



Milwaukee Public Schools

Milwaukee, Wisconsin

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For the Year Ended June 30, 2007
148th EDITION

148th 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, 2007

PETER BLEWETT, President

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Prepared by:

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MILWAUKEE PUBLIC SCHOOLS

Comprehensive Annual Financial Report

Year Ended June 30, 2007

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Comprehensive Annual Financial Report

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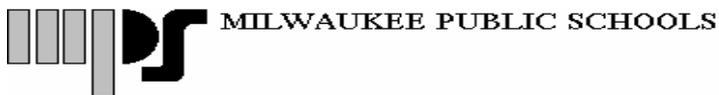
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December 12, 2007

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, 2007. 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.

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 590,370. The District operates more than 160 sites, has over 87,000 students in 207 schools, and employs over 10,700 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 2007 Economic Trends, August's seasonally unadjusted unemployment rate of 5.6% is higher than the 5% rate posted one year ago. Currently, the metro Milwaukee area's jobless rate ranks higher than both the state's 4.9% and the nation's 4.6% 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. was 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 July 26, 2007:

Vision Statement:

Milwaukee Public Schools will be among the highest-performing urban public school Districts in the country, providing rigorous, high-quality learning opportunities for students. Schools will enable lifelong learning among students, families, educators and other staff focused on continuous improvement. Teaching will be child-centered, based on research-proven methods, and aligned to high academic standards; it will meet the learning needs of individual students. The District, its schools, and its employees will be accountable for measurable gains in student achievement.

Schools will be safe centers of community activity that are welcoming, well maintained, and accessible. Children will be provided maximum educational opportunities to become responsible citizens who make positive contributions to their communities. The District and its schools will strengthen partnerships with families and those in the community who influence and affect students and families.

Mission Statement:

Milwaukee Public Schools educates all students for success in higher education, careers and responsible citizenship so that MPS is the first choice for families.

Goals:

The goals of the Milwaukee Public Schools are:

1. Students meet and exceed Wisconsin academic standards and graduate prepared for higher education, careers and citizenship.
2. School communities work together for improvement in academic achievement.
3. Leaders and staff demonstrate continuous improvement through focused professional development.
4. School staffs are accountable for high quality teaching and learning, measurable gains in student achievement and fiscal responsibility.
5. School staffs are supportive and responsive to students and families.
6. The District is accountable for measurable results.
7. The District's central services departments support student learning.

8. The District builds partnerships to support student achievement.

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

Through continued implementation of District initiatives such as curriculum alignment, learning targets, Classroom Assessments Based on Standards (CABS), high school redesign, principal coaching, and efforts to reduce the achievement gaps, Milwaukee Public Schools (MPS) continued to improve its performance in many areas. Measurable success relative to supporting the mission, vision, and goals of MPS for 2006-07 is evident in many areas including the high school graduation rate, standardized test data and survey results.

The MPS high school graduation rate has steadily risen over each of the last six years, from 52% in 1999-2000 to 68% in 2005-06 (as reported by the state Department of Public Instruction), an increase of 16 percentage points. The District has closed the graduation gap with the state from 37 points to 21 points. MPS expects another rise in the high school graduation rate when 2006-07 data is reported.

This year's standardized test results illustrate that the District is moving forward in supporting all children in the quest for high academic achievement. The District has taken an aggressive approach to reducing many of the achievement gaps, both within the District, and between the District and the state. Standardized testing results for the District indicate that the strategies that are being applied are producing positive outcomes overall. Some of these strategies are continued curriculum alignment, professional development sessions for learning teams, principals, literacy coaches and mathematics lead teachers, the identification and implementation of research-proven teaching practices in all classrooms, and a model for evaluating Educational Plans and identifying/providing appropriate support.

MPS recorded significant increases in the percentage of its students scoring at/above the proficient level on the state's WKCE this past school year (2006-07). The District recorded overall proficiency increases (compared to the year before) in 5 of the 7 grades assessed in reading and 6 of 7 grades in mathematics. The District reduced the achievement gap between it and the state in 10 of the 14 grades assessed in reading and mathematics (grades 3,4,5,6,7,8,10) in 2006-07 compared to the year before. The greatest gains were posted in mathematics, where the District's focus is beginning to pay dividends in higher achievement. While more than two-thirds of all MPS schools recorded proficiency gains in reading and mathematics last school year, some of the greatest gains were posted by those schools that previously had the lowest attainment levels.

The District is focusing more of its resources on its lowest performing schools. It identified 23 schools for targeted assistance two years ago. Collectively, these schools recorded stronger proficiency gains than the District on the WKCE in reading and mathematics in 2006-07.

Responding to the need to better engage students to higher performance, the District is continuing to expand the number of K-8 schools. Eight years ago, K-8 schools accounted for about 10% of all middle grade enrollment. In 2006-07, they account for over 40%. Students in K-8 schools have generally higher attendance rates and lower behavioral incident levels.

Further responding to the needs at the high school level, the District is continuing to develop smaller learning environments for students to better engage them to higher performance. Eight years ago, 15 large high schools accounted for 90% of all high school enrollment. In 2006-07, 59 small high schools and small learning centers in

two comprehensive high schools account for over 35% of all high school enrollment. Smaller high schools have generally higher attendance rates and lower levels of behavioral incidents.

Student attendance at the District's high schools has steadily risen over the last 5 to 6 years. Nearly 90% of MPS parents surveyed rate their children's schools very highly (Agree or Strongly Agree) in terms of rigor, safety, environment of school and governance opportunities. The number of MPS Schools Identified for Improvement (SIFI) has steadily declined each year for the last five years, from 54 in 2002-03 to 32 in 2006-07.

District administration will continue to review the District's mission, vision, and goal areas, as well as standardized test data and survey results. This will assure alignment to District initiatives designed to support increased student achievement.

District Initiatives

The Milwaukee Public Schools strategic plan – Working Together, Achieving More – Action Plan to Improve Milwaukee Public Schools, 2007-2012, and the corresponding major initiatives supports the 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 is consistent with the MPS strategic plan, and forms the basis of the District's reform efforts.

The following provides a 2006-07 progress report relative to those District initiatives that represent the major priorities and direction of the District.

1. ***Student Achievement*** – During the 2006-07 school year, many factors supported increased student achievement for Milwaukee's children including the efforts of the Milwaukee Partnership Academy, full deployment of the No Child Left Behind Act (NCLB), the principal and literacy coach models, school learning teams, high school redesign, the capacity builders, and the District's core beliefs.

Through the support of the Milwaukee Partnership Academy, implementation of the Comprehensive Literacy and Mathematics Frameworks moved forward during the 2006-07 school year at a rapid pace. The Comprehensive Literacy Framework is in its fifth year of implementation and the Comprehensive Mathematics Framework is in its fourth year of implementation. The frameworks complement the District's reform efforts, and promote the development of Professional Learning Communities (PLCs) around literacy and mathematics at each school. The 2006-07 textbook adoption process for English Language Arts (grades 4-8) resulted in a groundbreaking inclusion of an on-line resource that will support instruction and assessment in a differentiated approach for various student levels. Additionally, assessment of the writing process has transitioned from a District level process to one that will institutionalize assessment at the school level. Schools are now more directly involved and have greater ownership of all aspects of this valuable assessment opportunity.

The No Child Left Behind Act of 2001 (NCLB) is the most recent reauthorization of the Elementary and Secondary Education Act (ESEA). It is based on four basic principles: stronger accountability, increased flexibility for local governments, more options for parents, and an emphasis on proven teaching methods. Milwaukee Public Schools has made significant progress within our Schools Identified for Improvement relative to NCLB. In 2002-03, 55 MPS schools were identified for improvement. In 2004-05, the number of schools identified was reduced to 43, in 2005-06, the total number of school identified for improvement was 34, and in 2006-07, the number of schools identified for improvement was 32. These improvements are in part related to the academic culture shift occurring throughout the District. This shift is due in part to such developments as the curriculum alignment process and the characteristics of the high performing urban classroom.

The characteristics of the high performing urban classroom (CHPUC) were researched and delineated in collaboration with the Milwaukee Partnership Academy. They explicitly clarify classroom attributes to guide teachers and others toward daily practices aligned to the Wisconsin Standards for Teacher Development, and have proven effectiveness in reducing achievement gaps. In 2006-07, principals and others were involved in curriculum walks to observe and document various aspects of CHPUC.

Assessment, student engagement, rigor, and instruction were among the topics addressed. The curriculum walks resulted in focused conversations and data collection relative to classroom practice. School-based Professional Learning Communities (PLCs) exemplified the CHPUC as they demonstrated extensive collaboration among colleagues as schools serving students in grades K-8 engaged in purposeful dialog analysis of student data, reflection of teaching practice, and review of student work while being engaged as adult learners in the selection of a mathematics textbook from the adopted options.

Graduation and post-graduation success was supported by such initiatives as the Milwaukee High School Redesign Initiative, the Student Healthcare Initiative and the MPS Comprehensive School Counseling Model. Implementation of this model in 2006-07 included implementation of School Counseling Learning Targets that articulate the state and national standards, and support the state and national model of a Comprehensive School Counseling Model that seeks to build capacity for the development of K-12 students for increased likelihood of promotion, academic success, graduation and the ability to exercise career options.

2. ***Leadership Support and Development*** – Processes and support systems to assure quality leadership in Milwaukee Public Schools were effective in 2006-07. Leadership supports and developments in Milwaukee Public Schools are essential to the District becoming a high achieving urban school District. The main purpose of leadership support and development is to ensure quality leadership in the Professional Learning Community (PLC) of a school. Leadership development is guided by the knowledge of curriculum and instruction, assessments of learning, effective instructional strategies that are best practices or research-proven, and the value of teamwork. Leadership supports are designed to support those entities in a manner that has direct impact on student learning and achievement.

The monthly principals' meeting during the 2006-07 school year focused on developing the instructional leadership skills and strategies of all school leaders. The meetings focused primarily on the characteristics of the high performing urban classroom, Robert Marzano's research on effective instructional strategies, and a District designed walkthrough tool that provided information regarding levels of student engagement, levels of understanding and application of the knowledge presented, assessment of understanding, and identification of effective instructional strategies – all within the learning process. Further, school leaders were provided with practical models and demonstrations to assist them in providing that same support at their school.

In order to support the District's goal of developing, recruiting and retaining high quality principals, the administration collaborated with a national organization – New Leaders for New Schools, to develop a partnership that will assure that the District remains on the cutting edge of leadership development. New Leaders for New Schools fosters high academic achievement for every child by attracting, preparing and supporting the next generation of school leaders for the nation's urban public schools. New Leaders for New Schools uses aggressive, best practice recruitment efforts. Candidates are chosen based on specific qualities and competencies, including an unyielding belief in all children's potential to excel academically, aptitude toward results-oriented strategic thinking, an understanding of effective classroom instruction, and the ability to build a collective responsibility. Six candidates were chosen as a result of the interview and selection processes of the organization and have been placed as assistant principals in MPS schools for the 2007-08 school year.

Other systems in place to support leadership development include the District's continued work with the Wisconsin Center for Education Research (WCER) to restructure the principal evaluation tool to include additional focus on instructional leadership. A study entitled, "Study of the Alignment and Effect of the MPS Principal Evaluation System" was also conducted during the 2006-07 school year. The purpose of the study was to investigate principal reactions to the evaluation system, assess its effectiveness in guiding principals' development and holding principals accountable for the performance measures the District values, and to explore the relationship between evaluation ratings and indicators of school performance.

3. ***Special Services Programs and Supports*** – Each year, the Department of Special Services conducts District wide professional development opportunities to increase the District's capacity to support the special learning needs of all students with disabilities in the general curriculum as well as to support students identified as at-risk in academic skill development. During the 2006-07 school year, the

department developed targeted professional development and support opportunities for teachers who support the unique needs of students with significant cognitive disabilities, severe emotional behavioral disabilities, autism spectrum disorders and early childhood. The department supported professional development throughout the District in reading intervention strategies for students with special needs, as well as training and support in the Wisconsin Knowledge and Concepts Examination (WKCE) assessment and administration of the Wisconsin Alternate Assessment (WAA). District wide training and support was offered for regular and special education teachers in the development of academic accommodations and supports for students with special needs and in supporting the implementation of functional behavioral assessments and behavioral intervention planning for students with behavioral challenges. Targeted training and support for paraprofessionals and handicapped children's assistants was focused on providing positive behavior support to students.

Training opportunities were widely offered to increase the capacity of staff and effectiveness of regular and special education classroom routines and social-emotional behavioral interventions to maximize student outcomes in all areas. School-wide support was offered in over 75 MPS schools through the Optimizing Support through Problem Solving (OSPS) program. Supports to building staff included training regarding processes for analysis of education issues (achievement, behavioral, etc.), development of plans for research and scientifically based interventions to address identified issues, and specific strategies for measuring and monitoring progress.

The District has contracted with Milwaukee County Wrap Around to support three MPS-dedicated Mobile Urgent Treatment Teams (MUTT) to support students in schools that are having significant mental health crisis issues. MUTT services include face-to-face crisis intervention, telephone consultation and support, professional development in the area of mental health intervention, and follow up crisis stabilization support.

The District has initiated the development of an MPS Social Emotional Learning Fundamentals (SELF) Program based on research-proven scientific methods. The SELF is a tool that is completed at the school level and provides an analysis of the school's needs in the area of social-emotional skills, education needs in the area of social-emotional fundamentals and an inventory of the resources available within the school. This information is then used to develop an action plan to address prevention and intervention in the area of social and emotional skills as needed.

The Special Education Oversight Action Plan (SOAP) includes multiple requirements for effective monitoring strategies of the District's compliance to the requirements of the Individuals With Disabilities Education Act (IDEA-2004). The following activities were successfully implemented during 2006-07: Continuous Improvement Focused Monitoring (CIFM), IEP timeline oversight, school-based service delivery staff caseload review, and the Parent Dispute Monitoring System (PDMS), which incorporates training and accountability through a technology-based monitoring system. The Parent Dispute Resolution System (PDRS) continues to be fully operational and supports the resolution of parent concerns and issues, with new reports developed to assist principals with follow through on parent concerns.

Collaboration between the Department of Special Services and the Wisconsin Department of Public Instruction (DPI) during 2006-07 supported the mission of the District. MPS and DPI worked together to revise the 2006-07 continuous improvement focused monitoring (CIFM) system to align with new IDEA-2004 standards. Results continue to demonstrate a significant increase in District wide compliance to both state and federal requirements. DPI continues to work with MPS and other Districts across the state to modify the statewide assessments for students with disabilities and to include life skills as part of the extended alternate state standards for students with disabilities.

4. ***Fiscal Responsibility*** – Resources continue to be aligned to the district's strategic intent while remaining fiscally responsible and good stewards of the taxpayers' resources. In order to achieve this, district administration continues to implement creative strategies to allow more dollars to flow directly to the classroom to provide students with the necessary academic support.

Increased fiscal responsibility has resulted in more efficient and effective operations for Milwaukee Public Schools. Savings continue to be realized in the areas of food service and transportation, and by reducing excess capacity in the District through the Community Engagement Process.

During 2006-07, the Office of Finance and Operations worked with the Government Finance Officers Association (GFOA) to develop a performance-based budgeting model for Milwaukee Public Schools. The 2008 budget included performance measures for central services departments and divisions, with performance measures for schools scheduled to be part of the 2009 budget. Full implementation of the performance-based budgeting model will track and report progress toward the goals of the strategic plan; provide a process for reviewing and updating its goals and objectives; and link available resources to support attainment of the goals. Performance based budgeting will result in higher levels of accountability for those charged with the responsibility of improving student achievement.

Milwaukee Public Schools continues to monitor grant resources to assure that the benefit of those dollars outweigh the costs and to ensure that the pursuit of funding does not take the District off course in pursuing its core goals.

5. ***Milwaukee High School Redesign Initiative*** – During the 2006-07 school year, the Milwaukee High School Redesign Initiative continued to focus on the development of a portfolio of high school options through which each student in Milwaukee is able to find a high school that meets their interests and needs. This focus launched the small learning communities using the First Things First framework at Bradley Tech and Pulaski and launched planning for the transition of this framework at Madison. The work at Madison is supported with an additional grant from the Bill & Melinda Gates Foundation of \$1 million.

Efforts of innovation to create new and more successful high school options for all young people in Milwaukee has resulted in many positive outcomes. ALAS High School reported the highest District success rate on Advanced Placement exams with 87% of students scoring 3 or higher, a score that makes a student eligible for college credit. For the second year, Community High School graduated 100% of its grade 12 students with 100% of these students enrolled in college or accepted into the military at the time of graduation. Ronald Reagan College Preparatory High School graduated its first class of International Baccalaureate students and continues to produce significant growth on grade 10 WKCE tests.

As the Milwaukee High School Redesign Initiative moves into its fifth and final year, the District continues to focus on supporting the new, small high schools, the schools implementing the First Things First framework, and the changes needed within central services to facilitate success. MPS joined the Stanford University LEADS network to better support the changes within central services and was awarded a \$4.8 million grant from the U.S. Department of Labor to continue and advance the work of improving high schools in Milwaukee. The Department of Labor grant will launch a project called “Futures First” to provide focus on creating safer learning environments and responding to young people most in need of educational support.

6. ***Student Healthcare Initiative*** – Students become healthy, life-long learners when they have access to health and wellness care that reduces health related barriers to learning. Health Services continues to work with both internal and external partners to standardize services, evaluate processes and outcomes, build capacity for health services and align with the MPS mission, vision, core beliefs and strategic plan to reduce health related barriers to learning.

Many of the health initiatives begun in the last few years have grown, while others have emerged to meet the growing health disparities that affect student achievement. The Milwaukee Student Health Initiative (MSHI) provided nursing services at a level comparable to the *Healthy People 2010* recommended ratios in 29 schools this year and is projected to serve a total of 41 in the 2007-08 school year. This expansion of nursing along with additional social work and psychology services creates interdisciplinary teams that effectively assess and meet complex student health needs. Significant successes include: improved immunization rates; an 87% return to class rate for students receiving nursing intervention for a health issue; and the improvement of the overall MPS nurse to student ratio to 1:2,647 from 1:8,500 (2003). A

rigorous formal evaluation is in progress to assess the MSHI impact on attendance and achievement as well as indicators for process improvement over the long term.

Partnerships continue to provide added value for health services and partners include: Aurora Health Care, Aurora Visiting Nurse Association, Children's Hospital and Health System, Columbia-St. Mary's Madre Angela Dental Clinic; Froedtert Memorial Lutheran Hospital, Medical College of Wisconsin, Milwaukee Health Department, UWM College of Nursing and many other colleges, universities and community partners. School nursing services were provided in 107 schools in conjunction with partners. In addition, School Nutrition Services has supported student health with the Student Nutrition and Wellness policy as well as universal free breakfast in the classroom.

Improving service and leveraging partnerships to impact student health has resulted in an expansion of the oral health prevention program to include restorative care, a "universal" electronic health record that follows students between schools and school health providers, and an expansion of the Heartsafe Schools program that will have all MPS locations equipped with an automatic external defibrillator (AED) by the end of next year. The Heartsafe Schools program was responsible for saving three lives this year alone, and adds an extra dimension of health and safety for our entire community.

ACCOUNTING SYSTEM

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

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

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

BUDGETARY CONTROL

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

In accordance with the Wisconsin Department of Public Instruction's reporting requirements, the Board exercises control over budgeted amounts at the responsibility center level within the general, special revenue, and debt service funds. The capital projects fund is controlled at the project level. Additional budgetary control is maintained through the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders that exceed available budgetary balances are not released until additional funds are transferred to cover the purchase order. Encumbrances that remain at June 30, 2007, 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 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 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. Additionally, at year-end, both encumbrance and budgetary authority necessary to offset the encumbrance may be automatically carried over to the next year. Annual Board approval for carryover of encumbrances is not required.

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.

