
County of Milwaukee	473,237	45.86	217,026
Milwaukee Metropolitan Sewerage Area (B)	660,036	46.97	<u>310,019</u>
Total overlapping debt			<u>555,083</u>
Total district and overlapping debt			<u>\$ 1,179,800</u>

(A) Excludes \$79,525 of Industrial Revenue Bonds. Includes debt incurred to finance Milwaukee School Board construction.

(B) Includes \$343,476 low interest loans from the State of Wisconsin Clean Water Fund, supported by the full faith and credit of the Milwaukee Metropolitan Sewerage District.

MILWAUKEE PUBLIC SCHOOLS

School Accommodations

Last Thirty-six 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	
2003 – 2004	7,266	168	98,323	

(a) Including principals

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

MILWAUKEE PUBLIC SCHOOLS
Number and Distribution of Instructional Staff
Last Ten Fiscal Years

Classifications	1994 – 1995	1995 – 1996	1996 – 1997	1997 – 1998	1998 – 1999	1999 – 2000	2000 – 2001	2001 – 2002	2002 – 2003	2003 – 2004
Senior high and middle schools:										
Principals	37	37	37	37	37	37	37	38	36	38
Assistant principals	105	117	118	120	119	111	116	113	111	108
Teachers	<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>	<u>2,409</u>
Total	<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>	<u>2,555</u>
Elementary schools:										
Principals	111	112	113	113	115	107	120	117	108	107
Assistant principals	64	73	77	81	85	79	86	84	70	71
Teachers	<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>	<u>3,750</u>
Total	<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>	<u>3,928</u>
Special schools and classes:										
Principals	4	5	3	3	3	1	1	1	1	2
Assistant principals	6	4	2	2	2	2	2	2	2	3
Teachers	<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>	<u>778</u>
Total	<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>	<u>783</u>
Summary:										
Principals	152	154	153	153	155	145	158	156	145	147
Assistant principals	175	194	197	203	206	192	204	199	183	182
Teachers	<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>	<u>6,937</u>
Total	<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>	<u>7,266</u>
Superintendent, deputy and assistant superintendent, department directors and assistants, guidance and psychological counselors, librarians, and supervisors										
	<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>	<u>665</u>
Grand total	<u><u>7,403</u></u>	<u><u>7,472</u></u>	<u><u>7,496</u></u>	<u><u>7,752</u></u>	<u><u>7,950</u></u>	<u><u>7,880</u></u>	<u><u>7,836</u></u>	<u><u>7,889</u></u>	<u><u>7,811</u></u>	<u><u>7,931</u></u>

MILWAUKEE PUBLIC SCHOOLS
Comparative Statement of Annual School Census
Children Between 4 and 19 Years of Age
Residing in the City of Milwaukee

Fiscal year	Total number of children	Increase or (decrease) over prior year	Males	Increase or (decrease) over prior year	Females	Increase or (decrease) over prior year	Attending public schools	Attending private schools	Total attending schools	Percent attending schools	
1968	201,125	(4,404)	102,844	(2,198)	98,281	(2,206)	129,648	45,997	175,645	87.3%	
1969	199,899	(1,226)	102,043	(801)	97,856	(425)	130,622	42,711	173,333	86.7%	
1970	197,815	(2,084)	100,734	(1,309)	97,081	(775)	130,617	39,851	170,468	86.2%	
1971	193,827	(3,988)	98,569	(2,165)	95,258	(1,823)	130,147	36,978	167,125	86.2%	
1972	188,169	(5,658)	95,729	(2,840)	92,440	(2,818)	128,757	33,567	162,324	86.3%	
1973	179,821	(8,348)	91,643	(4,086)	88,178	(4,262)	124,370	30,840	155,210	86.3%	
1974	172,258	(7,563)	87,713	(3,930)	84,545	(3,633)	118,890	27,974	146,864	85.3%	
1975	167,370	(4,888)	85,316	(2,397)	82,054	(2,491)	115,758	27,437	143,195	85.6%	
1976	161,099	(6,271)	81,963	(3,353)	79,136	(2,918)	113,336	26,475	139,811	86.8%	
1977	152,435	(8,664)	77,734	(4,229)	74,701	(4,435)	104,619	25,078	129,697	85.1%	
1978	148,378	(4,057)	75,519	(2,215)	72,859	(1,842)	100,859	26,275	127,134	85.7%	
1979	133,507	(14,871)	68,491	(7,028)	65,016	(7,843)	93,296	26,011	119,307	89.4%	
1980	133,639	132	68,245	(246)	65,394	378	91,069	25,436	116,505	87.2%	
1981	130,215	(3,424)	66,550	(1,695)	63,665	(1,729)	82,520	31,238	113,758	87.4%	
1982	131,748	1,533	67,085	535	64,663	998	80,683	29,623	110,306	83.7%	
1983	134,734	2,986	68,642	1,557	66,092	1,429	83,148	31,149	114,297	84.8%	
1984	140,729	5,995	71,689	3,047	69,040	2,948	87,243	31,601	118,844	84.4%	
1985	147,347	6,618	75,066	3,377	72,281	3,241	93,406	31,464	124,870	84.7%	
1986	148,768	1,421	75,391	325	73,377	1,096	96,520	30,961	127,481	85.7%	
1987	145,593	(3,175)	73,844	(1,547)	71,749	(1,628)	94,744	30,997	125,741	86.4%	
1988	148,416	2,823	75,196	1,352	73,220	1,471	98,438	31,140	129,578	87.3%	
1989	150,714	2,298	76,520	1,324	74,194	974	99,988	29,988	129,976	86.2%	
1990	150,723	9	76,382	(138)	74,341	147	99,079	29,346	128,425	85.2%	
1991	*	128,540	(22,183)	65,230	(11,152)	63,310	(11,031)	86,407	27,012	113,419	88.2%
1992		144,452	15,912	73,180	7,950	71,272	7,962	100,017	28,346	128,363	88.9%
1993		145,499	1,047	73,772	592	71,727	455	100,728	27,956	128,684	88.4%
1994		149,545	4,046	75,893	2,121	73,652	1,925	103,452	28,196	131,648	88.0%
1995		151,541	1,996	76,471	578	75,070	1,418	106,886	27,816	134,702	88.8%
1996		151,710	169	76,778	307	74,932	(138)	106,910	27,931	134,841	88.9%
1997		151,027	(683)	76,429	(349)	74,598	(334)	107,121	27,455	134,576	89.1%
1998		153,227	2,200	77,533	1,104	75,694	1,096	108,786	27,723	136,509	89.1%
1999		154,328	1,101	78,141	608	76,187	493	111,712	27,207	138,919	90.0%
2000		154,977	649	78,599	458	76,378	191	110,397	28,342	138,739	89.5%
2001		150,256	(4,721)	76,048	(2,551)	74,208	(2,170)	107,905	26,479	134,384	89.4%
2002		149,992	(264)	76,142	94	73,850	(358)	109,852	25,066	134,918	90.0%
2003		162,011	12,019	82,187	6,045	79,824	5,974	122,631	23,760	146,391	90.4%
2004		164,641	2,630	83,399	1,212	81,242	1,418	128,862	21,829	150,691	91.5%

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

MILWAUKEE PUBLIC SCHOOLS

Annual Enumeration of Children Residing
in the City of Milwaukee

As of June 30, 2004

<u>Ages</u>	<u>Males</u>	<u>Females</u>	<u>Total</u>	<u>Attended public school</u>	<u>Attended parochial or private school</u>	<u>Did not attend school</u>
0	1,005	970	1,975	0	0	1,975
1	1,904	1,719	3,623	0	0	3,623
2	2,458	2,295	4,753	0	0	4,753
3	3,678	3,475	7,153	790	82	6,281
Total 0 – 3	9,045	8,459	17,504	790	82	16,632
4	4,466	4,299	8,765	3,104	290	5,371
5	5,140	4,949	10,089	6,736	590	2,763
6	5,191	5,029	10,220	8,128	896	1,196
7	5,000	4,875	9,875	8,111	1,105	659
8	5,106	4,910	10,016	8,301	1,363	352
9	5,291	5,064	10,355	8,618	1,544	193
10	5,237	5,117	10,354	8,759	1,503	92
11	5,333	5,332	10,665	9,041	1,569	55
12	5,411	5,229	10,640	8,998	1,601	41
13	5,388	5,262	10,650	9,048	1,558	44
14	5,414	5,265	10,679	9,091	1,527	61
15	5,148	4,965	10,113	8,819	1,228	66
16	4,956	4,712	9,668	8,445	1,139	84
17	4,852	4,691	9,543	8,248	1,118	177
18	4,920	4,751	9,671	7,541	1,410	720
19	6,546	6,792	13,338	7,874	3,388	2,076
Total 4 – 19	83,399	81,242	164,641	128,862	21,829	13,950
Grand total	92,444	89,701	182,145	129,652	21,911	30,582