LONG TERM FINANCIAL PLANNING

The District long-term financial target is to increase resources used to support instruction and instructional support to 65% compared to state-wide average of 62.97% by 2012. Each half percent of the District's budget equals approximately \$5.8 million. Additionally, the District will work with local, state and federal lawmakers to ensure appropriate funding for K-12 education in general and for specific programs including Student Achievement Guarantee in Education program (SAGE), 21st Century Community Learning Centers and special education; and work to protect Milwaukee taxpayers from inequitable fiscal policies, such as the funding flaw in the Milwaukee Parental Choice Program.

CASH MANAGEMENT

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

- Time deposits
- Bonds or securities issued or guaranteed as to principal and interest by the federal government or its agencies
- The State of Wisconsin local government pooled investment fund
- Bonds or securities of any county, city, drainage District, vocational, technical college, village, town, District in Wisconsin, local exposition District, local professional baseball park District, or University of Wisconsin Hospitals and Clinics Authority
- Fully collateralized repurchase agreements
- Any security that matures within 7 years and has a credit rating which is the highest or second highest rating assigned by Standard & Poor's corporation, Moody's investor service, or other similar nationally recognized rating agencies.
- No-load securities of open-end registered management investment companies or investment trusts

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

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

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, 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, 2007 totaled \$429,641,890. Of this total, \$87,593,389 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 \$342,048,502 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations. 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 Virchow, Krause and Co., 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, 2007, 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, Virchow, Krause and Co., 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, 2006. 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	Tim Petersons	12023 W. Rio Street (53225)	April, 2011
2	Jeff Spence	3180 N. Colonial Drive (53222)	April, 2011
3	Michael Bonds	3519 N. 50 th Street (53216)	April, 2011
4	Charlene Hardin	1538 W. Hadley Street (53206)	April, 2009
5	Jennifer Morales	723 E. Brady Street (53202)	April, 2009
6	Peter Blewett	2750 N. 45 th Street (53210)	April, 2009
7	Danny Goldberg	4902 W. Kinnickinnic River Pkwy (53220)	April, 2009
8	Terrence Falk	2978 S. Wentworth Avenue (53207)	April, 2011
At-Large	Bruce Thompson	2837 N. Marietta Avenue (53211)	April, 2011

President – Peter Blewett
 Vice President – Jeff Spence
 Superintendent of Schools – William G. Andreopoulos
 Director, Office of Board Governance/Board Clerk – Lynne A. Sobczak

STANDING COMMITTEES

INNOVATION/SCHOOL REFORM COMMITTEE

Directors Morales (Chair), Goldberg (Vice-chair), Bonds, Falk, Petersons

LEGISLATION, RULES AND POLICIES COMMITTEE

Directors Blewett (Chair), Falk (Vice-chair), Hardin, Petersons, Thompson

FINANCE/PERSONNEL COMMITTEE

Directors Bonds (Chair), Petersons (Vice-chair), Blewett, Hardin, Morales

STRATEGIC PLANNING AND BUDGET COMMITTEE

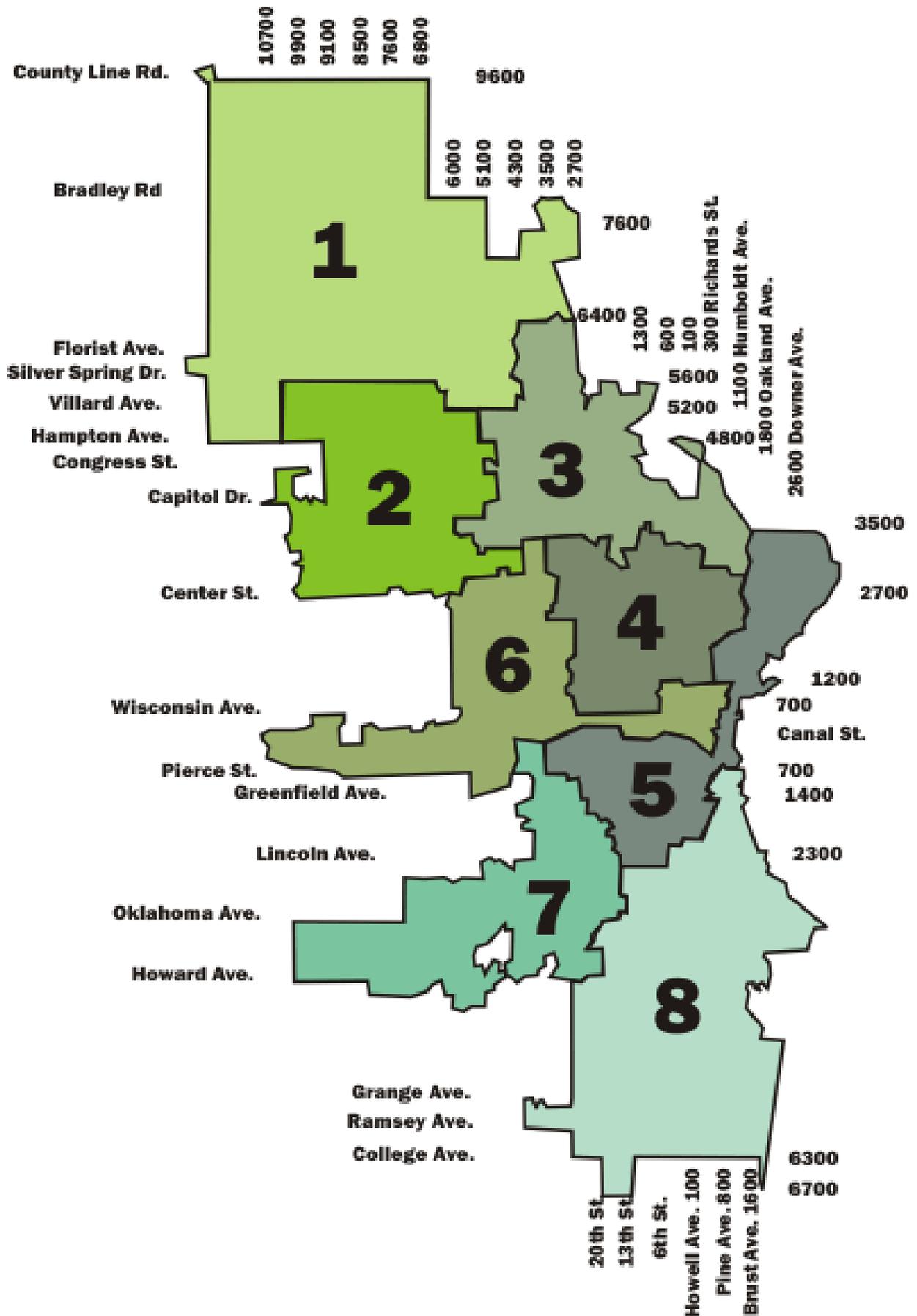
Directors Blewett (Chair), Spence (Vice-chair), Falk, Goldberg, Hardin,
Morales, Petersons, Thompson

SPECIAL EDUCATION COMMITTEE

Directors Spence (Chair), Thompson (Vice-chair), Falk, Goldberg, Hardin

SAFETY AND CLIMATE COMMITTEE

Directors Hardin (Chair), Bonds (Vice-chair), Blewett, Morales, Spence



**MILWAUKEE PUBLIC SCHOOLS
ADMINISTRATIVE OFFICERS**

SUPERINTENDENT OF SCHOOLS

Mr. William G. Andrekopoulos

Chief School and Community Support

Dr. Aquine Jackson

Executive Director, Human Resources

Ms. Deborah Ford

Chief Financial and Operations Officer

Ms. Michelle J. Nate

Director, Instructional Leadership and Support

Ms. Arleen Dansby

Director of Special Services

Ms. Patricia Yahle

Citizens of Milwaukee

Board of School Directors

Superintendent of Schools

Office of Board Governance

- Audit/Review Services
- Board/Information Services
- Clerk Services

Office of the Superintendent

- Department of Administrative Accountability
- Division of Communications & Public Affairs
- Department of Special Services

Office of School and Community Support

- Department of Parent and Student Services
- Department of School Innovation
 - High School Redesign Services
 - Division of Diversified Community Schools
- Division of School/Community Recreation
- Division of School Safety
- Career & Technical Education Services
- Title I Services – Parent Involvement

Office of Instructional Leadership and Support

- Division of Research & Assessment
- Division of Teaching and Learning
- Division of Bilingual/Multicultural Education
- Division of Early Childhood Services
- Title I Services – Coordination
- Professional Development Services

Department of Human Resources

- Certificated Staffing Services
- Classified Staffing Services
- Compensation Services
- Division of Benefits & Insurance
- Division of Labor Relations
- Employment Compliance Services

Office of Finance & Operations

- Accounting, Purchasing, & Payroll Services
- Budget Services
- Division of Diversity & Community Engagement
- Division of School Business Services
- Division of Facilities & Maintenance
- Division of Technology
- Grant Development Services
- Legislative Affairs Services
- Pupil Transportation Services
- School Nutrition Services

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, 2006.

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, 2006

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



President

Executive Director

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Milwaukee Public Schools
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Milwaukee Public School ("District") as of and for the year ended June 30, 2007, 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 the *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, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2007, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information and schedules of funding progress on pages 3 through 14 and pages 67 through 71 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Milwaukee Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual 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 financial and statistical information listed in the accompanying table of contents under "Introductory Section and Statistical Section" is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. The information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such information.

Vielow, Krause + Company, LLP

Milwaukee, Wisconsin
December 11, 2007

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

INTRODUCTION

This discussion and analysis of the financial performance of Milwaukee Public Schools (MPS or the District) provides an overview of the District's financial activities for the fiscal year ended June 30, 2007. The intent of the management discussion and analysis is to look at the financial performance of MPS as a whole. It should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

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

- Total net assets of MPS decreased to \$386.0 million at June 30, 2007 from \$386.2 million at June 30, 2006, a decrease of \$0.266 million, or less than 0.1%.
- Total revenues remained flat at \$1.146 billion in fiscal year 2007, the same as fiscal year 2006.
- Total expenses increased to \$1.147 billion, up from \$1.127 billion for the year ended June 30, 2006, an increase of 1.8%.

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

- Total fund balances of the District's governmental funds decreased \$17.4 million in the 2007 fiscal year. This decrease resulted primarily from an \$18.5 million decline in the Construction Fund. The Construction Fund decline resulted from timing differences where revenues received in prior years were used for cyclical and major maintenance projects, school renovation projects, and the completion of construction projects at the Congress, Craig, and Fratney schools. In addition, \$5.1 million of Neighborhood School Initiative (NSI) bonds was retired using bond proceeds from prior years.
- Total fund balances for all governmental funds at June 30, 2007 were \$119.3 million. Of this amount, \$34.4 million was reserved for encumbrances, \$0.7 million was reserved for inventories, \$33.5 million was reserved for self-insurance and prepaid expenditures, \$6.4 million was reserved for a School Nutrition deficit, \$22.3 million was reserved for debt service and \$22.0 million remains unreserved.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

2. Basic Financial Statements

- Government-wide Financial Statements
 - Statement of Net Assets
 - Statement of Activities

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

- 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, 2007. 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, 2007

(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	- Statement of net assets - Statement of activities	- Balance sheet - Statement of revenues, expenditures, and changes in fund balance	- Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resource focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets consumed and liabilities due in the current year, or soon after; no capital assets	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses occurring during the year, regardless when cash is received or paid	Revenues when cash is received by year-end, or soon after; expenditures when goods and services have been received and payment is due by year-end, or soon after	All revenues and expenses occurring during the year, regardless of when cash is received or paid

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

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

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Statement of Net Assets

MPS ended its fiscal year with net assets of \$386.0 million, of which \$473.6 million was invested in capital assets (net of related debt), \$14.5 million was restricted, and (\$102.1) million was an unrestricted deficit. The primary cause of the unrestricted deficit is the pension liability of approximately \$168.7 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 future employee pension benefits already granted through collective bargaining will be provided.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

Table 2

MILWAUKEE PUBLIC SCHOOLS

Condensed Statement of Net Assets

(in thousands)

	Government-wide activities		
	2007	2006	Difference
Capital assets, net	\$ 641,008	\$ 633,895	\$ 7,113
Noncapital assets	199,143	221,827	(22,684)
Total assets	<u>840,151</u>	<u>855,722</u>	<u>(15,571)</u>
Current liabilities	88,425	92,834	(4,409)
Noncurrent liabilities	365,752	376,648	(10,896)
Total liabilities	<u>454,177</u>	<u>469,482</u>	<u>(15,305)</u>
Net assets:			
Invested in capital assets, net of related debt	473,613	481,469	(7,856)
Restricted	14,473	12,000	2,473
Unrestricted (deficit)	(102,111)	(107,229)	5,118
Total net assets	<u>\$ 385,974</u>	<u>\$ 386,240</u>	<u>\$ (266)</u>

A reclassification has been made to the 2006 net assets adding \$10.2 million to restricted net assets and reducing unrestricted net assets by the same amount to be consistent with the 2007 reporting.

Total net assets decreased by \$266 thousand over the prior year. Current assets declined \$13.2 million, including a \$7.6 million reduction in the 'due from other governments' account which is the result of timing differences between when goods and services were received and when reimbursement will occur. Restricted cash and investments were down \$10.6 million, in part the result of using \$6.0 million to fund construction projects, and another \$5.0 million to retire NSI debt. The reduction in current liabilities shown in Table 2 is largely attributable to an \$8.9 million decrease in accrued salaries and wages which is dependent upon the year-end payroll calendar. The decrease in noncurrent liabilities resulted from debt reductions outpacing debt additions in fiscal year 2007.

Statement of Activities

Table 3 shows that on a government-wide basis, the District ended fiscal year 2007 with a decrease in net assets of \$266 thousand, compared to an increase of \$19.4 million in fiscal year 2006.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

Table 3

MILWAUKEE PUBLIC SCHOOLS

Schedule of Revenues and Expenses

(in thousands)

	Government-wide activities		
	2007	2006	Difference
Program revenues:			
Charges for services	\$ 15,447	\$ 16,327	\$ (880)
Operating grants and contributions	230,623	247,538	(16,915)
Capital grants and contributions	5,371	9,760	(4,389)
Total program revenues	<u>251,441</u>	<u>273,625</u>	<u>(22,184)</u>
General revenues:			
Property taxes	230,346	213,868	16,478
Other taxes	2,370	0	2,370
Federal and state aid	657,837	655,824	2,013
Interest and investment earnings	3,536	2,823	713
Miscellaneous	917	0	917
Total general revenues	<u>895,005</u>	<u>872,516</u>	<u>22,489</u>
Total revenues	<u>1,146,446</u>	<u>1,146,141</u>	<u>305</u>
Expenses:			
Instruction	676,036	664,464	11,572
Community services	20,110	23,271	(3,161)
Pupil and staff services	122,203	117,139	5,064
General administration	111,430	112,658	(1,228)
Business services	162,219	155,889	6,330
School nutrition	36,516	32,793	3,723
Interest on long-term debt	18,131	20,176	(2,045)
Other	67	346	(279)
Total expenses	<u>1,146,712</u>	<u>1,126,737</u>	<u>19,975</u>
Increase (decrease) in net assets	<u>\$ (266)</u>	<u>\$ 19,404</u>	<u>\$ (19,670)</u>

A reclassification has been made to the 2006 revenues adding \$9.382 million to program revenues and reducing general revenues by the same amount to be consistent with the 2007 reporting.

- Total revenues remained flat over the prior year as a \$22.2 million reduction in program revenues was offset by an \$18.8 million increase in taxes, a \$2.0 million rise in federal and state aid, and \$1.6 million in additional local revenues. The fiscal year 2007 budget included a \$22.2 million reduction in categorical program revenues, while property taxes were budgeted at the maximum amount allowed under the state-imposed revenue limit.
- Total expenses grew by \$20.0 million, or 1.8%. This growth in expenses is primarily attributable to increases in instruction (\$11.6 million) and business services (\$6.3 million). The rise in instruction costs in large part is attributable to an increase in special education direct instruction costs. The fiscal 2007 budget for direct instruction costs was \$8.1 million higher than the fiscal 2006 budget. With respect to business services, \$5.2 million, or

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

approximately 83% of the growth is due to increases in the cost of gas and electric utilities. The increased costs are attributable to higher utility rates.

Capital Assets

Table 4 shows that at June 30, 2007, MPS had \$1.045 billion invested in capital assets including land, buildings, leasehold improvements, furniture and equipment, and software. This amount represents a net increase of \$24.8 million from the previous year. The increase is the result of a \$62.0 million rise in the value of the buildings account which coincided with a \$68.1 million decrease in construction in progress during fiscal year 2007. The construction work in progress included various construction and cyclical maintenance projects.

The building account had decreases of \$6.1 million primarily due to the demolition of the old Milwaukee Tech and Trade school which was replaced in fiscal year 2004 by the Bradley Technology and Trade school. Likewise, the \$4.9 million decrease in accumulated depreciation is primarily attributable to the demolition of the old Milwaukee Tech. More detailed information can be found in Table 4 and in Note 5 to the District's financial statements.

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	\$ 31,461	\$ 37	\$ —	\$ 31,498
Construction in progress	52,247	30,041	68,099	14,190
Buildings	856,175	68,099	6,105	918,169
Leasehold improvements	6,083	—	—	6,083
Furniture and equipment	47,805	1,823	1,435	48,193
Software	25,977	413	—	26,390
Total capital assets	<u>1,019,750</u>	<u>100,413</u>	<u>75,639</u>	<u>1,044,522</u>
Accumulated depreciation	<u>(385,855)</u>	<u>(22,581)</u>	<u>(4,921)</u>	<u>(403,514)</u>
Totals	<u>\$ 633,895</u>	<u>\$ 77,832</u>	<u>\$ 70,718</u>	<u>\$ 641,008</u>

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

Long-term Debt

Long-term debt at June 30, 2007 was \$342.0 million. This represents a net decrease of \$11.4 million from the prior year. Issuances during the year were \$30.9 million, while retirements were \$42.3 million. Issuances included \$29.8 million of Neighborhood School Initiative bonds to advance refund NSI debt, and \$1.1 million of Qualified Zone Academy Bond debt to fund capital improvements at various MPS schools.

In fiscal year 2007 the District also paid off \$34.8 million in Neighborhood School Initiative debt, \$3.1 million in capital leases, and \$2.4 million in QZAB debt. The NSI retirement included both a \$29.3 million advance refunding, and the retirement of \$5.1 million of principal. The QZAB retirement marked the end of the first QZAB financing initiated in fiscal year 2002.

Table 5

MILWAUKEE PUBLIC SCHOOLS

Change in Long-term Debt and Capital Lease Obligations

(in thousands)

	<u>July 1, 2006</u>	<u>Issuances</u>	<u>Retirements</u>	<u>June 30, 2007</u>
Governmental activities:				
Americans with Disabilities				
Act loans	\$ 10,448	\$ —	\$ 848	\$ 9,600
TEACH loan	8,408	—	1,896	6,511
Neighborhood School				
Initiative bonds	113,097	29,849	34,766	108,181
Qualified Zone Academy bonds	11,249	1,078	2,429	9,898
Financial and Student				
Tracking note	3,727	—	1,331	2,396
Pension refinancing debt	166,448	—	(2,254)	168,703
Capital leases	39,565	—	3,095	36,470
Other intergovernmental debt	522	—	232	290
Total debt	<u>\$ 353,464</u>	<u>\$ 30,927</u>	<u>\$ 42,343</u>	<u>\$ 342,049</u>

The District also reduced TEACH loans outstanding in the 2007 fiscal year. The TEACH wiring loan program is sponsored by the state of Wisconsin and provides loans to schools and libraries for the purpose of installing the telecommunications wiring infrastructure necessary to provide local area networking and internet connections. This program offers a significant benefit to MPS in that one-half the amount borrowed is immediately forgiven by the state. MPS has entered into two TEACH loan agreements with the state totaling \$15,144,033.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

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

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

The financial and student-tracking debt is being used to fund the purchase and implementation of two software applications acquired in fiscal year 2003, 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 bonds on behalf of the District to refund pension-related debt for the Wisconsin Retirement System totaling \$165,505,293. In June 2006, MPS spent \$5.9 million to retire \$8.5 million of face value pension-related capital appreciation notes.

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

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 year-end general fund balance increased \$1.3 million over the prior year-end. This increase in large part is the result of health care costs coming in lower than budgeted in fiscal year 2007.
- The construction fund balance decreased by \$18.5 million due primarily to timing differences attributable to current year spending of bond proceeds received in prior years for construction projects related to the Neighborhood School Initiative and the Congress, Craig, and Fratney schools, and to major remodeling and cyclical maintenance projects.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(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 principles generally accepted in the United States of America for the general, construction, and other non-major governmental funds. Annual unencumbered appropriations lapse at fiscal year-end.

In May 2006, the MPS Board of School Directors (the Board) adopted the District's fiscal 2007 budget (July 1, 2006 – June 30, 2007). The adopted budget by necessity used a *projection* of the fiscal 2007 student enrollment. In October 2006, the Board amended the budget to take into account the *actual* student enrollment as measured on the third Friday in September 2006, as required by Wisconsin State Statute. The October amendment process is important to MPS in that its two principal revenue sources, state general aids and property taxes, are predicated on actual MPS enrollment.

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

In October 2006, the Board approved a revised 2007 fiscal year General Fund expenditure budget in the amount of \$1,115,860,742 including prior year encumbrances and carryover authority.

General Fund expenditures came within 0.2% of the adopted budget.

On May 16, 2007 a fire broke out at Benjamin Franklin Elementary School and caused an estimated \$ 3,898,000 in damages. Fire insurance is expected to cover the cost of repairs above the District's \$50,000 deductible. Students at Franklin Elementary finished the 2006-2007 school year at the MPS North Division Multiplex. Franklin Elementary re-opened at the beginning of the 2007-2008 school year with repairs complete except for the school library and auditorium which are expected to open in January 2008.

Current Economic Facts and Next Year's Budget

District enrollment declined 2.7% in fiscal year 2007 due to demographics and competition from both private and public schools. The Wisconsin State Legislature raised the maximum participation limit in the Milwaukee Parental Choice Program (school vouchers) which negatively impacted the Milwaukee Public Schools enrollment. As a result of the enrollment decline and excess building capacity, the MPS Board of School Directors closed four school facilities. In the previous year MPS closed six schools.

In October 2007, the MPS Board approved a revised 2008 fiscal year General Fund budget of \$1,126,565,684 including prior year encumbrances and carryover authority. This represents an increase of \$10.7 million over the revised 2007 general fund budget.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

The state-imposed revenue limit for fiscal year 2008 increased to \$871,521,637, a 1.8% rise over 2007. State general aids decreased 4.2% to \$605,239,961 as factors included in the state's equalization aid formula negatively affected MPS. Critical factors in the formula are property values and student enrollment, both of which worked against the District for 2008 as Milwaukee property values increased while student enrollment decreased. As a result, Milwaukee's equalized value per pupil increased 19.1% versus the state-wide average increase of 9.4%, causing the District's equalization aid to decline. To limit the effect on Milwaukee property taxpayers, the Board of School Directors voted not to increase the District's property tax levy by the full amount allowed under the revenue limit. The Board adopted a 2008 all funds property tax levy of \$251,077,130, a 9.0% increase over the 2007 levy, but \$15,294,192 below the limit allowed.

The 2008 budget includes, for the first time, a \$1.5 million Talent Development Fund to preserve art, music, and career and technical education programs. Also included is \$750,000, to be matched dollar for dollar by community organizations, to create "violence-free zones" with the Center for Neighborhood Enterprise (CNE) at five schools. CNE will provide grassroots organizations with the technical assistance they need to help stem violence in school communities.

The 2008 budget meets the fundamental needs of the District's high-poverty student population while protecting the District's fundamental need for orderly classrooms. The budget funds 12 additional school nurses, a psychologist, and a social worker to expand MPS' health initiative from 30 to 42 schools. It adds an additional eight social workers and eight psychologists to assist with the District's growing population of students with emotional behavior problems. The budget includes 50 seats for students with the most severe behavioral disorder problems.

The 2008 budget provides \$2 million to maintain the increased security efforts implemented in fiscal year 2007, so children and staff know they will be safe in school. The District will continue its school resource officer programs at Bradley tech and the Custer cluster, will continue to fund 10 additional safety aides to serve schools, and will continue to contract with Milwaukee County for mental health crisis intervention and support. The District will also invest \$1 million in Community Wellness Centers at MPS Community Learning Centers (CLCs) so that students and their families can learn about healthy habits and the importance of physical activity, and will put another \$2 million toward CLCs to compensate for the loss of federal funding. The budget includes \$1 million to provide universal free breakfast at qualifying schools so that children begin their day fed and ready to learn.

The problems MPS students face are reflected in the changing composition of MPS staff. As has been the case in the past few years, the number of total staff members will be down, 1.7% in fiscal year 2008. There will be fewer principals, assistant principals, teachers, and food service workers – there will be more social workers, psychologists, social work assistants and handicapped child assistants. The District will be adding 62 special education positions, and board-funded special education costs will increase approximately \$13 million.

MPS continues to cut costs. The District reduced central services \$29 million since fiscal year 2001. For fiscal year 2008 MPS distributed \$1.9 million to schools from the savings achieved by closing three schools in July 2007. During fiscal year 2007, four schools were closed, allowing the District to distribute \$3.8 million.

MILWAUKEE PUBLIC SCHOOLS

Management's Discussion and Analysis

June 30, 2007

(Unaudited)

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, 2007

		<u>Governmental activities</u>
Assets		
Current assets:		
Cash and investments (note 2)	\$	56,675,844
Accounts receivable, net (note 3)		11,635,788
Due from other governments (note 3)		52,678,515
Inventory (note 1(g))		712,882
Prepaid expenses (note 1(g))		29,324,264
Total current assets		<u>151,027,293</u>
Noncurrent assets:		
Restricted cash and investments (note 1(d))		41,182,442
Deposits for self-insurance (note 1(l))		4,155,721
Deferred charges—bond issuance costs (note 1(m))		2,777,347
Capital assets not being depreciated (note 5)		45,687,766
Capital assets being depreciated, net (note 5)		595,320,697
Total noncurrent assets		<u>689,123,973</u>
Total assets		<u>840,151,266</u>
Liabilities		
Current liabilities:		
Accounts payable and other current liabilities		63,671,331
Accrued interest payable on long-term liabilities		4,307,482
Unearned revenue (note 1(i))		5,822,670
Current portion of long-term obligations (note 7)		14,623,788
Total current liabilities		<u>88,425,271</u>
Noncurrent liabilities:		
Noncurrent portion of long-term obligations (note 7)		365,751,915
Total liabilities		<u>454,177,186</u>
Net Assets		
Invested in capital assets, net of related debt		473,612,564
Restricted for debt service		14,472,771
Unrestricted		(102,111,255)
Total net assets	\$	<u><u>385,974,080</u></u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Activities

Year ended June 30, 2007

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net (expenses) revenues and changes in net assets</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>		<u>Capital grants and contributions</u>
Governmental activities:					
Instruction	\$ 676,036,401	8,224,655	187,252,284	5,371,128	(475,188,334)
Support services:					
Community services	20,110,243	2,934,878	6,031,898		(11,143,467)
Pupil and staff services	122,202,632	—	3,679,418	—	(118,523,214)
General, administration, and central services	111,430,021	—	—	—	(111,430,021)
Business services	162,219,265	296,678	2,779,926	—	(159,142,661)
School nutrition services	36,515,840	3,991,342	30,879,192	—	(1,645,306)
Interest on long-term debt	18,130,489	—	—	—	(18,130,489)
Other	67,439	—	—	—	(67,439)
Total support services	470,675,929	7,222,898	43,370,434	—	(420,082,597)
Total school district	\$ 1,146,712,330	15,447,553	230,622,718	5,371,128	(895,270,931)
General revenues:					
Taxes:					
Property taxes levied for general purposes					192,891,583
Property taxes levied for construction					14,580,539
Property taxes levied for debt service					13,546,414
Property taxes levied for community services					9,327,455
Other Taxes					2,369,741
Federal and state aid not restricted to a specific purpose:					
General (equalization aid)					586,583,661
Other					71,253,170
Miscellaneous					916,544
Interest and investment earnings					3,535,723
Total general revenues					895,004,830
Change in net assets					(266,101)
Net assets—Beginning of Year					386,240,181
Net assets—Ending of Year					\$ 385,974,080

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2007

Assets	General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Deposits with the City of Milwaukee and other cash (note 2)	\$ 46,745,742	9,930,102	—	—	56,675,844
Receivables, net:					
Accounts (note 3)	11,635,788	—	—	—	11,635,788
Due from other governmental units (note 3)	42,525,335	—	4,830,798	5,322,382	52,678,515
Due from other funds (note 4)	29,907,095	—	—	2,178,495	32,085,590
Total receivables	84,068,218	—	4,830,798	7,500,877	96,399,893
Restricted cash and investments (note 1(d))	18,884,493	22,297,949	—	—	41,182,442
Inventories (note 1(g))	712,882	—	—	—	712,882
Prepaid expenditures (notes 1(g))	29,324,264	—	—	—	29,324,264
Deposits for self-insurance (note 1(l))	4,155,721	—	—	—	4,155,721
Total assets	\$ 183,891,320	32,228,051	4,830,798	7,500,877	228,451,046
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 10,919,001	1,105,917	701,129	—	12,726,047
Contracts payable	83,845	1,999,954	—	—	2,083,799
Accrued salaries and wages	8,892,385	—	—	—	8,892,385
Deferred revenue (note 1(j))	13,396,781	—	—	—	13,396,781
Accrued claims for self-insurance (note 9)	36,048,530	—	—	—	36,048,530
Accrued pension payable (note 10)	3,909,043	—	—	—	3,909,043
Other accrued expenditures	11,527	—	—	—	11,527
Due to other funds (note 4)	—	16,240,765	10,522,443	5,322,382	32,085,590
Total liabilities	73,261,112	19,346,636	11,223,572	5,322,382	109,153,702
Fund balances:					
Reserved for:					
Encumbrances	23,649,118	10,732,850	—	—	34,381,968
Inventories	712,882	—	—	—	712,882
Self-insurance deposits and prepaid expenditures	33,479,985	—	—	—	33,479,985
School Nutrition	6,392,774	—	—	—	6,392,774
Debt service	18,884,493	3,477,205	—	—	22,361,698
Unreserved:					
Designated by board for subsequent year's expenditures (note 8)	27,510,956	—	—	—	27,510,956
Undesignated, reported in:					
Capital projects fund	—	(1,328,640)	—	—	(1,328,640)
Special revenues funds	—	—	(6,392,774)	2,178,495	(4,214,279)
Total fund balances	110,630,208	12,881,415	(6,392,774)	2,178,495	119,297,344
Total liabilities and fund balances	\$ 183,891,320	32,228,051	4,830,798	7,500,877	228,451,046

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, 2007

Total fund balances—governmental funds		\$ 119,297,344
Amounts reported for governmental activities in the statement of net assets are different because:		
Bond costs of issuance are capitalized at the government-wide level and amortized over the life of the related bonds		2,777,347
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:		
Cost of capital assets	\$ 1,044,522,687	
Accumulated depreciation	(403,514,224)	
Net capital assets		641,008,463
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		7,574,111
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	(416,989,918)	
Bonds premium, discounts and loss on refunding	1,364,169	
Discount on capital appreciation bonds	110,047,247	
Capital leases payable	(36,470,000)	
Accrued bond interest payable	(4,307,482)	
Compensated absences payable (vacation and sick leave)	(30,477,382)	
Workers' compensation claims payable	(4,328,798)	
Self-insurance claims payable	(1,136,405)	
Life insurance benefits and other long-term liabilities	(2,384,616)	
Total long-term debt liabilities		(384,683,185)
Total net assets—government activities		\$ <u>385,974,080</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, 2007

	General	Construction	School Nutrition Services	Nonmajor governmental funds	Total governmental funds
Revenues:					
Property tax levy	\$ 203,124,231	14,580,539	—	12,641,221	230,345,991
Other taxes	291,341	—	—	—	291,341
Lunchroom sales	—	—	3,875,772	—	3,875,772
Other local sources	11,294,054	299,500	115,544	20,246	11,729,344
State aid:					
Equalization aid	586,583,661	—	—	—	586,583,661
Special classes	39,265,952	—	—	—	39,265,952
Integration	45,208,452	—	—	—	45,208,452
Other state aid	49,850,506	—	626,353	948,129	51,424,988
Federal aid:					
Education Consolidation Improvement Act	70,566,992	—	—	—	70,566,992
School nutrition services	—	—	30,114,964	—	30,114,964
Erate refunds	976,664	685,019	—	—	1,661,683
Other federal aid	43,114,005	—	137,869	25,761,800	69,013,674
Miscellaneous	916,544	—	—	—	916,544
Interest and investment earnings	1,979,041	1,556,680	—	—	3,535,721
Total revenues	<u>1,053,171,443</u>	<u>17,121,738</u>	<u>34,870,502</u>	<u>39,371,396</u>	<u>1,144,535,079</u>
Expenditures:					
Instructional services:					
Undifferentiated curriculum	420,196,158	—	—	—	420,196,158
Regular and other curriculum	113,231,381	—	—	—	113,231,381
Special curriculum	122,663,028	—	—	4,235,368	126,898,396
Total instructional services	<u>656,090,567</u>	<u>—</u>	<u>—</u>	<u>4,235,368</u>	<u>660,325,935</u>
Community services	20,022,461	—	—	—	20,022,461
Pupil and staff services	98,509,411	—	—	21,546,678	120,056,089
General and school building administration	109,867,741	—	—	—	109,867,741
Business services	160,817,367	27,701,230	—	—	188,518,597
School nutrition services	—	—	35,782,244	—	35,782,244
Debt service:					
Principal	3,327,450	5,100,000	—	6,503,841	14,931,291
Interest	1,568,747	4,897,374	—	7,960,491	14,426,612
Bond issuance cost	8,612	—	—	617,037	625,649
Total expenditures	<u>1,050,212,356</u>	<u>37,698,604</u>	<u>35,782,244</u>	<u>40,863,415</u>	<u>1,164,556,619</u>
Excess of revenues over (under) expenditures	<u>2,959,087</u>	<u>(20,576,866)</u>	<u>(911,742)</u>	<u>(1,492,019)</u>	<u>(20,021,540)</u>
Other financing sources (uses):					
Proceeds from qualified zone academy bonds	—	1,078,100	—	—	1,078,100
Transfers In (Out)	(1,678,776)	—	1,678,776	—	—
Insurance Proceeds from Fire	—	1,000,000	—	—	1,000,000
Refunding bond debt issued	—	—	—	31,865,000	31,865,000
Payment for refunded bond debt	—	—	—	(30,982,607)	(30,982,607)
Discount on debt issued	—	—	—	(338,503)	(338,503)
Total other financing sources (uses), net	<u>(1,678,776)</u>	<u>2,078,100</u>	<u>1,678,776</u>	<u>543,890</u>	<u>2,621,990</u>
Net change in fund balances	<u>1,280,311</u>	<u>(18,498,766)</u>	<u>767,034</u>	<u>(948,129)</u>	<u>(17,399,550)</u>
Fund balances:					
Beginning of year	109,349,897	31,380,181	(7,159,808)	3,126,624	136,696,894
End of year	<u>\$ 110,630,208</u>	<u>12,881,415</u>	<u>(6,392,774)</u>	<u>2,178,495</u>	<u>119,297,344</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, 2007

Net change in fund balances—total governmental funds		\$ (17,399,550)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense		
Capital outlay reported in governmental fund statements	\$ 32,314,085	
Depreciation expense reported in the statement of activities	<u>(22,580,827)</u>	
Amount by which capital outlays are greater than depreciation in the current period		9,733,258
The net effect of miscellaneous transactions involving capital assets donated to the District that increases net assets		7,000
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and disposals) is to increase net assets		(2,626,326)
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		904,149
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	(32,943,100)	
Refunded debt	<u>29,260,000</u>	
Repayments:		
Bonds and notes	44,191,293	
Loss & discount on refunding	2,015,677	
Refunded debt	<u>(29,260,000)</u>	
Net adjustment		13,263,870
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	(1,172,442)	
Accretion of interest on capital appreciation bonds	(2,254,311)	
Amortization of bond premium, discount and deferred refunding	405,961	
Amortization of bond issuance costs	(582,018)	
Debt issuance costs on refunding	566,367	
Net increase in compensated absences payable (vacation and sick pay)	(469,036)	
Net increase in workers' compensation claims payable	(18,220)	
Net increase in general insurance claims payable	(509,475)	
Net increase in life insurance benefits payable	<u>(115,328)</u>	
Net adjustment		<u>(4,148,502)</u>
Change in net assets of governmental activities		<u>\$ (266,101)</u>

See accompanying notes to basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Statement of Fiduciary Net Assets

June 30, 2007

Assets	Pension trusts	Private purpose trust	Agency
	<u> </u>	<u> </u>	<u> </u>
Deposits with City of Milwaukee and other cash (note 2)	\$ —	789,358	5,998,379
Investments (note 2)		1,475,677	—
U.S. Treasury and agency securities	4,808,895	—	—
U.S. Government bonds	356,312	—	—
Mortgage-backed securites	314,179	—	—
Nongovernment obligations	2,901,783	—	—
Money market accounts	3,845,612	—	—
Investment in the State of Wisconsin	145,166,821	—	—
Receivables	103,767	—	—
	<u>157,497,369</u>	<u>2,265,035</u>	<u>5,998,379</u>
Total assets			
	<u>157,497,369</u>	<u>2,265,035</u>	<u>5,998,379</u>
Liabilities			
Accounts payable	1,359,371	105,826	—
Due to student organizations	—	—	5,998,379
	<u>1,359,371</u>	<u>105,826</u>	<u>5,998,379</u>
Total liabilities			
	<u>1,359,371</u>	<u>105,826</u>	<u>5,998,379</u>
Net Assets			
Held in trust for:			
Supplemental pension benefits	156,137,998	—	—
Endowments	—	2,159,209	—
	<u>156,137,998</u>	<u>2,159,209</u>	<u>—</u>
Total net assets	<u>\$ 156,137,998</u>	<u>2,159,209</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, 2007

	Pension trusts	Private purpose trust
Additions:		
Employer contributions	\$ 21,855,359	—
Participants contributions	—	—
Private donations	—	623,905
Interest income	—	69,559
Investment income, net of expenses	21,534,033	—
Total additions	43,389,392	693,464
Deductions:		
Benefits paid to participant's or beneficiaries	15,756,877	—
Distribution of participant contribution accounts	599,666	—
Administrative expenses	223,924	—
Scholarships and awards	—	552,693
Total deductions	16,580,467	552,693
Changes in net assets	26,808,925	140,771
Net assets—beginning of year	129,329,073	2,018,438
Net assets—end of year	\$ 156,137,998	2,159,209

See accompanying notes to the basic financial statements.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

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

(a) Reporting Entity

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

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

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

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

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

This report includes all of the funds of the District. The reporting entity for the District consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is

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financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

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

(b) Basis of Presentation

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

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. 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.

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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.

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

The District reports the following nonmajor governmental funds:

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

TEACH Wisconsin Programs

Categorically Aided Programs

Debt Service Fund: used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Additionally, the District reports the following fund types:

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

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.

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

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

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

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

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

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

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

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(d) *Restricted Cash and Investments*

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

(e) *Receivables*

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

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

(f) *Investments*

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

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

(g) *Inventories and Prepaid Items*

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

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.