MILWAUKEE PUBLIC SCHOOLS

Population and Pupils
Residing in the City of Milwaukee
Last Ten Fiscal Years

	<u>1994- 1995</u>	<u>1995- 1996</u>	<u>1996- 1997</u>	<u>1997- 1998</u>	<u>1998- 1999</u>	<u>1999- 2000</u>	<u>2000- 2001</u>	<u>2001- 2002</u>	<u>2002- 2003</u>	<u>2003- 2004</u>
Total number of school age children according to city-wide child census	151,541	151,710	151,027	153,227	154,328	154,977	150,256	149,992	162,011	164,641
Enrollment for state aid:*										
Third Friday	100,652	101,060	103,507	106,337	104,249	103,660	101,744	101,618	101,715	102,033
Summer school	221	240	255	196	1,516	1,819	1,585	1,113	964	333
Total	<u>100,873</u>	<u>101,300</u>	<u>103,762</u>	<u>106,533</u>	<u>105,765</u>	<u>105,479</u>	<u>103,329</u>	<u>102,731</u>	<u>102,679</u>	<u>102,366</u>
Average number enrolled:										
Senior high	24,202	25,514	25,618	25,851	25,433	26,009	25,157	25,389	26,766	28,003
Junior high/middle	14,327	14,273	21,863	21,992	21,860	22,039	22,841	23,974	23,670	23,432
Elementary	63,346	65,182	58,320	58,866	58,375	57,567	55,571	53,940	52,683	51,699
Total	<u>101,875</u>	<u>104,969</u>	<u>105,801</u>	<u>106,709</u>	<u>105,668</u>	<u>105,615</u>	<u>103,569</u>	<u>103,303</u>	<u>103,119</u>	<u>103,134</u>
Average number attending:										
Senior high	18,394	19,084	19,188	19,758	19,382	20,463	19,396	19,727	20,936	22,251
Junior high/middle	12,221	12,275	18,758	18,746	18,603	19,168	19,848	20,927	20,843	20,968
Elementary	57,898	60,228	53,888	54,510	53,848	53,880	51,846	50,240	48,858	48,078
Total	<u>88,513</u>	<u>91,587</u>	<u>91,834</u>	<u>93,014</u>	<u>91,833</u>	<u>93,511</u>	<u>91,090</u>	<u>90,894</u>	<u>90,637</u>	<u>91,297</u>

* Non-resident and choice students not included.

MILWAUKEE PUBLIC SCHOOLS
 Construction, Bank Deposits, and Property Value—
 City of Milwaukee
 Last Ten Years
 (in thousands)

Calendar year	Commercial construction		Residential construction		Bank deposits (A)	Real property value		
	Number of permits	Value	Number of units	Value		Equalized		Nontaxable
						Commercial	Residential	
1994	68	\$ 43,548	203	\$ 11,796	11,819,678	5,175,813	7,521,850	3,599,941
1995	71	39,983	390	20,776	13,013,020	5,268,072	7,911,127	3,448,884
1996	77	37,780	183	12,122	16,205,221	5,388,417	8,246,386	3,497,462
1997	86	161,479	345	27,512	17,921,013	5,409,709	8,501,628	3,525,520
1998	79	68,042	589	45,257	20,832,537	5,475,827	8,859,451	3,566,982
1999	95	128,344	203	20,442	15,975,126	6,221,962	9,683,606	3,456,294
2000	88	99,968	352	35,184	17,926,606	6,241,899	10,187,868	3,384,708
2001	99	106,537	542	99,106	23,185,907	7,011,654	11,364,344	3,422,534
2002	89	87,778	697	72,252	20,513,650	7,221,024	12,179,233	3,368,493
2003	96	61,825	825	111,861	22,674,292	7,614,584	13,236,433	3,400,762

(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. Equalized property value is determined by the state of Wisconsin. Nontaxable property value is estimated by the city of Milwaukee Assessor's Office.

MILWAUKEE PUBLIC SCHOOLS

Principal Taxpayers—
City of Milwaukee

December 31, 2003

(in thousands)

<u>Taxpayer</u>	<u>Type of business</u>	<u>2003 assessed valuation</u>	<u>Percentage of Total assessed valuation</u>
First Security Bank	Banking	\$ 214,255	1.02 %
Northwestern Mutual Life Insurance Company	Insurance	166,927	0.79
Teachers Insurance & Annuity/ TIAA Realty	Real estate	106,282	0.51
Towne Realty	Real estate	91,282	0.43
M&I Marshall & Ilsley Bank/ Metavante Corp.	Banking	78,295	0.37
Marcus Corporation	Hotels/motels/restaurants	73,879	0.35
Great Lakes REIT LP	Real estate	64,633	0.31
Miller Brewing	Brewery	71,369	0.34
Metropolitan Associates	Real estate	72,949	0.35
Allen Bradley Company	Electric motors, electronic components, control division		
100 E. Wisconsin Joint Venture	Real estate	<u>56,347</u>	<u>0.27</u>
	Total	\$ <u>996,218</u>	<u>4.74 %</u>

Source: City of Milwaukee, Assessor's Office