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

(h) Capital Assets

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:

	<u>Capitalization threshold</u>	<u>Estimated useful life</u>
Buildings	\$ 5,000	50 years
Furniture and equipment	5,000	5 – 20 years
Vehicles	5,000	5 – 15 years
Computers and related equipment	5,000	5 years
Major computer/software projects	50,000	7 years

(i) Property Taxes

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

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

(j) Deferred Revenue

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

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(k) *Compensated Absences*

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

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

(l) *Insurance Deposits*

The District has recorded deposits in the general fund for self-funded health insurance and current life insurance obligations and a reserve of fund balance aggregating \$4,155,721 at June 30, 2007 to provide for payment of future claims.

(m) *Bond Premiums, Discounts, and Issuance Costs*

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

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

(n) *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, plus unspent proceeds.

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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.”

(o) *Fund Balance Reservations and Designations*

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved and unreserved, with unreserved further split between designated and undesignated.

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

- *Reserved*—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.

(p) *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.

(q) *New Accounting Pronouncements*

In July 2004, the GASB issued Statement No. 45, *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. 45 during the year ended June 30, 2008.

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Notes to Basic Financial Statements

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(2) **Deposits and Investments**

District's Deposits and Investments, Exclusive of Pension Trusts

	Carrying Value	Bank Balance
Cash at the City	\$ 52,028,308	\$ 51,958,307
Demand deposits	8,428,325	8,763,964
Repurchase Agreement	3,000,000	22,809,090
Money market funds	38,989,032	43,564,905
U.S. Treasury Notes	1,218,244	1,218,244
U.S. Treasury Strips	1,823,604	1,823,604
Mortgage-backed securities	614,187	614,187
Certificate of Deposit	20,000	20,000
Total Cash and Investments	\$ 106,121,700	\$ 130,772,301

Reconciliation to financial statements

Per statement of net assets

Unrestricted cash and investments

	\$ 56,675,844
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Restricted cash and investments

	41,182,442
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Per statement of net assets – Fiduciary Funds

Private purpose trust

	2,265,035
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Agency

	5,998,379
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Total Cash and Investments

	\$ 106,121,700
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Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit credit risk, MPS restricts the commitment of funds to only those investments authorized by Wisconsin state statute 66.0603 including the following:

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

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

The District has funds invested in overnight repurchase agreements, money market funds, U.S. Treasury notes, U.S. Treasury strips, mortgage-backed securities, and certificates of deposit. The overnight repurchase agreements have underlying securities of U.S. agency instruments with an implied triple-A credit rating. Of the \$43,564,905 invested in money market funds, \$22,104,272 is invested in U.S. Treasury securities with an implied triple-A credit rating, while the remaining \$21,460,633 is invested in U.S. government securities also with a triple-A credit rating. The District's \$1,218,244 investment in Treasury notes is rated triple-A. The District's \$1,823,604 investment in U.S. Treasury strips is rated triple-A. The \$614,187 invested in mortgage-backed securities is rated triple-A.

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

As of June 30, 2007 the District had the following investments, shown with their maturities.

	Maturities (in Years)			
	Fair Value	Less Than 1	1-5	6-10
Repurchase Agreement	\$ 22,809,090	\$ 22,809,090	-	-
Money market funds	43,564,905	43,564,905	-	-
U.S. Treasuries	1,218,244	121,222	1,097,022	-
U.S. Treasury strips	1,823,604	-	331,191	1,492,413
Mortgage-backed securities	614,187	79,811	534,376	-
	\$ 70,030,030	66,575,028	1,962,589	1,492,413

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

At year-end the District's demand deposit balance (exclusive of funds held and controlled by the treasurer of the City) was \$31,573,054, of which \$22,809,090 was invested in overnight repurchase agreements. Of the \$31,573,054 bank balance, \$8,588,570 was covered by the Federal Depository Insurance Corporation (FDIC) and the state of Wisconsin Public Deposit

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Guarantee Fund, \$22,309,090 was uninsured and collateralized at 125% by the bank, and \$675,394 was uninsured and uncollateralized and outside of the District's collateralization policy.

Funds held and controlled by the treasurer of the City are insured by the FDIC and the Wisconsin Public Deposit Guarantee Fund. Per Common Council the City Treasurer shall require collateralization of certificates of time deposit (excluding interest checking) at financial institutions when the total amount of such certificates of deposit with any institution exceeds the combined insured limit of \$500,000. Milwaukee Public Schools' deposits with the City Treasurer for investments are all insured or collateralized on June 30, 2007.

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

The Trustees of the Plan have adopted a Statement of Investment Policy (the "Policy"). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds ("SWIB funds"), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp. ("M&I"), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the employee contribution account and payments from the 1989 bond dedication program, plus six months administrative expense; and (3) assets relating to employee contributions. The portfolio is rebalanced toward the Policy targets quarterly. For 2007, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the "Fund") has two investment managers: the State of Wisconsin Investment Board ("SWIB") and M&I. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Plan portfolios in accordance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

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Notes to Basic Financial Statements

June 30, 2007

A. Interest Rate Risk

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

The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2007.

<u>Investment</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	28% of the combined SWIB funds are invested in the fixed income by investment type with durations ranging from 0.008 to 9.3 years. Additional detail on the SWIB fixed income investments is included below.	\$ 44,025,791
Money market accounts	0.1	\$ 425,744
U.S. Treasuries, Agencies, and Government Bonds	5.5	\$ 3,197,057
Mortgage-backed securities	20.4	\$ 250,483
Non-government obligations	3.1	\$ 1,863,041

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<u>SWIB Investments</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	1.9	\$ 9 Million
Certificate of Deposit	0.5	\$ 23 Million
Commerical Paper	0.1	\$161 Million
Corporate Bonds	5.1	\$2,499 Million
Corporate Bonds	N/A	\$ 16 Million
Government Agency	2.9	\$885 Million
Commercial Mortgages	2.7	\$181 Million
Municipal Bonds	9.3	\$4 Million
Pooled Investments	0.1 to 6.2	\$13,406 Million
Private Placements	5.1	\$471 Million
Repurchase Agreements	0.008	\$ 112 Million
Sovereign Debt	5.7	\$ 3,553 Million
Sovereign Debt	N/A	\$ 3 Million
United States Treasuries	8.6	\$3,186 Million

Note: On June 30, 2007, SWIB's Core Fund and Variable Fund had \$78.8 Billion and \$7.2 Billion in assets, respectively. As of June 30, 2007, the Plan's assets were invested 71% in the SWIB Core Fund, 18% in the SWIB Variable Fund, and 11% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration.

For the bond portfolios for the payment of benefits and expenses and employee contributions, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I Investment Management Corp on June 30, 2007. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.

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<u>Ratings*</u>	<u>SWIB</u>	<u>M&I</u>
P-1	4%	7%
AAA	25%	64%
AA	9%	6%
A	6%	12%
BBB	2%	8%
BB	1%	0%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Commingled or Pooled Funds	46%	N/A
Not-Rated	5%	3%

*As defined by Moody's Bond Ratings

For SWIB's Core Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities shall not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of companies in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolios market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

C. Custodial Credit Risk

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

Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2007, SWIB had uninsured and uncollateralized deposits totaling \$125.6 million that were held in foreign currencies or margin accounts in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$624.3 million, all of which were uncollateralized and uninsured. In total, these deposits represented 0.9% of the combined assets of the SWIB Core and Variable Funds.

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Investments - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2007, SWIB's Retirement Funds held 11 tri-party repurchase agreements totaling \$1,001.1 million. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of the repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent. These agreements represented 1.2% of the combined assets of the SWIB Core and Variable Funds.

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2007, \$13.0 billion of the SWIB Core and Variable Funds' \$87.9 billion in currency exposure was denominated in foreign currency. For the M&I managed portfolios, there was no foreign currency exposure.

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

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

The Trustees of the Plan have adopted a Statement of Investment Policy (the "Policy"). It articulates asset allocation targets; guidelines for interest rate risk, credit risk, and concentration of credit risk for separately managed portfolios; and performance benchmarks. Under Wisconsin statutes, equities, other than investments in the State of Wisconsin Employee Trust Funds ("SWIB funds"), are subject to the statutory limitation that they may not exceed 50% of the market value of the plan assets. The Plan has no equity investments other than those in the SWIB funds. The Policy targets equities in the SWIB Variable Fund to equal 150% of the amount in Fixed Income securities at M&I Investment Management Corp.

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("M&I"), with the remainder of the portfolio allocated to the SWIB Core Fund. The Policy target for Fixed Income is the sum of: (1) assets invested as part of the 1989 bond dedication program; and (2) six months benefit payments, net of payments from the 1989 bond dedication program, plus six months administrative expense. The portfolio is rebalanced toward the Policy targets quarterly. For 2007, the SWIB Core Fund asset-mix targets were 36% to U.S. Stocks, 30% to Fixed Income, 22% to International Stocks, 5% to Real Estate, and 7% to Alternative Investments, and the SWIB Variable Fund asset-mix targets were 79% to U.S. Stocks, 20% to International Stocks, and 1% to Alternative Investments. Under the SWIB Investment Policy, the Core and Variable Fund asset allocations will be reviewed monthly for potential rebalancing. For the SWIB funds, when a major liquid asset class (i.e., Total Public Equities, Total Public Fixed Income) exceeds plus or minus 10% of its target allocation, a rebalancing exercise will be initiated. The Plan's investment portfolio (the "Fund") has two investment managers: the State of Wisconsin Investment Board ("SWIB") and M&I. Each investment manager is responsible for managing the portion of the Fund assets under its control in accordance with its policy and guidelines. M&I is also responsible for managing its Plan portfolios in accordance with the guidelines adopted by the Trustees. Milwaukee Public Schools completes a comprehensive review of the Fund relative to the Policy on an annual basis.

A. Interest Rate Risk

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

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The following schedule displays the duration or weighted average maturity of the investments by type of investment as of June 30, 2007.

<u>Investment</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
SWIB Core and Variable Funds	28% of the combined SWIB funds are invested in fixed income by investment type with durations ranging from 0.008 to 9.3 years. Additional detail on the SWIB fixed income investments is included below.	\$ 101,141,032
Money market accounts	0.1	\$ 3,419,866
U.S. Treasury notes, and agency securities	4.7	\$ 1,968,150
Mortgage-backed securities	24.5	\$ 63,696
Non-government obligations	2.9	\$ 1,038,742

<u>SWIB Investments</u>	<u>Duration (Years)</u>	<u>Fair Value</u>
Asset Backed Securities	1.9	\$ 9 Million
Certificate of Deposit	0.5	\$ 23 Million
Commerical Paper	0.1	\$ 161 Million
Corporate Bonds	5.1	\$ 2,499 Million
Corporate Bonds	N/A	\$ 16 Million
Government Agency	2.9	\$ 885 Million
Commerical Mortgages	2.7	\$ 181 Million
Municipal Bonds	9.3	\$ 4 Million
Pooled Investments	0.1 to 6.2	\$13,406 Million
Private Placements	5.1	\$ 471 Million
Repurchase Agreements	0.008	\$ 112 Million
Sovereign Debt	5.7	\$ 3,553 Million
Sovereign Debt	N/A	\$ 3 Million
United States Treasuries	8.6	\$ 3,186 Million

Note: On June 30, 2007, SWIB's Core Fund and Variable Fund had \$78.8 Billion and \$7.2 Billion in assets, respectively. As of June 30, 2007, the Plan's assets were invested 85% in the SWIB Core Fund, 9% in the SWIB Variable Fund, and 6% in portfolios managed by M&I Investment Management Corp. For SWIB, the duration of each U.S. Fixed Income portfolio shall remain within 15% of the assigned benchmark's duration.

For the bond portfolios for the payment of benefits and expenses, the duration will be within a range of 50% to 150% of the duration of the benchmark index.

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B. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following schedule displays the credit quality percentage distributions of the fixed income investments in the SWIB Core and Variable Funds and in the separate accounts managed by M&I Investment Management Corp on June 30, 2007. For SWIB, the schedule displays the lowest credit rating assigned by several nationally recognized statistical rating organizations. Obligations of the United States and obligations explicitly guaranteed by the U.S. government have been included in the AAA rating below although they are considered to be without risk.

<u>Ratings*</u>	<u>SWIB</u>	<u>M&I</u>
P-1	4%	53%
AAA	25%	33%
AA	9%	6%
A	6%	3%
BBB	2%	2%
BB	1%	0%
B	1%	0%
CCC	0%	0%
CC	0%	0%
C	0%	0%
D	0%	0%
Commingled or Pooled Funds	46%	N/A
Not-Rated	5%	3%

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

For SWIB's Core Fund's U.S. Fixed Income Portfolios, each portfolio shall maintain an average quality rating of A or better. Non-Investment Grade securities shall not exceed 15% of each portfolio's market value. For SWIB's Global Bond Portfolio, overall portfolio quality must be maintained at an average rating of A or better. Corporate securities shall not exceed 20% of the portfolio's market value. Emerging Market Debt is limited to sovereign debt of companies in the J.P. Morgan Emerging Market Global Diversified Bond Index and shall not exceed 10% of the portfolios market value. For the other separately managed portfolios, the average portfolio quality must be A or better. Bonds purchased or owned must have a minimum quality rating of Baa (Moody's) or BBB (Standard and Poor's).

C. Custodial Credit Risk

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

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Deposits - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the fund will not be able to recover deposits that are in the possession of an outside party. On June 30, 2007, SWIB had uninsured and uncollateralized deposits totaling \$125.6 million that were held in foreign currencies or margin accounts in SWIB's custodian's nominee name. In addition, SWIB held a number of time deposits with foreign financial institutions with a fair value of \$624.3 million, all of which were uncollateralized and uninsured. In total, these deposits represented 0.9% of the combined assets of the SWIB Core and Variable Funds.

Investments - Custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, the fund will not be able to recover the value of investments that are in the possession of an outside party. As of June 30, 2007, SWIB's Retirement Funds held 11 tri-party repurchase agreements totaling \$1,001.1 million. SWIB's securities lending collateral account and cash management account participate in repurchase agreement pools, purchasing only a portion of the repurchase agreement in which the manager of these accounts is the buyer-lender. Since the manager that purchased the repurchase agreement is the counterparty, the securities are not held in SWIB's name. They are held in the counterparty's name and held by the counterparty's agent. These agreements represented 1.2% of the combined assets of the SWIB Core and Variable Funds.

D. Concentration of Credit Risk

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

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2007, \$13.0 billion of the SWIB Core and Variable Funds' \$87.9 billion in currency exposure was denominated in foreign currency. For the M&I managed portfolios, there was no foreign currency exposure.

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

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(3) Receivables

Receivables as of June 30, 2007 for the District's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	School Nutrition Services Fund	Nonmajor Fund	Total
Receivables:				
Accounts	\$ 12,063,788	—	—	12,063,788
Intergovernmental-federal	26,571,075	4,830,798	5,322,382	36,724,255
Intergovernmental-state	15,954,260	—	—	15,954,260
Gross receivables	<u>54,589,123</u>	<u>4,830,798</u>	<u>5,322,382</u>	<u>64,742,303</u>
Less allowance for uncollectibles	<u>(428,000)</u>	<u>—</u>	<u>—</u>	<u>(428,000)</u>
Total receivables, net	\$ <u>54,161,123</u>	<u>4,830,798</u>	<u>5,322,382</u>	<u>64,314,303</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, 2007 represent due to/from balances among all funds:

	Due from other funds			
	General Fund	School Nutrition Services Fund	Nonmajor Fund	Total
Due to other funds:				
Construction fund	\$ 16,240,765	—	—	16,240,765
Nutrition fund	8,343,948	—	2,178,495	10,522,443
Nonmajor funds	5,322,382	—	—	5,322,382
Total	\$ <u>29,907,095</u>	<u>—</u>	<u>2,178,495</u>	<u>32,085,590</u>

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

The transfer from the General Fund to the School Nutrition Services Fund was made to begin an attempt to eliminate this fund's current deficit position.

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(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 31,460,885	36,967	—	31,497,852
Construction in progress	<u>52,247,564</u>	<u>30,041,135</u>	<u>68,098,785</u>	<u>14,189,914</u>
Total capital assets, not being depreciated	<u>83,708,449</u>	<u>30,078,102</u>	<u>68,098,785</u>	<u>45,687,766</u>
Capital assets, being depreciated:				
Buildings	856,175,172	68,099,085	6,105,275	918,168,982
Leasehold improvements	6,082,852	—	—	6,082,852
Furniture and equipment	47,805,394	1,823,071	1,435,454	48,193,011
Software	<u>25,977,465</u>	<u>412,611</u>	<u>—</u>	<u>26,390,076</u>
Total capital assets, being depreciated	<u>936,040,883</u>	<u>70,334,767</u>	<u>7,540,729</u>	<u>998,834,921</u>
Less accumulated depreciation for:				
Buildings	(323,626,421)	(18,164,919)	(3,530,035)	(338,261,305)
Leasehold improvements	(720,375)	(262,611)	—	(982,986)
Furniture and equipment	(43,155,322)	(1,235,376)	(1,391,370)	(42,999,328)
Software	<u>(18,352,684)</u>	<u>(2,917,921)</u>	<u>—</u>	<u>(21,270,605)</u>
Total accumulated depreciation	<u>(385,854,802)</u>	<u>(22,580,827)</u>	<u>(4,921,405)</u>	<u>(403,514,224)</u>
Total capital assets, being depreciated	<u>550,186,081</u>	<u>47,753,940</u>	<u>2,619,324</u>	<u>595,320,697</u>
Capital assets, net	\$ <u><u>633,894,530</u></u>	<u><u>77,832,042</u></u>	<u><u>70,718,109</u></u>	<u><u>641,008,463</u></u>

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Depreciation expense for governmental activities for the year ended June 30, 2007 was charged to functions/programs as follows:

Governmental activities:	
Instruction	\$ 13,597,232
Community services	358,262
Pupil and staff services	2,367,889
General, administration and central services	1,692,074
Business services	3,784,304
School nutrition	718,582
Other	62,484
Total depreciation	<u>\$ 22,580,827</u>

(6) Short-term Borrowings

The City issued short-term revenue anticipation notes on behalf of the District in the amount of \$175,000,000 in August 2006. These notes were issued with interest rates of 4.5%, priced to yield 3.57%. The notes matured August 2007. The debt was repaid during June 2007 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, 2007 totaled \$429,641,890. Of this total, \$87,593,389 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 \$342,048,502 represents capital lease obligations, bonds and promissory notes, the debt service of which is being reimbursed by the District to the City from the District's property tax levy. Since the District does have an obligation to repay this debt under intergovernmental cooperation agreements with the City, this debt is reflected in the District's long-term obligations.

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Long-term obligations of the District are as follows:

	<u>Original amount</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee:						
American with Disabilities Act loans:						
4.5% – 4.65%, due in annual install- ments to December 2007	\$ 2,000,000	470,000	—	230,000	240,000	240,000
3.5% – 4.25%, due in annual install- ments to December 2008	605,000	208,725	—	66,550	142,175	69,575
4.75% – 5.375%, due in annual install- ments to June 2009	300,000	160,000	—	20,000	140,000	20,000
4.74% – 5.625%, due in annual install- ments to September 2015	2,000,000	1,333,032	—	133,304	1,199,728	133,304
3.59%, due in annual installments to September 2016	3,095,000	1,856,524	—	206,492	1,650,032	206,254
3.74%, due in annual installments to March 2017	1,205,000	482,191	—	80,446	401,745	80,446
4.0 – 5.0%, due in annual installments to September 2017	660,000	483,922	—	44,042	439,880	44,042
4.0 – 5.0%, due in annual installments to February 2019	350,000	335,000	—	—	335,000	—
4.0 – 5.0%, due in annual installments to February 2014	670,000	536,000	—	67,000	469,000	67,000
4.0 – 5.0%, due in annual installments to September 2020	4,582,676	4,582,676	—	—	4,582,676	—
TEACH loan, 5.0%, due in annual install- ments to March 2012	15,144,033	8,407,726	—	1,896,260	6,511,466	1,991,070
Neighborhood Schools Initiative Bonds						
(NSI), 3.5% – 4.875%, due in annual installments to August 2023	143,905,000	112,040,000	31,865,000	34,360,000	109,545,000	1,790,000
Plus: Premium on issuance	1,357,121	1,057,469	—	533,151	524,318	—
Less: Discount on 2007A issuance	(338,503)	—	(338,503)	(21,360)	(317,143)	—
Less: Deferral amount of refunding	(1,677,174)	—	(1,677,174)	(105,830)	(1,571,344)	—
QZAB—Qualified Zone Academy Bonds, 0%, due in annual installments to August 2019	19,318,100	11,248,426	1,078,100	2,428,943	9,897,583	1,527,994
Financial & Student Tracking Systems— 3.74% – 6.24% note, due in annual installments to September 2008	8,000,000	3,726,614	—	1,330,806	2,395,808	1,330,808
Pension debt refinancing:						
Capital appreciation note, due in annual installments beginning April 1, 2005 through April 1, 2023	46,715,000	37,375,000	—	—	37,375,000	—
Less: Discount	(25,232,986)	(20,180,907)	—	(1,066,383)	(19,114,524)	—
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)	(92,120,651)	—	(1,187,928)	(90,932,723)	—
Pension bonds, variable interest rate “index-linked”, interest due in semi- annual installment, principal due at maturity on October 1, 2043	130,850,000	130,850,000	—	—	130,850,000	—
Other intergovernmental notes	4,437,000	522,275	—	232,450	289,825	237,425
Capital lease—MEC/Grand Avenue & CCF	46,890,000	39,565,000	—	3,095,000	36,470,000	3,300,000
Total intergovernmental cooperation agreement debt		<u>\$ 353,464,022</u>	<u>30,927,423</u>	<u>42,342,943</u>	<u>342,048,502</u>	<u>11,037,918</u>

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	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2007</u>	<u>Amount due in one year</u>
Intergovernmental cooperation agreements with the City of Milwaukee (from previous page)	\$ 353,464,022	30,927,423	42,342,943	342,048,502	11,037,918
Accrued compensated absences	30,008,346	7,886,074	7,417,038	30,477,382	2,476,044
Workers' compensation claims	4,310,578	5,054,404	5,036,184	4,328,798	724,079
General insurance claims	626,930	1,314,551	805,076	1,136,405	58,266
Life insurance benefits	1,984,237	115,328	—	2,099,565	327,481
Liability for other long-term benefits	285,051	—	—	285,051	—
Total long-term obligations	<u>\$ 390,679,164</u>	<u>45,297,780</u>	<u>55,601,241</u>	<u>380,375,703</u>	<u>14,623,788</u>

Estimated payments of compensated absences are not included in the debt service requirement schedules. The compensated absences liability attributable to governmental activities will be liquidated primarily by the general fund.

The District has recognized a liability of approximately \$724,000 as of June 30, 2007. Accordingly, the total liability for workers' compensation claims was approximately \$5.1 million.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding the capital lease obligations) as of June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2008	\$ 7,737,919	12,420,166	20,158,085
2009	8,139,070	12,214,865	20,353,935
2010	6,680,655	12,008,863	18,689,518
2011	6,663,168	11,828,007	18,491,175
2012	6,834,661	11,626,944	18,461,605
2013 – 2017	46,395,145	54,512,496	100,907,641
2018 – 2022	67,296,619	45,937,290	113,233,909
2023 – 2027	54,182,679	35,209,909	89,392,588
2028 – 2032	54,060,001	25,871,450	79,931,451
2033 – 2037	76,050,000	17,106,293	93,156,293
2038 – 2042	70,625,001	8,384,613	79,009,614
2043 – 2044	12,325,000	748,000	13,073,000
Total	<u>\$ 416,989,918</u>	<u>247,868,896</u>	<u>664,858,814</u>

Interest on the \$130,850,000 variable rate pension debt (index-linked bonds) included in the schedule of future payments on the previous page is based upon the one-month LIBOR rate (the London Interbank Offered Rate) plus 25 basis points (.25%) and is adjusted monthly. The interest rate was 5.32% as of June 30, 2007.

The District leases land and buildings with a historical cost and accumulated amortization of \$48,472,061 and \$4,193,806, respectively, under capital lease arrangements. The District is also holding approximately \$7.0 million of cash and investments under capital lease arrangements.

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Future minimum lease payments under these capital leases at June 30, 2007 are as follows:

Fiscal year ended June 30:	
2008	\$ 4,575,873
2009	4,900,111
2010	4,896,685
2011	4,899,678
2012	4,894,745
2013 – 2017	12,748,374
2018 – 2022	4,921,553
2023 – 2026	3,894,371
	<hr/>
Total minimum lease payments	45,731,390
Less amount representing interest	<hr/> (9,261,390)
Present value of minimum lease payments	\$ <hr/> <hr/> 36,470,000

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 2007 was \$31,867,144,000 and the 5% debt limit was \$1,593,357,200. No referendum-approved debt is outstanding at June 30, 2007.

Debt

On February 1, 2007 the District issued \$31,865,000 of Refunding Revenue bonds with an average interest rate of 3.92% to advance refund \$29,260,000 of its Series 2003A Neighborhood School Initiative bonds that had an average interest rate of 5.125%. In addition to the borrowing, the District provided \$22,800 cash for total financing proceeds of \$31,887,800. Net proceeds of \$30,982,607 million (after payment of \$566,367 of issuance costs and \$338,503 of original issue discount) were given to a trustee to purchase U.S. government securities that were deposited in an irrevocable trust to provide for all future debt service payments on the refunded Series 2003A bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statements. The District advance refunded the Series 2003A bonds to reduce its total debt service payments over the next 17 years by \$704,339 for an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1.24 million.

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Projected cash flow for debt before advanced refunding	\$ 109,862,730
Projected cash flow for debt after advanced refunding	<u>109,158,391</u>
Projected net savings from advanced refunding	<u>\$ 704,339</u>

Also on February 1, 2007 the District retired \$5.1 million of Series 2003A Neighborhood Schools Initiative bonds, funded by unused Series 2003A bond project proceeds, reducing the District's debt service by approximately \$261,000 per year for the next 17 years.

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 (originally variable-rate auction rate securities, converted to index-linked bonds on July 7, 2005). The intention of the swap was to effectively change the variable interest rate on the bonds to a synthetic fixed rate of 5.56%. The conversion to index-linked bonds maintains the swap agreements, but with a resultant synthetic fixed rate cost to MPS of 5.61%.

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 in December 2003, and continue to remain in effect after the conversion to index-linked bonds on July 7, 2005. Starting in fiscal year 2024, the notional value of the swap and the principal amount of the bonds decline until the debt is completely retired. Under the swap agreements, the District pays the counterparty a fixed payment of 5.56% and receives a variable payment computed as the London Interbank Offered Rate (LIBOR) plus 20 basis points (.020%). Conversely, the District pays the bond's index-linked coupon rate of LIBOR plus 25 basis points (0.25%).

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	<u>Terms</u>	<u>Rates</u>
Interest rate swap (as of 6/30/2007):		
Fixed payment to counterparty	Fixed	5.56%
Variable payment from counterparty	LIBOR + 20 bps	<u>(5.52)%</u>
Net interest rate swap payments		0.04%
Index-linked bond coupon payments	LIBOR + 25 bps	<u>5.57%</u>
Synthetic interest rate on bonds		<u>5.61%</u>

Fair value. As of June 30, 2007, the swaps had an aggregate positive fair value of \$6,768,403 because interest rates have increased since execution of the swaps. The swap's positive fair value may be countered by increases in total interest payments required on the index-linked bonds. Because the coupons on the index-linked 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 for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk. As of June 30, 2007, the District had \$6,768,403 of credit risk exposure because the swaps had positive fair value. The swap counterparties were rated Aa3/A+/AA- and A1/A+/A+ by Moody's Investor Service, Standard & Poor's, and Fitch Ratings, respectively. To mitigate the potential for credit risk, if the Aa3/A+/AA-counterparty's credit quality falls below Aa3 by Moody's Investor Service, AA- by Standard & Poor's, and AA- by Fitch Ratings, the fair value of the swap above \$100,000 will be fully collateralized by the counterparty. The obligation of the A1/A+/A+ counterparty is collateralized above a \$2,500,000 fair value. Collateral is posted with the trustee of the bonds.

Basis Risk. As a result of the conversion to index-linked bonds from auction rate securities, the basis risk exposure from the swaps was eliminated. Previously, the auction rate securities exposed the District to basis risk should the relationship between LIBOR and the auction rate diverge.

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

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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, 2007, debt service requirements of the variable-rate index-linked bonds and net swap payments, assuming current interest rates remain the same for their term, were as follows: as rates vary, variable-rate interest payments and net swap payments will vary.

Aggregate cash flow requirements for the retirement of the intergovernmental cooperation agreement debt (excluding capital lease obligations) as of June 30, 2007 are as follows:

	Variable-rate bonds		Interest rate	Total
	Principal	Interest	swaps, net	
Fiscal year ended June 30:				
2008	\$ —	7,288,345	52,340	7,340,685
2009	—	7,288,346	52,339	7,340,685
2010	—	7,288,347	52,338	7,340,685
2011	—	7,288,348	52,337	7,340,685
2012	—	7,288,349	52,336	7,340,685
2013 – 2017	—	36,441,745	261,680	36,703,425
2018 – 2022	—	36,441,745	261,680	36,703,425
2023 – 2027	25,075,000	34,111,840	244,968	59,431,808
2028 – 2032	31,250,000	25,686,983	184,467	57,121,450
2033 – 2037	31,200,000	16,984,323	121,970	48,306,293
2038 – 2042	31,000,000	8,324,829	59,783	39,384,612
2043 – 2044	12,325,000	748,000	—	13,073,000
Totals	\$ 130,850,000	195,181,200	1,396,238	327,427,438

(8) Fund Balance

Designated for Subsequent Year's Expenditures—The unreserved fund balance of the general fund is \$27,510,956 at June 30, 2007. This unreserved balance is designated to partially fund school operating expenditures during the period July 1 through December 31, 2007.

Based on recent operating experience, management anticipates that approximately \$455,886,000 will be required to fully cover the anticipated school operations operating expenditures during the period July 1 through December 31, 2007. In addition to the fund balance designated for subsequent year's expenditures, revenue anticipation notes and approximately \$302,610,000 of state aids will be used to fund operating expenditures through December 31, 2007.

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.

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The formula established by this action, and the application thereof as of June 30, 2007, is as follows:

General fund unreserved fund balance	\$ 27,510,956
Amount required to fund six months of the school operation's property tax levy:	
Subsequent year's school operations school levy (\$223,761,147) multiplied by a ratio of subsequent year's tax days from July 1 to December 31 (74) to total calendar school year days (180)	<u>91,990,694</u>
General fund undesignated fund balance deficiency	\$ <u><u>(64,479,738)</u></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 PPO/Indemnity plan and or self insured exclusive provider organization (EPO) plan. The District purchases stop-loss insurance for its self-insured exclusive provide organization (EPO) plan. Life insurance benefits are provided for active and retired employees through an insured life insurance program. Life insurance costs that exceed certain rates are funded by the District.

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

The District purchases commercial property insurance, auto liability insurance, errors and omissions insurance, 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

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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	
	2007	2006
Beginning of year liability	\$ 41,365,214	38,074,244
Current year claims and changes in estimate	197,821,001	199,328,770
Claim payments	(196,479,468)	(196,037,800)
End of year liability	\$ 42,706,747	41,365,214

The District has recognized the liability for health and dental benefits, which totaled \$34,132,849 and \$32,322,688 as of June 30, 2007 and 2006, respectively, in the general fund. The District has also recognized a liability of \$724,079 and \$1,835,730 as of June 30, 2007 and 2006, 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 long-term liabilities and are recognized in the government-wide financial statements.

(10) Retirement Plans

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

Wisconsin Retirement System—All eligible District 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 5.9% of their salaries to the plan for calendar year 2006. 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, 2006 was \$394,024,000; the District's total payroll was \$532,128,000. The total required contribution for the year ended December 31, 2006 was \$40,978,000, which consisted of \$17,731,000, or 4.5% of payroll, from the District and \$23,247,000, or 5.9% of payroll, from the District on behalf of the employees. The District issued bonds in the amount of \$168.051 million through the Redevelopment Authority of the City and the City to fund the pension-related debt to

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the WRS for the unfunded accrued liability for pension service, which reduced the WRS contribution rate effective January 1, 2004 by 2%. The amount contributed equaled the required contribution. Total contributions for the years ending December 31, 2005 and 2004 were \$39,467,000 and \$38,718,000, respectively, equal to the required contributions for each year.

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

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

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

Employees' Retirement System of the City of Milwaukee—All eligible District employees (classified employees, principally non-teachers) participate in the Employees' Retirement System of the City (the System), a cost-sharing, multiple-employer, defined benefit public employee retirement system (PERS). Part-time classified employees (defined by the System as 12-month employees who work less than 1,040 hours per year and 10-month employees who work less than 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

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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, 2006 was \$111,563,000; the District's total payroll was \$532,128,000. The total required contribution including retroactive adjustments for the year ended December 31, 2006 was \$6,531,000, or 5.5% of covered payroll, from the District on behalf of the employees and equaled the required contribution. Total contributions for the years ending December 31, 2005 and 2004 were \$6,089,000 and \$6,316,000, respectively, equal to the required contributions for each year.

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

The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Employees' Retirement System of the City of Milwaukee, 1000 North Water Street, Suite 1550, Milwaukee, WI 53202.

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Supplemental Retirement Plans

(a) **Plan Descriptions and Funding Policies**

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

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

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

Participants are eligible for retirement benefits provided they have made three years of participant contributions and have eight or more years of vesting service. For Plan years, effectively July 1, 2003, vesting under the Plan is modified to be three years of service as a covered employee and eight or more years of vesting service. The plan provides for unreduced benefits 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 for this plan and either the System or WRS of 70% of average monthly compensation. The benefit paid under this plan for a participant whose benefit is related to the WRS shall be reduced by the amount of the WRS benefit paid. Wisconsin Act 11 directly affects the plan by decreasing the benefits paid and increasing the funded status of the plan. The actuarial value for fiscal year 2002 was finalized with recognition of the impact of Wisconsin Act 11 and the total actuarial gain determined by the plan's actuary was \$6,326,664, of which a \$937,750 gain was allocated in fiscal years 2007 and 2006. In the meantime, benefits continue to be paid by the plan and adjusted (reduced) to reflect Wisconsin Act 11. The total actuarial gain allocated was \$5,626,500 as of June 30, 2007, consisting of actuarial gain and actuarially assumed interest.

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

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 per year as of July 1, 2003 and an increase to the fiscal years 2006 and 2005 required District (employer) contributions of \$737,000 per year.

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

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

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

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

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During fiscal year 2005, the Plan has retroactively paid retirees that were eligible for Teacher's Plan benefit formula and had retired on or after January 1, 2000 under the ASC plan for benefits that, if chosen by the retiree, would have been under the Teachers Plan benefit formula.

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

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

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

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

Two separate portfolios of U.S. Government obligations were purchased at an average yield rate of 13% and 9.25% to be used to closely match and fund the expected vested benefit payments to certain retired participants receiving benefits as of July 1, 1984 and July 1, 1989, respectively. Effective July 1, 2003, the 1984 Dedicated Fund was unwound and the assets were transferred to the Non-Dedicated Fund. All benefits under the 1984 Dedicated Fund shall be paid from the Non-Dedicated Fund. The liability for the actuarial present value of the future plan benefits for the July 1, 1989 group of participants reflects the 9.25% interest rate and is matched to the assets dedicated to pay these future plan benefits. As of June 30, 2006, all 1984 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

During the Plan year ended June 30, 2007, District administration has recommended and the MBSD has approved various changes to key actuarial assumptions, actuarial methods and other benefit components of the Plan, which will have an impact on the unfunded actuarial accrued liability and annual required contribution for future years. Based on data as of July 1, 2005, the Plan actuary estimated that these changes, including the additional deferred vested liability for Special Supplemental benefits would result in an increase in the Plan's unfunded actuarial liability by an amount that approximates \$21,000,000. Effectively July 1,

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2006, the portion of the \$21,000,000 estimated increase in the unfunded actuarial liability attributable to the additional deferred vested liability for Special Supplemental Benefits was re-estimated and recognized. Effectively July 1, 2007, the changes to key actuarial assumptions and methods not including the additional deferred vested liability for Special Supplemental benefits are estimated to increase the unfunded actuarial liability by approximately \$13,600,000.

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

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

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

To be eligible for participation, an employee must be a teacher of the District who is in the collective bargaining unit represented by the MTEA and who is participating as an active employee in the WRS. Such employees shall become participants in the plan on the later of the effective date of the plan or the date they become a participant in the WRS. Employees who first became participants before July 1, 1997, are vested upon participation. Employees who first became participants on or after July 1, 1997, are vested after being employed by the District for at least 15 years after July 1, 1997, in a position that is covered under the MBSD/MTEA teacher contract and that counts as creditable service under the WRS (but excluding periods of military service) and terminates employment with the District on or after the employee's 55th birthday.

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

During the year ended June 30, 2004, the District implemented a negotiated settlement of changes to the Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan (the ASC Plan). Accordingly, the MBSD adopted the restated ASC Plan at its June 2004 regular meeting. The restated ASC Plan includes amendments that transfer the Plan benefits to be paid from the ASC Plan for those covered employees who have prior MPS teaching service and are eligible to receive a benefit from the Plan. At the time of retirement, these individuals elect to receive either the Plan benefit or the ASC Plan benefit payable from the ASC Plan. The District does not anticipate any significant cost impact to the Plan as a function of the negotiated changes to the ASC Plan.

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During the Plan year ended June 30, 2007, District Administration has recommended and the MBSD has approved various changes to key actuarial assumptions and actuarial methods effective July 1, 2007, which will have an impact on the unfunded actuarial accrued liability and annual required contribution for future years. Based on the data as of July 1, 2005 the Plan actuary estimated that these changes will result in an increase in the Plan's unfunded actuarial liability by an amount that approximates \$2,100,000.

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, 2007 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	8.903%	4.405%	
Plan participants	—	—	
Annual required contribution	\$ 3,094,247	14,113,631	17,207,878
Interest on net pension obligation	12,519	—	12,519
Adjustment to annual required contribution	3,845	—	(24,766)
Annual pension cost	3,110,611	14,113,631	17,195,631
Contributions made	<u>2,739,069</u>	<u>15,999,632</u>	<u>18,738,701</u>
Increase (decrease) in net pension obligation	<u>371,542</u>	<u>(1,886,001)</u>	<u>(1,514,459)</u>
Net pension obligation (prepayment), beginning of year	<u>(2,904,366)</u>	<u>(13,489,538)</u>	<u>(16,393,904)</u>
Net pension obligation (prepayment), end of year	<u><u>\$ (2,532,824)</u></u>	<u><u>(15,375,539)</u></u>	<u><u>(17,908,363)</u></u>

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

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Actuarial valuation date	July 1, 2006	July 1, 2006
Actuarial cost method	Projected unit credit	Entry age normal
Amortization method	Annual gains and losses, plan changes, and assumption changes are amortized individually over the average expected future working lifetime of active participants. Base established on July 1, 2006, is amortized over a seven year closed period.	Annual gains and losses, plan changes and assumption changes are amortized individually over a 30 year closed period.
Remaining amortization period	Varies from 1 to 18 years.	Varies from 6 to 30 years.
Asset valuation method	Non-Dedicated: Five-year smoothed market. Dedicated: PV of cash flows from bond dedication.	Non-Dedicated: Five-year smoothed market. Dedicated: PV of cash flows from bond dedication.
Actuarial assumptions:		
Investment rate of return	8.0%	8.0%
Inflation	Included in projected salary increase.	Included in projected salary increase.

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	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers
Projected salary increases:		
Certificated participants	1.8% plus an additional merit raise of 4.5% for each of the next six years of service for certificated participants 4.0% for classified participants.	3%
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.

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

Two separate portfolios of U.S. Government obligations were purchased at an average yield of 13% and 9.25% to be used to closely match and fund the expected vested benefit payments to certain retired participants receiving benefits as of July 1, 1984 and July 1, 1989, respectively. The liability for the actuarial present value of the future plan benefits for the July 1, 1984 and July 1, 1989 group of participants reflects the 13% and 9.25% interest rate, respectively, and is matched to the assets dedicated to pay these future plan benefits.

Effective July 1, 2003, the 1984 Dedicated Fund was unwound and the assets were transferred to the Non-Dedicated fund. All benefits under the 1984 Dedicated fund shall be paid from the Non-Dedicated fund. As of June 30, 2006, all 1984 Dedicated Fund assets were transferred to the Non-Dedicated Fund.

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(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:			
2006	\$ 3,094,247	100%	\$ 2,532,824
2005	2,814,526	126%	2,904,366
2004	2,715,306	105%	2,168,000

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:			
2006	\$ 14,113,631	135%	\$ 15,375,539
2005	13,440,927	124%	13,489,538
2004	12,794,314	106%	10,207,000

(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 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

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Notes to Basic Financial Statements

June 30, 2007

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 a self-insured exclusive provider organization (EPO) plan. These plans are supplemental to Medicare for those retirees eligible for Medicare insurance.

Expenditures for post-retirement life and health insurance benefits are financed on a pay-as-you-go basis and aggregated approximately \$40,300,258 for the year ended June 30, 2007. Approximately 6,231 retired participants are currently eligible to receive post-retirement life insurance benefits and approximately 5,604 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, 2007, the District exceeded its revenue limitation by approximately \$52,998.

(13) School Nutrition Deficit

The School Nutrition Services Fund had a deficit of \$6,392,774. The deficit is anticipated to be funded through future operations or operating transfers from the General Fund which has been reserved for the full amount of the deficit.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2007

(14) Excess Expenditures Over Appropriations

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2007:

Fund	Excess Expenditures
General Fund:	
Middle Schools	\$ 1,968,826
School Age Parents	38,837
School Special Funds	8,978,484
Interscholastic Athletics/Academics	74,081
School Safety Operations	4,140,160
Instrumental Music	174,738
Music Festival	1,677
MTEC/Compton	44,858
Special Education Buyback Services	249,225
Transportation	545,054
Debt Service	4,904,809
Employee Benefits	1,720,096
Special & Contingent Fund	39,006
Camp	3,472,094
School Nutrition Services Fund	6,039,265

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

(15) Commitments and Contingencies

(a) Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant program are subject to audit and adjustment by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2007 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.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2007

(b) Operating Leases

The District leases certain computer equipment with a carrying value of approximately \$905,794. For fiscal year 2007, total operating lease expense of the District was \$1,076,750. The aggregate minimum legal commitments for the five fiscal years subsequent to June 30, 2007 and thereafter for the computers and property are as follows:

Fiscal years:	
2008	\$ <u>905,794</u>
Total	\$ <u><u>905,794</u></u>

(c) Contractual Commitments

The District has \$34.4 million of contractual commitments outstanding as of June 30, 2007.

(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.

(16) Subsequent Events

- On September 6, 2007 the City issued \$188,000,000 of School Revenue Anticipation Notes, Series 2007 M6, for the purpose of financing MPS's general operating expenses pending receipt of state school aid payments. The maturity of this issue is September 4, 2008. Interest is payable at maturity.
- MPS is a participant in the settlement of a class action lawsuit with Microsoft Corporation. The District cannot provide an estimate of the amount of revenue it stands to gain from the Microsoft Class Action lawsuit because of the degree of uncertainty due to unknown and unknowable information. There are three potential ways MPS can benefit from the Class Action: (1) MPS' Direct Claim; (2) the First Cy Pres Distribution; and (3) the Second Cy Pres Distribution.

1. MPS' Direct Claim

MPS cannot state with any certainty the amount of its claim or when any benefits will be received. MPS has submitted a claim with an estimated value of \$1,634,768. (MPS would not receive cash under the settlement, but rather consumer vouchers redeemable for product). The Claims Administrator has indicated it will begin distribution of class proceeds in November, 2007, and it is likely payment will be made before June 30, 2008. There is no guaranty of when payment will be made.

MILWAUKEE PUBLIC SCHOOLS

Notes to Basic Financial Statements

June 30, 2007

2. First Cy Pres Distribution

The face value of the Settlement is \$223,896,000. Fifty percent of the difference between that amount and the value of the Consumer Vouchers issued will be distributed in the form of General Purpose Vouchers and Software Vouchers to public schools that have a free or reduced National School Lunch Program (“NSLP”) count of at least 50% during 2005 on a pro rata share based upon the number of students attending.

MPS has no information as to when the distributions will be made or how much they will entail.

3. Second Cy Pres Distribution

The balance of the money will be distributed to schools which have a NSLP as determined in the sole discretion of the Wisconsin Department of Public Instruction. It is not known when this distribution will be made, to what schools, or how much.

- Special Education Lawsuit has no measurable estimate for the liability. Currently, a decision has not been made as to the amount of liability to the District and the District is undecided as to whether to appeal the decision.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2007

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
REVENUES:			
Property Tax Levy	\$ 194,541,945	\$ 202,257,488	\$ 203,415,572
Equalization & Integration Aids	637,937,316	630,216,632	631,792,113
Other State Aids	48,243,000	48,079,765	39,265,952
Federal Aids	11,250,000	11,250,000	22,749,547
Other Local Revenues	5,029,006	4,876,595	14,160,698
Applied Surplus/ Reserve for Textbooks	3,947,448	3,947,448	-
SCHOOL OPERATIONS & EXTENSION	900,948,715	900,627,928	911,383,882
CAMP	-	-	3,501,035
GRANTS	147,447,736	185,965,429	138,286,526
Total Revenues	1,048,396,451	1,086,593,357	1,053,171,443
EXPENDITURES:			
PROGRAM ACCOUNTS			
High Schools	186,068,006	192,265,014	188,530,502
Middle Schools	76,903,116	72,423,696	74,392,522
K-8 Schools	224,732,395	234,479,311	228,655,810
Elementary Schools	192,699,938	199,408,760	194,550,128
Charter Schools	100,638,365	103,254,917	100,719,005
School to Work Transition	3,347,634	3,575,767	3,203,938
School Age Parents	1,993,105	1,996,090	2,034,927
Alternative Schools	2,216,493	2,221,552	2,128,259
Agency Programs	22,487,156	21,492,018	20,318,089
Home & Hospital Instruction	787,878	814,789	739,000
MATC Alternative Programs	593,643	593,643	209,521
Milwaukee County Collaborative	1,374,656	1,409,670	1,339,134
Contracted Kindergarten	4,710,197	4,840,174	4,672,820
Summer School	4,400,000	4,425,379	4,187,141
School Special Funds	35,908,507	33,024,092	42,002,576
S.E. Asian/Native American Program	288,921	297,766	258,389
Interscholastic Athletics/Academics	4,202,341	4,264,797	4,338,878
Driver Education	246,144	247,949	146,649
School Safety Operations	3,928,997	4,110,859	4,140,160
Co-curricular Initiative	-	-	-
Instrumental Music	1,556,105	1,564,108	1,738,846
Schools Program Funds	241,121	731,448	501,077
Science Material/In-service Center	-	-	-
MTEC/Compton	233,591	233,755	278,613
Peer Evaluation & Mentor Teachers	498,717	513,950	485,287
Social Work Services	277,323	277,323	270,494
Special Education Support Services	3,878,911	4,062,826	4,003,961
Special Education Buyback Services	627,406	631,595	880,820
Non-MPS Special Education Costs	3,066,101	3,126,611	3,013,148
TABS Program	718,816	731,680	686,155
TOTAL - PROGRAM ACCOUNTS	\$ 878,625,583	897,019,539	888,425,849

MILWAUKEE BOARD OF SCHOOL DIRECTORS

Required Supplementary Information

Budgetary Comparison Schedule for the General Fund

Year ended June 30, 2007

	Budgeted amounts		Actual
	Adopted	Revised	(GAAP basis)
INDIRECT & SUPPORT SERVICES			
Board of School Directors	\$ 434,766	\$ 606,360	\$ 391,864
Office of Board Governance	2,148,968	2,920,535	2,257,906
Office of Superintendent	4,364,684	5,510,532	5,011,494
Dept. of Academic Excellence	4,193,468	3,973,569	3,767,293
Dept. of Parent & Student Services	3,480,100	3,530,020	3,483,543
Dept. of Special Services	4,966,382	4,086,986	3,956,702
Dept. of Finance & Operations	47,415,614	53,556,156	51,511,703
Dept. of Human Resources	5,676,804	6,168,254	5,190,104
TOTAL - INDIRECT & SUPPORT	72,680,786	80,352,412	75,570,609
OTHER ACCOUNTS			
Textbook Adoptions	6,443,309	6,779,283	5,417,358
Neighborhood Schools Debt	-	7,083,480	999,872
Crisis Response Initiative	-	1,000,000	261,768
Project Loan Acq Network	-	2,245,360	-
Music Festival	-	1,400	3,077
Transportation	55,642,512	57,305,410	57,850,464
Employee Benefits (undistributed)	3,275,000	3,098,993	2,849,467
School District Insurances	8,527,953	8,683,018	7,163,990
Debt Service	-	-	4,904,809
Utilities	25,479,517	24,136,816	23,550,143
Special & Contingent Funds	33,949,068	32,135,856	27,355,372
TOTAL - OTHER ACCOUNTS	133,317,359	142,469,616	130,356,320
DIVISION OF RECREATION AND COMMUNITY SERVICES			
Playgrounds & Recreation Centers	10,837,852	11,342,677	8,775,896
WYMS Radio Station	-	13,577	-
Summer School Wrap-around	323,062	348,554	22,431
Instrumental Music Weekend Program	60,000	60,000	60,000
Community Arts	-	1,000,000	78,053
District Insurances	267,547	267,547	181,159
Employee Benefits	20,000	(18,085)	1,702,011
Special & Contingent Fund	108,000	(2,854)	36,152
TOTAL DIVISION OF RECREATION AND COMMUNITY SERVICES	11,616,461	13,011,416	10,855,702
OFFSET FOR CHARGES TO SCHOOLS AND OTHER ADJUSTMENTS TOTAL - CHARGES			
	(195,291,474)	(202,957,670)	(196,754,744)
SCHOOL OPERATIONS & EXT. FUND	900,948,715	929,895,313	908,453,736
CAMP	-	-	3,472,094
GRANTS	147,447,736	185,965,429	138,286,526
Total Expenditures	1,048,396,451	1,115,860,742	1,050,212,356
Excess of revenues over (under) expenditures	\$ -	\$ (29,267,385)	2,959,087
Transfer In (Out)			(1,678,776)
Fund balance-beginning of year			109,349,897
Fund balance-end of year			\$ 110,630,208

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Budgetary Comparison Schedule for the School Nutrition Services Fund

Year ended June 30, 2007

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Lunchroom sales	\$ 4,693,625	4,693,625	3,875,772
Other local sources			115,544
State aid:			
School nutrition aid	693,373	693,373	626,353
Federal aid:			
School nutrition aid	24,355,981	24,355,981	30,114,964
Other federal aid	—	—	137,869
Total revenues	<u>29,742,979</u>	<u>29,742,979</u>	<u>34,870,502</u>
Expenditures:			
Current operating:			
School Nutrition Services	<u>29,742,979</u>	<u>29,742,979</u>	<u>35,782,244</u>
Total expenditures	<u>29,742,979</u>	<u>29,742,979</u>	<u>35,782,244</u>
Excess of revenues over(under) expenditures	<u>—</u>	<u>—</u>	<u>(911,742)</u>
Other financing sources (uses)			
Transfers In (Out)	<u>—</u>	<u>—</u>	<u>1,678,776</u>
Total other financing sources (uses), net			<u>1,678,776</u>
Net change in fund balances			767,034
Fund deficit—beginning of year			<u>(7,159,808)</u>
Fund deficit—end of year			<u>\$ (6,392,774)</u>

MILWAUKEE PUBLIC SCHOOLS

Required Supplementary Information

Schedules of Funding Progress

Year ended June 30, 2007

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

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/06	\$ 40,082,362	50,604,106	(10,521,744)	79.21 %	\$ 34,756,344	(30.27) %
7/1/05	39,409,013	49,456,069	(10,047,056)	79.68	37,250,400	(26.97)
7/1/04	40,282,290	50,085,520	(9,803,230)	80.43	39,461,550	(24.84)

Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Total underfunded AAL	Funded ratio	Annual covered payroll	Underfunded AAL as a percentage of covered payroll
7/1/06	\$ 70,897,370	188,159,912	(117,262,542)	37.68 %	\$ 320,407,690	(36.60) %
7/1/05	60,596,308	174,359,298	(113,762,990)	34.75	321,226,581	(35.42)
7/1/04	55,203,992	166,080,049	(110,876,057)	33.24	312,805,388	(35.45)

MILWAUKEE PUBLIC SCHOOLS

Notes to Required Supplementary Information

Year ended June 30, 2007

(1) **Budgeting**

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

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

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

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

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

**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.

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, 2007

	<u>Special Revenue</u>			
Assets	TEACH Wisconsin Programs	Categorically Aided Programs	Debt Service	Total
Receivables due from other governmental units	\$ —	5,322,382	—	5,322,382
Due from other funds	2,178,495	—	—	2,178,495
Total assets	\$ 2,178,495	5,322,382	—	7,500,877
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ —	—	—	—
Deferred revenue	—	—	—	—
Due to other funds	—	5,322,382	—	5,322,382
Total liabilities	—	5,322,382	—	5,322,382
Fund balances (deficit):				
Unreserved and undesignated	2,178,495	—	—	2,178,495
Total fund balances	2,178,495	—	—	2,178,495
Total liabilities and fund balances	\$ 2,178,495	5,322,382	—	7,500,877

MILWAUKEE PUBLIC SCHOOLS

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

Year ended June 30, 2007

	<u>Special Revenue</u>			
	<u>TEACH Wisconsin Programs</u>	<u>Categorically Aided Programs</u>	<u>Debt Service</u>	<u>Total</u>
Revenues:				
Property taxes	\$ —	—	12,641,221	12,641,221
Other local sources	—	20,246	—	20,246
State aid—other	948,129	—	—	948,129
Federal aid:				
Other federal aid	—	25,761,800	—	25,761,800
Total revenues	<u>948,129</u>	<u>25,782,046</u>	<u>12,641,221</u>	<u>39,371,396</u>
Expenditures:				
Instructional services—				
special curriculum	—	4,235,368	—	4,235,368
Pupil and staff services	—	21,546,678	—	21,546,678
School nutrition services	—	—	—	—
Debt service:				
Principal	1,896,258	—	4,607,583	6,503,841
Interest	—	—	7,960,491	7,960,491
Issuance Cost	—	—	617,037	617,037
Total expenditures	<u>1,896,258</u>	<u>25,782,046</u>	<u>13,185,111</u>	<u>40,863,415</u>
Excess of revenues over (under) expenditures	(948,129)	—	(543,890)	(1,492,019)
Other financing sources (uses):				
Refunding bond issued debt	—	—	31,865,000	31,865,000
Payment for refunded bond debt	—	—	(30,982,607)	(30,982,607)
Discount on debt issued	—	—	(338,503)	(338,503)
Total other financing sources (uses), net	<u>—</u>	<u>—</u>	<u>543,890</u>	<u>543,890</u>
Net changes in fund balances	(948,129)	—	—	(948,129)
Fund balances (deficit):				
Beginning of year	3,126,624	—	—	3,126,624
End of year	\$ <u>2,178,495</u>	<u>—</u>	<u>—</u>	<u>2,178,495</u>

MILWAUKEE PUBLIC SCHOOLS

TEACH Wisconsin Programs Fund

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

Year ended June 30, 2007

	Budgeted amounts		Actual
	Adopted	Revised	(GAAP basis)
Revenues:			
State aid:			
Other state aid	\$ —	—	948,129
Total revenues	—	—	948,129
Expenditures:			
Current operating:			
Debt service	1,896,259	1,896,259	1,896,258
Total expenditures	1,896,259	1,896,259	1,896,258
Net change in fund balance	\$ (1,896,259)	(1,896,259)	(948,129)
Fund balance—beginning of year			3,126,624
Fund balance—end of year			\$ 2,178,495

MILWAUKEE PUBLIC SCHOOLS

Categorically Aided Programs Fund

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

Year ended June 30, 2007

	Budgeted amounts		Actual (GAAP basis)
	Adopted	Revised	
Revenues:			
Other local sources	\$ —	—	20,246
Federal aid:			
Other federal aid	28,734,625	29,198,636	25,761,800
Total revenues	<u>28,734,625</u>	<u>29,198,636</u>	<u>25,782,046</u>
Expenditures:			
Current operating:			
Special curriculum	3,865,222	3,872,276	4,235,368
Pupil and staff services	24,869,403	25,326,360	21,546,678
Total expenditures	<u>28,734,625</u>	<u>29,198,636</u>	<u>25,782,046</u>
Net change in fund balance	\$ —	—	—
Fund balance—beginning of year			—
Fund balance—end of year			<u>\$ —</u>

MILWAUKEE PUBLIC SCHOOLS

Debt Service Fund

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

Year ended June 30, 2007

	Budgeted amounts		Actual
	Adopted	Revised	(GAAP basis)
Revenues:			
Property taxes	\$ 11,086,441	13,507,964	12,641,221
Total revenues	11,086,441	13,507,964	12,641,221
Expenditures:			
Current operating:			
Debt service	11,086,441	13,507,964	13,185,111
Total expenditures	11,086,441	13,507,964	13,185,111
Excess of revenues over (under) expenditures	\$ —	—	(543,890)
Other financing sources (uses)			
Refunding bond issued debt			31,865,000
Payment for refunded bond debt			(30,982,607)
Discount on debt issued			(338,503)
Total other financing sources (uses), net			543,890
Fund balance—beginning of year			—
Fund balance—end of year			\$ —

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 Net Assets—Pension Trust Funds

June 30, 2007

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
	<hr/>	<hr/>	<hr/>
Assets			
Investments	\$		
U.S. Treasury and agency securities	2,840,745	1,968,150	4,808,895
U.S. Government bonds	356,312	—	356,312
Mortgage-backed securities	250,483	63,696	314,179
Nongovernment obligations	1,863,041	1,038,742	2,901,783
Money market accounts	425,745	3,419,867	3,845,612
Investment in the State of Wisconsin	44,025,790	101,141,031	145,166,821
Receivables	69,152	34,615	103,767
	<hr/>	<hr/>	<hr/>
Total assets	49,831,268	107,666,101	157,497,369
Liabilities			
Liabilities:			
Accounts payable and accrued expenses	368,840	990,531	1,359,371
	<hr/>	<hr/>	<hr/>
Total liabilities	368,840	990,531	1,359,371
Net Assets			
Held in trust for supplemental pension benefits	\$		
	49,462,428	106,675,570	156,137,998
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MILWAUKEE PUBLIC SCHOOLS

Combining Statement of Changes in Net Assets—Pension Trust Funds

Year ended June 30, 2007

	Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan	Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Total
	<hr/>	<hr/>	<hr/>
Additions:			
Employer contributions	\$ 2,750,117	19,105,242	21,855,359
Participants contributions	—	—	—
Investment income, net of expenses	7,164,342	14,369,691	21,534,033
	<hr/>	<hr/>	<hr/>
Total additions	9,914,459	33,474,933	43,389,392
	<hr/>	<hr/>	<hr/>
Deductions:			
Benefits paid to participant's or beneficiaries	4,232,209	11,524,668	15,756,877
Distribution of participant contribution accounts	599,666	—	599,666
Administrative expenses	67,634	156,290	223,924
	<hr/>	<hr/>	<hr/>
Total deductions	4,899,509	11,680,958	16,580,467
	<hr/>	<hr/>	<hr/>
Changes in net assets	5,014,950	21,793,975	26,808,925
	<hr/>	<hr/>	<hr/>
Net assets—Beginning of Year	44,447,478	84,881,595	129,329,073
	<hr/>	<hr/>	<hr/>
Net assets—Ending of Year	\$ 49,462,428	106,675,570	156,137,998
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MILWAUKEE PUBLIC SCHOOLS
 Agency Fund
 Schedule of Changes in Assets and Liabilities
 Year ended June 30, 2007

Assets	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Cash and cash equivalents	\$ 5,196,667	16,198,194	(15,396,482)	5,998,379
Total assets	<u>\$ 5,196,667</u>	<u>16,198,194</u>	<u>(15,396,482)</u>	<u>5,998,379</u>
Liabilities				
Liabilities:				
Due to student organizations	\$ 5,196,667	16,198,194	(15,396,482)	5,998,379
Total liabilities	<u>\$ 5,196,667</u>	<u>16,198,194</u>	<u>(15,396,482)</u>	<u>5,998,379</u>

Milwaukee Public Schools

MILWAUKEE PUBLIC SCHOOLS
Statement of Net Assets
Last 6 Years

Governmental activities

	Fiscal Year					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Invested in capital assets, net of related debt	\$ 473,612,564	481,469,344	475,757,763	456,936,816	434,581,357	415,911,456
Restricted for debt service	14,472,771	1,796,177	13,502,378	9,518,692	3,089,752	-
Unrestricted	<u>(102,111,255)</u>	<u>(97,025,340)</u>	<u>(122,424,347)</u>	<u>(113,587,990)</u>	<u>(115,140,875)</u>	<u>(56,959,502)</u>
Total net assets	<u>\$ 385,974,080</u>	<u>386,240,181</u>	<u>366,835,794</u>	<u>352,867,518</u>	<u>322,530,234</u>	<u>358,951,954</u>

MILWAUKEE PUBLIC SCHOOLS
Changes in Net Assets
Last 6 Years

	Fiscal Years					
	2007	2006	2005	2004	2003	2002
Expenses:						
Instruction	\$ 676,036,401	664,463,808	652,166,070	644,447,634	623,385,686	589,461,207
Support services:						
Community services	20,110,243	23,270,780	20,560,706	18,154,857	21,757,475	18,606,289
Pupil and staff services	122,202,632	117,138,777	110,034,688	105,549,340	128,557,769	106,353,611
General, administration, and central services	111,430,021	112,657,972	108,742,800	116,816,130	110,763,906	108,170,630
Business services	162,219,265	155,889,203	162,748,023	140,825,201	179,310,149	154,803,929
School nutrition services	36,515,840	32,793,305	32,165,131	31,249,035	29,348,112	28,672,131
Interest on long-term debt	18,130,489	20,176,300	16,245,344	6,250,445	3,920,507	1,373,719
Insurance	-	-	-	-	8,733,676	-
Other	67,439	346,361	548,565	1,432,919	1,190,106	479,600
Total support services	\$ 470,675,929	462,272,698	451,045,257	420,277,927	483,581,700	418,459,909
Total expenses	\$ 1,146,712,330	1,126,736,506	1,103,211,327	1,064,725,561	1,106,967,386	1,007,921,116
Program revenues:						
Charges for services:						
Instruction	\$ 8,224,655	9,925,797	3,130,444	2,309,821	1,486,516	992,481
Community services	2,934,878	1,906,234	1,930,856	3,246,347	2,876,220	3,634,145
Business services	296,678	103,409	281,329	111,642	143,894	153,322
Nutrition services	3,991,342	4,391,811	4,747,456	4,754,985	4,331,344	4,230,650
Interest on long-term debt	-	-	-	296,612	-	-
Operating grants and contributions:						
Instruction	187,252,284	204,453,803	105,071,902	106,964,376	103,818,468	82,443,894
Community services	6,031,898	9,864,927	7,318,142	7,629,273	10,009,747	11,562,944
Pupil and staff services	3,679,418	3,746,360	3,583,626	2,864,019	3,108,062	4,979,715
General, administration, and central services	-	-	-	-	-	714,331
Business services	2,779,926	3,511,831	44,078,275	41,609,807	41,786,993	41,114,899
Nutrition services	30,879,192	25,961,118	25,176,146	24,876,913	24,582,985	23,757,262
Capital grants and contributions:						
Instruction	5,371,128	9,759,824	20,355,818	11,334,558	13,918,003	33,847,928
General, administration, and central services	-	-	726,957	5,732,070	2,502,693	-
Business services	-	-	-	639,448	-	3,118,872
Total program revenues	\$ 251,441,399	273,625,114	216,400,951	212,369,871	208,564,925	210,550,443
Net (expense)/revenue	\$ (895,270,931)	(853,111,392)	(886,810,376)	(852,355,690)	(898,402,461)	(797,370,673)
General revenues and other changes in net assets:						
Taxes:						
Property taxes levied for general purposes	\$ 192,891,583	183,710,164	180,704,104	168,470,699	168,452,670	166,503,260
Property taxes levied for construction	14,580,539	13,237,040	12,266,054	-	-	-
Property taxes levied for debt service	13,546,414	8,843,502	6,469,806	6,723,273	4,644,357	2,773,885
Property taxes levied for community services	9,327,455	8,077,455	8,002,455	8,004,465	8,004,465	5,797,660
Other taxes	2,369,741	-	-	-	-	-
Federal and state aid not restricted to a specific purpose:						
General (equalization aid)	586,583,661	586,498,521	574,203,749	575,069,738	556,169,239	542,432,938
Other	71,253,170	69,325,745	116,147,856	123,574,539	122,784,828	105,517,681
Interest and investment earnings	3,535,723	2,823,351	1,773,508	761,505	662,490	857,961
Gain on sales of property	-	-	10,200	-	1,262,537	-
Other	916,544	-	1,200,921	88,755	335	-
Total general revenues	\$ 895,004,830	872,515,778	900,778,653	882,692,974	861,980,921	823,883,385
Change in net assets	\$ (266,101)	19,404,386	13,968,277	30,337,284	(36,421,540)	26,512,712

MILWAUKEE PUBLIC SCHOOLS
Fund Balance, Governmental Funds
Last Six Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Fund						
Reserved	\$ 83,119,252	73,378,466	54,166,313	41,006,883	31,870,360	34,732,538
Unreserved	27,510,956	35,971,431	45,933,995	40,801,363	53,322,314	83,176,378
Total general fund	<u>\$ 110,630,208</u>	<u>109,349,897</u>	<u>100,100,308</u>	<u>81,808,246</u>	<u>85,192,674</u>	<u>117,908,916</u>
Other Governmental Funds						
Reserved	\$ 14,210,055	32,798,010	56,974,895	90,457,405	14,148,758	748,180
Unreserved						
Construction fund	(1,328,640)	(1,417,829)	(14,836,707)	(11,772,547)	8,172,565	42,331,044
Special revenue fund	(4,214,279)	(4,033,184)	(1,927,970)	(320,546)	2,120,932	3,316,059
Total all other governmental funds	<u>\$ 8,667,136</u>	<u>27,346,997</u>	<u>40,210,218</u>	<u>78,364,312</u>	<u>24,442,255</u>	<u>46,395,283</u>

MILWAUKEE PUBLIC SCHOOLS
Changes in Fund Balance, Governmental Funds
Last Six Years
(modified accrual basis of accounting)

	Fiscal Year					
	2007	2006	2005	2004	2003	2002
Revenues:						
Property tax levy	\$ 230,345,991	213,803,808	207,442,419	183,198,437	181,046,160	174,734,593
Other taxes	291,341	—	—	—	—	—
Lunchroom sales	3,875,772	4,391,811	4,747,456	4,754,985	4,331,344	4,230,650
Other local sources	11,729,344	14,656,297	13,550,964	9,221,099	10,531,728	10,009,451
State aid:						
Equalization aid	586,583,661	586,498,521	574,203,739	575,069,738	556,169,239	542,432,938
Special classes	39,265,952	39,188,603	39,419,557	40,437,993	40,312,755	41,148,872
Integration	45,208,452	43,660,426	38,661,528	39,437,167	38,717,298	38,830,913
Other state aid	51,424,988	53,759,282	52,338,422	52,217,130	54,522,686	56,566,633
Federal aid:						
Education Consolidation Improvement Act	70,566,992	72,246,390	69,124,917	59,694,854	55,238,900	48,563,189
School nutrition services	30,114,964	25,961,118	24,531,108	24,215,335	23,925,082	23,096,314
Erate refunds	1,661,683	—	4,510,353	639,448	857,304	3,118,872
Other federal aid	69,013,674	79,134,117	78,325,787	90,929,422	85,519,496	68,201,403
Intergovernmental aid from the City of Milwaukee	—	9,240,442	14,265,000	11,334,558	8,660,000	23,500,000
Miscellaneous	916,544	—	—	—	—	—
Interest and investment earnings	3,535,721	2,823,350	1,798,305	1,058,117	662,490	—
Total revenues	\$ 1,144,535,079	1,145,364,165	1,122,919,555	1,092,208,283	1,060,494,482	1,034,433,828
Expenditures:						
Instructional services:						
Undifferentiated curriculum	\$ 420,196,158	430,564,038	418,322,709	426,491,163	394,787,592	355,934,282
Regular and other curriculum	113,231,381	105,796,528	99,908,858	103,609,583	113,717,969	111,412,319
Special curriculum	126,898,396	113,370,170	113,285,852	101,456,920	102,170,548	95,433,902
Total instructional services	660,325,935	649,730,736	631,517,419	631,557,666	610,676,109	562,780,503
Community services	20,022,461	23,127,716	20,591,303	18,191,494	21,442,778	18,312,322
Pupil and staff services	120,056,089	115,122,913	109,425,025	106,347,902	127,129,819	106,273,359
General and school building administration	109,867,741	111,227,914	108,422,951	116,968,619	115,847,360	82,821,806
Business services	188,518,597	197,721,249	220,731,210	238,808,436	216,987,708	188,826,472
School nutrition services	35,782,244	32,210,593	32,006,084	31,097,577	29,209,501	28,602,348
Debt service:						
Principal	14,931,291	18,826,401	10,884,355	10,592,638	4,787,763	3,134,930
Interest	14,426,612	14,646,900	13,955,810	4,212,525	2,878,039	992,858
Bond issuance cost	625,649	—	—	3,282,941	—	—
Other	—	799,375	1,162,108	1,383,820	1,485,527	53,253,456
Total expenditures	\$ 1,164,556,619	1,163,413,797	1,148,696,265	1,162,443,618	1,130,444,604	1,044,998,054
Excess of revenues over (under) expenditures	\$ (20,021,540)	(18,049,632)	(25,776,710)	(70,235,335)	(69,950,122)	(10,564,226)
Other financing sources (uses) (note 7):						
Long-Term Debt Issued	\$ —	—	5,889,478	—	—	—
Proceeds from City of Milwaukee general obligation bonds	—	—	—	1,005,000	7,060,000	5,900,000
Proceeds from Pension bonds	—	—	—	168,051,136	—	—
Payment for refunded pension debt	—	—	—	(165,505,293)	—	—
Proceeds from qualified zone academy bonds	1,078,100	2,021,000	—	2,650,000	4,979,000	8,590,000
Proceeds from Neighborhood Schools Initiative bonds	—	—	—	78,740,000	—	33,300,000
Premium on NSI bonds	—	—	—	1,357,121	—	—
Proceeds from Sale of Land	—	—	25,200	—	1,306,175	—
Proceeds from Teach Loan	—	—	—	—	1,935,677	3,034,883
Proceeds from capital leases	—	12,415,000	—	34,475,000	—	—
Insurance proceeds from fire	1,000,000	—	—	—	—	—
Refunding bond debt issued	31,865,000	—	—	—	—	—
Payment for refunded bond debt	(30,982,607)	—	—	—	—	—
Discount on debt issued	(338,503)	—	—	—	—	—
Refunding intergovernmental debt issued	—	—	847,676	790,000	—	—
Payment for refunded intergovernmental debt	—	—	(847,676)	(790,000)	—	—
Total other financing sources (uses), net	\$ 2,621,990	14,436,000	5,914,678	120,772,964	15,280,852	50,824,883
Net change in fund balance	\$ (17,399,550)	(3,613,632)	(19,862,032)	50,537,629	(54,669,270)	40,260,657

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
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	1,143,262	21,730,754
2004	22,772,419	1,762,902	23,491,773
2005	25,222,149	2,449,730	26,256,714
2006	28,354,952	3,132,803	30,226,984

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—Direct and Overlapping Government

Last Ten Years

Levy for year	Milwaukee School Board (B)		City of Milwaukee (A)		Milwaukee Area District Board of Vocational, Technical, and Adult Education		County of Milwaukee		State of Wisconsin		Milwaukee Metropolitan Sewerage District		Total (C)	
TAX RATES PER \$1,000 OF ASSESSED VALUE AND PERCENT OF TOTAL														
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
2004	8.12	31.0	9.22	35.2	2.04	7.8	4.94	18.9	0.21	0.8	1.64	6.3	26.17	100.0
2005	8.84	34.2	8.52	32.9	2.00	7.7	4.70	18.2	0.21	0.8	1.59	6.2	25.86	100.0
2006	8.35	34.1	8.08	33.0	1.96	8.0	4.43	18.1	0.20	0.8	1.48	6.0	24.50	100.0

- (A) State law prohibits the City from raising property taxes more than 2% plus 60% growth of new development.
- (B) Overlapping rates are those of local and county governments that apply to property owners within the City of Milwaukee.
- (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.

Source: City of Milwaukee

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>
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
2004	7.72	0.51	0.33	8.56
2005	7.71	0.53	0.32	8.56
2006	7.48	0.53	0.34	8.35

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Tax Levies for School Purposes

Last Ten Years

<u>Year</u>	<u>School Operations</u>	<u>Construction</u>	<u>Extension</u>	<u>Total</u>
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
2004	187,173,910	12,266,054	8,002,455	207,442,419
2005	192,488,713	13,237,640	8,077,455	213,803,808
2006	206,437,997	14,580,539	9,327,455	230,345,991

**Milwaukee School District
Principal Property Tax Payers
(Thousands of Dollars)**

Employer	Fiscal Year 2006		Fiscal Year 1997	
	Assessed Value	Percentage of Total Assessed	Assessed Value	Percentage of Total Assessed
U.S. Bank	\$ 231,041	0.81 %	\$ —	— %
Northwestern Mutual Life Insurance Company	172,345	0.61	199,091	1.34
Marcus Corp./Mil. City Center/Pfister	97,492	0.34	56,661	0.38
NNN 411 E. Wisconsin LLC	97,877	0.35		
Towne Realty	94,774	0.33	80,145	0.54
Metropolitan Associates	107,792	0.38	—	—
M&I Marshall & Isley Bank/Metavante Corp.	80,462	0.28	—	—
Crichton-Hauck/Shoreline/Juneau	73,276	0.26	—	—
Miller Brewing	68,405	0.24	87,093	0.58
100 E. Wisconsin Ave Joint Venture	59,036	0.21	50,774	0.34
Geneva Exchange Fund				
JMB Realty Corporation			65,924	0.44
Teachers Insurance & Annuity Assoc.			97,326	0.65
Allen Bradley Company			59,756	0.40
EC Milwaukee Joint Venture	—	—	161,473	1.08
Sampson Enterprises			77,957	0.52
	<u>\$ 1,082,500</u>	<u>3.81 %</u>	<u>\$ 936,200</u>	<u>6.27 %</u>

Source: City CAFR

CITY OF MILWAUKEE
Property Tax Levies and Collections
Last 5 Years
(Amounts expressed in thousands)

Budget Year	Taxes Levied for the Fiscal Year (Original Levy) (D)	Purchased and Adjustments (A)	Total Adjusted Levy	Collected for the Levy		Collections		Total Collections to Date	Percentage of Adjusted Levy
				Levy Year (B)	Percent Original Levy Collected	Purchased Delinquents Original Levy Year (C)	Total Adjusted Levy in Subsequent Years		
2002	\$ 222,708	\$ 20,099	\$ 242,807	\$ 217,242	97.55 %	\$ 13,599	\$ 11,219	\$ 242,060	99.69 %
2003	234,485	20,846	255,331	228,345	97.38	12,918	13,056	254,319	99.60
2004	240,643	22,764	263,407	235,012	97.66	15,497	11,335	261,844	99.41
2005	248,267	23,475	271,742	242,587	97.71	14,992	10,090	267,669	98.50
2006	261,685	25,390	287,075	255,818	97.76	15,647	-	271,465	94.56

Milwaukee Public Schools		
Fiscal Year	Total Tax Levy	Percentage of Levy (E)
2002	\$ 174,735	100.00 %
2003	181,046	100.00
2004	183,198	100.00
2005	207,442	100.00
2006	213,804	100.00

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(A) This column includes adjustments. The City purchases delinquent taxes from the other units (Milwaukee County, Metropolitan Sewage District, State, Milwaukee Area Technical College and Milwaukee Public Schools.)

(B) Tax collections begin in December for the succeeding Budget Year.

(C) Collections of (A) in the year purchased.

(D) State law limits levy increases to 2% of economic development for general city purposes.

(E) City absorbs all tax delinquencies

Source: City of Milwaukee and MPS

Milwaukee School District
Assessed Value and Estimated Actual Value of Taxable Property
Last 5 Years
(Thousand of Dollars)

Fiscal Year	Residential Property	Personal Property	Total Taxable Assessed Value	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
2002	\$ 18,968,857	\$ 897,398	\$ 19,866,255	\$ 20,298,387	97.9 %
2003	20,162,296	847,221	21,009,517	21,730,754	96.7
2004	21,938,751	833,668	22,772,419	23,491,774	96.9
2005	24,386,499	835,650	25,222,149	26,256,714	96.1
2006	27,450,051	904,900	28,354,952	30,226,986	93.8

Source: City CAFR & 2006 City Assessor's Office

MILWAUKEE PUBLIC SCHOOLS

Computation of Direct and Overlapping Debt—City of Milwaukee

December 31, 2006

(in thousands)

<u>Name of governmental unit</u>	<u>Net debt outstanding</u>	<u>Percentage applicable to City of Milwaukee (C)</u>	<u>City of Milwaukee's share of debt</u>
Debt Repaid with property taxes			
Direct debt:			
City of Milwaukee (A)	\$ 755,178	100.00 %	\$ 755,178
Overlapping debt:			
Milwaukee Area Technical College District Board	65,035	37.71	24,525
County of Milwaukee	457,863	47.58	217,851
Milwaukee Metropolitan Sewerage Area (B)	741,994	48.63	360,832
Total overlapping debt			<u>603,208</u>
Total district and overlapping debt			<u>\$ 1,358,386</u>

Sources: Estimated Actual (Equalized) Values used to estimate applicable percentages provided by the State Supervisor of Assessments. Debt outstanding data provided by each governmental unit

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and business of the City of Milwaukee. This process recognizes that, when considering the government's ability to issue and repay long-term debt the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for paying the debt, of each overlapping government

- (A) Excludes \$74,680 of Industrial Revenue Bonds. Includes debt incurred to finance Milwaukee School Board construction.
- (B) Includes \$471,824 low interest loan from the State of Wisconsin Clean Water Fund, supported by the full faith and credit of the District.
- (C) The percentage of overlapping debt applicable is estimated using estimated actual (equalized) property values. Applicable percentages were estimated by determining the portion of the City's equalized value

Source: City CAFR

**Milwaukee Public Schools
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Fiscal Year	General Obligation Bonds	QZAB	Pension Debt		Wisconsin Retirement System (UAAL)	General Bonded Debt Subtotal	Bonded Debt as a Percentage of Equalized Property Value ¹	Bonded Debt Per Capita	Revenue Bonds	Capital Lease	TEACH Loans	Total Debt	Total Debt as a Percentage of Personal Income ²	Total Debt Per Capita
			Capital Appreciation Bonds	Variable Rate Debt										
1998	\$14,275,029				\$148,811,348	\$163,086,377	1.00 %	\$267		\$11,030,698		\$174,117,075	1.08 %	\$285
1999	13,305,896				153,058,000	166,363,896	1.00	274		17,910,447		184,274,343	1.15	303
2000	11,318,305				157,283,000	168,601,305	0.97	278		12,836,818	174,441	181,612,564	1.10	300
2001	11,231,524				161,880,000	173,111,524	0.89	291		6,348,549	1,322,718	180,782,791	1.08	304
2002	15,016,036	8,590,000			166,728,766	190,334,802	0.94	319	33,300,000	1,948,775	4,091,684	229,675,261	1.25	385
2003	19,385,316	12,469,908			167,607,420	199,462,644	0.92	335	33,300,000	1,482,250	5,495,934	239,740,828	1.29	403
2004	16,756,869	13,406,456	38,061,867	130,850,000		199,075,192	0.85	335	113,297,237	34,552,250	4,776,312	351,700,991	1.82	592
2005	17,040,498	11,356,780	39,845,213	130,850,000		199,092,491	0.76	336	113,197,353	31,154,750	10,236,484	353,681,078	N/A	597
2006	14,174,684	11,248,426	35,598,442	130,850,000		191,871,552	0.63	325	113,097,469	40,087,275	8,407,726	353,464,022	N/A	599
2007	11,996,044	9,897,583	37,852,753	130,850,000		190,596,380	N/A	N/A	108,180,831	36,759,825	6,511,465	342,048,501	N/A	N/A

(1) Equalized Value per the City of Milwaukee.

(2) The data measure for Personal Income changed for FY07 and is from the Regional Economic Information System, Bureau of Economic Analysis, U.S. Dept. of Commerce. It reports the income for Milwaukee County versus the City of Milwaukee because the City makes up a substantial portion of Milwaukee County.

**Milwaukee Public Schools
Pledged Revenue Coverage
Last Five Fiscal Years**

Fiscal Year	Neighborhood Schools Initiative Bonds				Capital Appreciation Pension Bonds and Variable Rate Pension Bond Debt			
	Intradistrict Aid	Debt Service		Coverage	State Equalization Aid	Debt Service		Coverage
		Principal	Interest			Principal	Interest	
2003	\$34,675,898	—	\$ 1,455,636	23.82	\$ —	—	\$ —	—
2004	35,659,069	—	2,197,020	16.23	575,069,738	—	3,577,003	160.77
2005	35,362,376	—	4,897,374	7.22	574,203,739	—	7,073,170	81.18
2006	40,627,588	—	4,897,374	8.30	586,498,524	—	7,780,487	75.38
2007	42,212,564	—	4,897,374	8.62	586,583,661	—	7,340,685	79.91

MILWAUKEE PUBLIC SCHOOLS
 Comparative per Capita Cost Statistics
 Last Ten Fiscal Years

	<u>Cost per pupil</u>
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
2004 – 2005	11,416 *
2005 – 2006	11,808
2006 – 2007	12,174

* Cost per pupil is restated from 11,542 published in 2006 CAFR.

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	Increase or (decrease) over prior year		Increase or (decrease) over prior year	Attending public schools	Attending private schools	Total attending schools	Percent attending schools	
			Males	Females						
1972	188,169	(5,658)	95,729	(2,840)	92,440	128,757	33,567	162,324	86.3	
1973	179,821	(8,348)	91,643	(4,086)	88,178	124,370	30,840	155,210	86.3	
1974	172,258	(7,563)	87,713	(3,930)	84,545	118,890	27,974	146,864	85.3	
1975	167,370	(4,888)	85,316	(2,397)	82,054	115,758	27,437	143,195	85.6	
1976	161,099	(6,271)	81,963	(3,353)	79,136	113,336	26,475	139,811	86.8	
1977	152,435	(8,664)	77,734	(4,229)	74,701	104,619	25,078	129,697	85.1	
1978	148,378	(4,057)	75,519	(2,215)	72,859	100,859	26,275	127,134	85.7	
1979	133,507	(14,871)	68,491	(7,028)	65,016	93,296	26,011	119,307	89.4	
1980	133,639	132	68,245	(246)	65,394	91,069	25,436	116,505	87.2	
1981	130,215	(3,424)	66,550	(1,695)	63,665	82,520	31,238	113,758	87.4	
1982	131,748	1,533	67,085	535	64,663	998	29,623	110,306	83.7	
1983	134,734	2,986	68,642	1,557	66,092	1,429	31,149	114,297	84.8	
1984	140,729	5,995	71,689	3,047	69,040	2,948	31,601	118,844	84.4	
1985	147,347	6,618	75,066	3,377	72,281	3,241	31,464	124,870	84.7	
1986	148,768	1,421	75,391	325	73,377	1,096	30,961	127,481	85.7	
1987	145,593	(3,175)	73,844	(1,547)	71,749	(1,628)	30,997	125,741	86.4	
1988	148,416	2,823	75,196	1,352	73,220	1,471	31,140	129,578	87.3	
1989	150,714	2,298	76,520	1,324	74,194	974	29,988	129,976	86.2	
1990	150,723	9	76,382	(138)	74,341	147	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
2005	180,706	16,065	91,885	8,486	88,821	7,579	131,394	23,046	154,440	85.5
2006	191,368	10,662	97,303	5,418	94,065	5,244	112,032	27,445	139,477	72.9
2007	185,082	(6,286)	93,812	(3,491)	91,270	(2,795)	108,264	26,619	134,883	72.9

* 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, 2007

Ages	Males	Females	Total	Attended public school	Attended parochial or private school	Did not attend school
1	5,403	5,216	10,619	0	0	10,619
2	5,295	5,057	10,352	0	0	10,352
3	5,544	5,334	10,878	314	112	10,452
Total 1 – 3	16,242	15,607	31,849	314	112	31,423
4	5,338	5,132	10,470	3,991	422	6,057
5	5,424	5,225	10,649	6,534	1,777	2,338
6	5,447	5,359	10,806	6,916	2,000	1,890
7	5,025	4,746	9,771	7,022	2,037	712
8	4,611	4,524	9,135	7,080	1,881	174
9	4,506	4,326	8,832	6,913	1,816	103
10	4,331	4,317	8,648	6,699	1,734	215
11	4,274	4,225	8,499	6,660	1,719	120
12	4,854	4,227	9,081	6,763	1,795	523
13	4,474	4,423	8,897	7,060	1,737	100
14	4,575	4,534	9,109	7,442	1,637	30
15	4,670	4,536	9,206	7,418	1,561	227
16	4,482	4,599	9,081	7,604	1,372	105
17	5,018	4,986	10,004	7,630	1,229	1,145
18	5,271	5,002	10,273	6,824	1,327	2,122
19	5,270	5,502	10,772	5,394	2,463	2,915
Total 4 – 19	77,570	75,663	153,233	107,950	26,507	18,776
Grand total	93,812	91,270	185,082	108,264	26,619	50,199

MILWAUKEE PUBLIC SCHOOLS
Government-wide Expenses by Function
Last Six 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
2005	652,166	20,561	110,035	108,743	162,748	32,165	16,245	-	548	1,103,211
2006	664,464	23,271	117,139	112,658	155,889	32,793	20,176	-	346	1,126,736
2007	676,036	20,110	122,203	111,430	162,219	36,516	18,130	-	67	1,146,711

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 Six Fiscal Years

(amounts expressed in thousands)

Fiscal year	Charges for services	Operating grants and contributions	Capital grants and contributions	Property taxes	Federal and state aid not restricted to a specific purpose	Interest and investment earnings	Miscellaneous	Total
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
2005	10,090	185,228	21,083	207,442	690,350	1,773	1,211	1,117,177
2006	16,327	247,538	9,760	213,868	655,825	2,823	-	1,146,141
2007	15,447	230,623	5,371	232,716	657,837	917	3,535	1,146,446

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 Six Fiscal Years
 (amounts expressed in thousands)

Fiscal year	Instruction	Community services	Pupil & staff services	General and school building administration	Business services	School Nutrition Services	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
2005	631,518	20,591	109,425	108,423	220,731	32,006	24,840	1,162	1,148,696
2006	645,109	23,128	93,314	111,228	151,130	—	21,107	799	1,045,815
2007	660,326	20,022	120,056	109,868	188,519	35,782	29,984	—	1,164,557

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 Six 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
2005	207,442	4,747	13,551	704,624	98,166	14,265	78,326	1,798	1,122,919
2006	213,804	4,392	14,656	723,107	177,342	9,240	—	2,823	1,145,364
2007	230,346	3,876	12,020	722,482	171,358	—	917	3,536	1,144,535

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

MILWAUKEE PUBLIC SCHOOLS

School Accommodations

Last Thirty-seven Years

	Instructional staff (a)	Number of school buildings (b)	Average school year daily membership	
1970 – 1971	5,556	157	124,783	(c)
1971 – 1972	5,811	158	123,365	(c)
1972 – 1973	5,825	160	123,432	(c)
1973 – 1974	5,772	160	118,283	(c)
1974 – 1975	5,915	164	113,291	(c)
1975 – 1976	6,182	163	108,300	(c)
1976 – 1977	6,083	161	105,581	(c)
1977 – 1978	5,974	156	96,618	(c)
1978 – 1979	5,836	151	91,929	(c)
1979 – 1980	5,679	150	87,679	(c)
1980 – 1981	5,313	150	84,379	(c)
1981 – 1982	5,167	150	82,632	(c)
1982 – 1983	5,019	150	82,353	(c)
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	
2004 – 2005	6,512	173	96,874	
2005 – 2006	6,420	177	94,973	
2006 – 2007	6,033	177	92,224	

(a) Including principals

(b) Includes leased sites

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

MILWAUKEE PUBLIC SCHOOLS

Number and Distribution of Instructional Staff

Last Ten Fiscal Years

Classifications	1997 – 1998	1998 – 1999	1999 – 2000	2000 – 2001	2001 – 2002	2002 – 2003	2003 – 2004	2004 – 2005	2005 – 2006	2006 – 2007
Senior high and middle schools:										
Principals	37	37	37	37	38	36	38	29	31	29
Assistant principals	120	119	111	116	113	111	108	100	82	99
Teachers	2,456	2,491	2,425	2,320	2,291	2,352	2,409	1,936	1,915	1,724
Total	2,613	2,647	2,573	2,473	2,442	2,499	2,555	2,065	2,028	1,852
Elementary schools:										
Principals	113	115	107	120	117	108	107	108	105	100
Assistant principals	81	85	79	86	84	70	71	68	66	54
Teachers	3,381	3,544	3,599	3,705	3,762	3,736	3,750	3,652	3,575	3,497
Total	3,575	3,744	3,785	3,911	3,963	3,914	3,928	3,828	3,746	3,651
Special schools and classes:										
Principals	3	3	1	1	1	1	2	2	4	2
Assistant principals	2	2	2	2	2	2	3	5	11	7
Teachers	812	791	753	741	746	721	778	612	631	521
Total	817	796	756	744	749	724	783	619	646	530
Summary:										
Principals	153	155	145	158	156	145	147	139	140	131
Assistant principals	203	206	192	204	199	183	182	173	159	160
Teachers	6,649	6,826	6,777	6,766	6,799	6,809	6,937	6,200	6,121	5,742
Total	7,005	7,187	7,114	7,128	7,154	7,137	7,266	6,512	6,420	6,033
Superintendent, deputy and assistant superintendent, department directors and assistants, guidance and psychological counselors, librarians, and supervisors	747	763	766	708	735	674	665	426	428	415
Grand total	7,752	7,950	7,880	7,836	7,889	7,811	7,931	6,938	6,848	6,448

MILWAUKEE PUBLIC SCHOOLS

Population and Pupils
Residing in the City of Milwaukee

Last Ten Fiscal Years

	<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>	<u>2004- 2005</u>	<u>2005- 2006</u>	<u>2006- 2007</u>
Total number of school age children according to city-wide child census	153,227	154,328	154,977	150,256	149,992	162,011	164,641	180,706	191,368	153,233
Enrollment for state aid:*										
Third Friday	106,337	104,249	103,660	101,744	101,618	101,715	102,033	100,403	98,209	95,332
Summer school	196	1,516	1,819	1,585	1,113	964	333	247	322	329
Total	<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>	<u>100,650</u>	<u>98,531</u>	<u>95,661</u>
Average number enrolled:										
Senior high	25,851	25,433	26,009	25,157	25,389	26,766	28,003	27,642	27,438	28,966
Junior high/middle	21,992	21,860	22,039	22,841	23,974	23,670	23,432	21,554	21,048	20,698
Elementary	58,866	58,375	57,567	55,571	53,940	52,683	51,699	49,354	48,042	47,845
Total	<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>	<u>98,550</u>	<u>96,528</u>	<u>97,509</u>
Average number attending:										
Senior high	19,758	19,382	20,463	19,396	19,727	20,936	22,251	22,127	22,046	22,916
Junior high/middle	18,746	18,603	19,168	19,848	20,927	20,843	20,968	19,225	18,736	18,413
Elementary	54,510	53,848	53,880	51,846	50,240	48,858	48,078	45,745	44,311	44,087
Total	<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>	<u>87,097</u>	<u>85,093</u>	<u>85,416</u>

* Non-resident and choice students not included.

**Milwaukee School District
Operating Statistics
Last 6 Years**

Fiscal Year	Enrollment	Operating Expenses	Cost Per Pupil	Teaching Staff	Pupil/ Teacher Ratio
2007	90,825	\$1,154,467,116	\$ 12,711	6,780	13.40:1
2006	93,516	1,126,736,506	12,049	6,974	13.41:1
2005	95,600	1,103,211,327	11,540	7,177	13.32:1
2004	97,359	1,064,725,561	10,936	7,541	12.91:1
2003	97,293	1,106,967,386	11,378	7,917	12.29:1
2002	97,749	1,007,921,116	10,311	8,299	11.78:1

**Milwaukee School District
School District Employees - Full Time Staff & Part Time
Last 6 Years**

	Year Ending June 30,					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supervisory						
Officials, Admin., Mgrs.	94	66	49	54	49	51
Principals	139	136	136	142	157	153
Part time profess/Ins.	556	601	546	574	781	966
Total supervisory	<u>789</u>	<u>803</u>	<u>731</u>	<u>770</u>	<u>987</u>	<u>1,170</u>
Instruction						
Asst. Prin. - Teach	142	153	161	165	167	186
Elementary Clsrn. Teach	3,658	3,673	3,678	3,736	3,877	4,025
Secondary Clsrn. Teach	1,584	1,717	1,862	2,008	2,171	2,270
Other Clsrn. Teach	452	498	489	589	599	591
Other Prof. Staff	441	406	397	397	401	377
Teacher Aides	503	527	590	646	702	850
Total instruction	<u>6,780</u>	<u>6,974</u>	<u>7,177</u>	<u>7,541</u>	<u>7,917</u>	<u>8,299</u>
Student Services						
Guidance	48	51	50	49	62	77
Psychological	159	150	140	145	148	144
Librarian/Audiovisual	36	44	41	32	45	67
Consultants/Supervisors	94	86	87	80	80	77
Technicians	70	71	64	64	67	57
Total student services	<u>407</u>	<u>402</u>	<u>382</u>	<u>370</u>	<u>402</u>	<u>422</u>
Support and Administration						
Clerical/Secretarial	529	550	558	583	612	612
Service Workers	415	426	440	433	432	440
Craft Workers - Skilled	393	408	429	448	454	467
Laborers - Unskilled	77	88	88	95	103	115
All other Part-time	4,801	4,848	5,206	5,984	5,283	4,736
Total support and administration	<u>6,215</u>	<u>6,320</u>	<u>6,721</u>	<u>7,543</u>	<u>6,884</u>	<u>6,370</u>
Total	<u><u>14,191</u></u>	<u><u>14,499</u></u>	<u><u>15,011</u></u>	<u><u>16,224</u></u>	<u><u>16,190</u></u>	<u><u>16,261</u></u>

**Milwaukee School District
Nutrition Services - Facts and Figures
Last 6 Years**

	Year Ending June 30,					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Number of schools participating in:						
Lunch - regular schedule	173	185	191	187	198	185
Breakfast program	160	167	161	164	127	162
Snack program	68	78	76	55	53	39
Student lunches served:						
Free	7,288,629	7,327,709	7,310,144	7,475,361	7,538,727	7,419,564
Reduced	959,040	944,894	995,673	1,007,752	1,072,252	1,115,031
Fully paid	<u>1,353,199</u>	<u>1,559,910</u>	<u>1,400,897</u>	<u>1,443,572</u>	<u>1,602,201</u>	<u>1,715,607</u>
Total	9,600,868	9,832,513	9,706,714	9,926,685	10,213,180	10,250,202
Adult lunches served	275,091	264,314	277,116	318,878	350,769	355,662
Student breakfasts/snacks served:						
Free	4,185,851	2,887,277	2,508,130	2,433,390	2,134,116	2,165,639
Reduced	339,181	139,254	108,782	91,969	89,587	88,435
Fully paid	<u>405,121</u>	<u>189,842</u>	<u>115,767</u>	<u>101,722</u>	<u>79,611</u>	<u>75,030</u>
Total	4,930,153	3,216,373	2,732,679	2,627,081	2,303,314	2,329,104
Number of serving days:						
Regular schedule	221	204	199	195	198	176
Average daily participation:						
Student lunch	43,443	48,199	48,777	50,906	51,582	58,240
Adult lunch	1,245	1,296	1,393	1,635	1,772	2,021
Student breakfast	17,906	11,837	10,150	9,680	9,632	10,541
Student snacks	2,868	3,930	3,583	3,793	2,000	2,692
September 15 pupil count	90,825	93,516	95,600	97,359	97,293	97,749
Percentage of students daily eating school lunch	47.83%	51.54%	51.02%	52.29%	52.98%	59.58%

**Milwaukee School District
Capital Asset Information
Last 6 Years**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Elementary Schools						
Number of Buildings	121	121	121	119	119	118
Square Footage	8,479,854	8,479,854	8,424,438	8,183,648	8,107,618	7,911,920
Capacity	66,416	66,416	66,036	64,083	63,310	61,247
Enrollment	51,389	52,211	52,226	52,788	52,954	53,730
Middle Schools						
Number of Buildings	14	16	16	16	16	16
Square Footage	2,403,230	2,782,081	2,782,081	2,782,081	2,782,081	2,782,081
Capacity	10,620	12,420	12,420	12,420	12,420	12,420
Enrollment	9,651	11,370	13,225	15,316	17,026	16,805
High Schools						
Number of Buildings	14	14	14	14	14	14
Square Footage	4,080,365	4,080,365	4,080,365	4,080,365	4,080,365	4,080,365
Capacity	20,539	20,539	20,539	20,539	20,539	20,539
Enrollment	23,863	23,692	23,428	23,154	21,840	22,375
Other Schools						
Number of Buildings	11	9	9	9	9	9
Square Footage	2,297,767	1,918,916	1,918,916	1,918,916	1,918,916	1,918,916
Capacity	10,430	8,630	8,630	8,630	8,630	8,630
Enrollment	6,022	6,243	6,721	6,101	5,473	4,839
Administrative/Service						
Number of Buildings	55	55	55	55	55	55
Square Footage	705,268	705,268	705,268	705,268	705,268	705,268
Athletics						
Football Fields*	35	35	35	35	35	35
Soccer Fields**	21	21	21	21	21	21
Running Tracks	13	13	13	13	13	13
Baseball/Softball***	72	72	72	72	72	72
Swimming Pools	13	13	13	13	13	13
Playgrounds	147	147	147	147	147	147

*22 Recreation+13 High School

**8 Recreation+13 High School

***All Recreation

Note: Excludes leased sites